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Kazakhtelecom JSC

Consolidated financial statements

For the year ended 31 December 2017
together with independent auditor's report

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CONTENTS

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Independent auditor's report

To the Shareholders of
Kazakhtelecom JSC

Opinion

We have audited the consolidated financial statements of Kazakhtelecom JSC and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Key audit matters

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

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

Key audit matter	How our audit addressed the key audit matter
Revenue recognition – accuracy of revenue recorded given the complexity of the billing systems	
There is a significant risk around the accuracy of revenue recorded as the billing systems employed by the Group are complex, and effect of accounting treatment of changing tariff structures and multi-element arrangements could be significant. The Group's disclosure in respect of the accounting policies on revenue recognition is included in Note 3 to the consolidated financial statements, and detailed revenue disclosures are included in Note 29 to the consolidated financial statements.	We evaluated the relevant IT systems and the design of controls, and tested the operating effectiveness of controls over capture and recording of revenue transactions; authorisation of changes in rates (tariffs) input to the billing systems; and calculation of amounts billed to customers.
Valuation of non-current assets, including property and equipment, intangible assets and investment in an associate – risk of impairment	
There is a significant risk of impairment of the Group's non-current assets. Property and equipment and intangible assets, including goodwill, bear risk of impairment in light of fast technological changes in telecom industry. Investment in an associate Khan Tengri Holding B.V. bears the risk of impairment due to saturation of mobile telecommunications market in Kazakhstan. Other risk factors include changing competitive and regulatory landscapes due to introduction of mobile number portability in January 2016 and granting of 4G licenses to other mobile telecom operators.	Our audit procedures included, amongst others, evaluating and testing the assumptions used in the impairment model. We assessed methodology used by the Group, for compliance with IAS 36 requirements. We involved a valuation expert to assist us with our procedures. We compared assumptions and data used by the Group to the historical data and current industry data. We specifically focused on the sensitivity of the testing, evaluating whether a reasonably possible change in assumptions could cause the carrying amounts of the cash-generating units to exceed its recoverable amounts.

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

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

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

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

Transactions with Mobile Telecom Services LLP

The Group has undertaken a number of transactions with Mobile Telecom Services LLP, a related party, mainly on data transmission, rent of lines, interconnect and other services provided by/to Mobile Telecom Service LLP.

The disclosure of the transactions with Mobile Telecom Service LLP was one of the matters of most significance in our audit due to the complexity, structure, volume and number of these transactions.

The disclosure of the transactions with Mobile Telecom Service LLP is provided in Note 41 to the consolidated financial statements.

We assessed the process for identifying related party transactions. We read the agreements between the Group and Mobile Telecom Services LLP to understand the terms and conditions and the nature of the transactions and assessed the accounting treatment applied. We obtained confirmations from Mobile Telecom Services LLP on transactions and outstanding balances, compared disclosed significant terms of transactions to supporting documents and analyzed the disclosure of the transactions with Mobile Telecom Service LLP.

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Other information included in the Group's 2017 Annual report

Other information consists of the information included in the Group's 2017 Annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2017 Annual report is expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Ernst & Young LLP

Bakhtiyor Eshonkulov
Auditor / audit partner

Auditor qualification certificate
No. МФ - 0000099 dated 27 August 2012

Gulmira Turmagambetova
General director
Ernst & Young LLP

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

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13 March 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

In thousands of tenge	Note	2017	2016*
Assets			
Non-current assets			
Property and equipment	7	**259,021,612**	272,175,873
Intangible assets	8	**15,592,544**	17,140,121
Advances paid for non-current assets		**39,678**	40,243
Investments in associates	9	**69,246,140**	67,160,792
Deferred tax assets	38	**104,614**	–
Other non-current financial assets	12	**9,457,306**	5,983,097
Other non-current assets	13	**2,453,521**	1,602,770
		355,915,415	364,102,896
Current assets			
Inventories	14	**3,014,872**	4,483,724
Trade receivables	15	**32,094,228**	24,992,206
Advances paid	16	**538,756**	297,280
Corporate income tax prepaid		**7,269**	3,548
Other current financial assets	17	**62,133,687**	49,166,028
Other current assets	18	**1,624,022**	1,595,488
Cash and cash equivalents	19	**15,985,943**	24,320,942
		115,398,777	104,859,216
Total assets		**471,314,192**	468,962,112
Equity			
Shares outstanding	20	**12,136,529**	12,136,529
Treasury shares	20	**(6,464,374)**	(6,464,374)
Foreign currency translation reserve	20	**(6,354)**	(1,957)
Other reserves	20	**1,820,479**	1,820,479
Retained earnings		**351,621,657**	336,306,933
Total equity		**359,107,937**	343,797,610

The accounting policies and notes on pages 8 to 69 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In thousands of tenge	Note	2017	2016*
Non-current liabilities			
Borrowings: non-current portion	21	**24,967,690**	53,794,669
Finance lease liabilities	22	**7,681,118**	1,273,015
Deferred tax liabilities	38	**19,040,850**	19,624,081
Employee benefit obligations	23	**11,940,014**	7,788,984
Debt component of preferred shares	20	**874,244**	874,244
Other non-current financial liabilities	24	**260,431**	728,982
Other non-current liabilities	25	**5,361,847**	3,480,157
		70,126,194	87,564,132
Current liabilities			
Borrowings: current portion	21	**2,357,864**	2,473,507
Financial lease liabilities: current portion	22	**3,920,719**	3,162,706
Employee benefit obligations: current portion	23	**992,170**	430,554
Trade payables	26	**13,506,545**	11,997,342
Advances received		**3,033,151**	2,835,106
Current corporate income tax payable		**91,891**	571,983
Other current financial liabilities	27	**13,356,061**	11,810,685
Other current liabilities	28	**4,821,660**	4,318,487
		42,080,061	37,600,370
Total liabilities		**112,206,255**	125,164,502
Total equity and liabilities		**471,314,192**	468,962,112

* *Certain amounts in this column do not agree to the consolidated financial statements for the year 2016, as they reflect the adjustments made, details of which are provided in Note 4.*

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

Chief financial officier ________ *Uzbekov A.A.*

Chief accountant ________ *Suleimanov Y.E.*

The accounting policies and notes on pages 8 to 69 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

In thousands of tenge	Note	2017	2016*
Continuing operations			
Revenue	29	**203,057,540**	198,466,711
Compensation for provision of universal services in rural areas	30	**7,167,685**	7,353,257
		210,225,225	205,819,968
Cost of sales	31	**(151,676,716)**	(138,292,361)
Gross profit		**58,548,509**	67,527,607
General and administrative expenses	32	**(21,452,350)**	(21,791,041)
Selling expenses	33	**(3,802,172)**	(2,928,796)
Operating profit		**33,293,987**	42,807,770
Share in profit/(loss) of associates	9	**1,098,368**	(18,410,477)
Finance costs	35	**(7,825,754)**	(6,412,545)
Finance income	35	**4,125,054**	3,575,283
Net foreign exchange loss	36	**(633,942)**	(890,461)
Gain/(loss) on disposal of property and equipment		**311,074**	(315,024)
Other income	37	**4,427,650**	4,197,635
Other expenses	37	**(1,859,771)**	(470,142)
Profit before tax from continuing operations		**32,936,666**	24,082,039
Income tax expenses	38	**(8,218,845)**	(9,210,030)
Profit for the year from continuing operations		**24,717,821**	14,872,009
Discontinued operations			
Profit after tax for the year from discontinued operations	39	**–**	40,959,809
Net profit for the year		**24,717,821**	55,831,818

The accounting policies and notes on pages 8 to 69 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

In thousands of tenge	Note	2017	2016*
Other comprehensive loss			
Other comprehensive loss to be reclassified to profit or loss in subsequent periods (net of tax)			
Foreign exchange differences from translation of financial statements of foreign subsidiaries		**(4,397)**	(49,619)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		**(4,397)**	(49,619)
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods (net of tax)			
Actuarial losses on defined benefits plans, net of income tax	23, 38	**(5,037,715)**	(607,983)
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		**(5,037,715)**	(607,983)
Other comprehensive loss for the year, net of income tax		**(5,042,112)**	(657,602)
Total comprehensive income for the year, net of income tax		**19,675,709**	55,174,216
Earnings per share			
Basic and diluted, net profit for the year, tenge	20	**2,250.11**	5,071.51
Earnings per share for continuing operations			
Basic and diluted, profit from continuing operations for the year, tenge	20	**2,250.11**	1,357.30

* *Certain amounts in this column do not agree to the consolidated financial statements for the year 2016, as they reflect the adjustments made, details of which are provided in Note 4.*

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

Chief financial officier _________________ *Uzbekov A.A.*

Chief accountant _________________ *Suleimanov Y.E.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to equity holders of the Parent							
In thousands of tenge	Shares outstanding	Treasury shares	Foreign currency translation reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Note	20	20	20	20				
At 1 January 2016	12,136,529	(6,464,488)	47,662	1,820,479	285,884,903	293,425,085	(1,003,643)	292,421,442
Net profit for the year	–	–	–	–	55,831,818	55,831,818	–	55,831,818
Other comprehensive loss	–	–	(49,619)	–	(607,983)	(657,602)	–	(657,602)
Total comprehensive income	–	–	(49,619)	–	55,223,835	55,174,216	–	55,174,216
Treasury shares reacquired, net *(Note 20)*	–	114	–	–	–	114	–	114
Dividends *(Note 20)*	–	–	–	–	(3,562,836)	(3,562,836)	–	(3,562,836)
Acquisition of non-controling interest *(Note 5)*	–	–	–	–	(1,238,969)	(1,238,969)	1,003,643	(235,326)
At 31 December 2016	12,136,529	(6,464,374)	(1,957)	1,820,479	336,306,933	343,797,610	–	343,797,610
Net profit for the year	–	–	–	–	**24,717,821**	**24,717,821**	–	**24,717,821**
Other comprehensive loss	–	–	**(4,397)**	–	**(5,037,715)**	**(5,042,112)**	–	**(5,042,112)**
Total comprehensive income	–	–	**(4,397)**	–	**19,680,106**	**19,675,709**	–	**19,675,709**
Dividends *(Note 20)*	–	–	–	–	**(4,365,382)**	**(4,365,382)**	–	**(4,365,382)**
At 31 December 2017	**12,136,529**	**(6,464,374)**	**(6,354)**	**1,820,479**	**351,621,657**	**359,107,937**	–	**359,107,937**

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

Chief financial officier ________ *Uzbekov A.A.*

Chief accountant ________ *Suleimanov Y.E.*

The accounting policies and notes on pages 8 to 69 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

In thousands of tenge	Note	2017	2016*
Operating activities			
Profit before tax from continuing operations		**32,936,666**	24,082,039
Profit before tax from discontinued operations		**–**	42,621,503
Profit before tax		**32,936,666**	66,703,542
Adjustment for:			
Depreciation of property and equipment	31, 32	**40,096,546**	27,845,196
Amortisation of intangible assets	31, 32	**3,054,440**	3,064,718
Impairment of property and equipment and intangible assets	37	**1,246,347**	–
Change in deferred income		**2,639,160**	12,293
Changes in employee benefit obligations		**(585,721)**	(326,485)
Unrealised foreign exchange loss/(gain), net		**1,447,704**	(252,976)
Allowance for doubtful receivables	32	**882,403**	1,411,405
Write-down of inventories to net realizable value	32	**13,729**	192,139
Share in (profit)/loss of associates	9	**(1,098,368)**	18,410,477
Finance costs accrued	35, 39	**7,825,754**	6,833,870
Finance income accrued	35, 39	**(4,125,054)**	(3,750,368)
Gain on disposal of subsidiary	39	**–**	(41,579,323)
(Gain)/loss on disposal of property and equipment		**(311,074)**	315,024
Adjustments of working capital			
Change in trade receivables		**(7,940,071)**	(10,650,693)
Change in inventories		**1,455,123**	(496,005)
Change in current and non-current assets		**1,295,230**	4,889,055
Change in advances paid		**(239,724)**	168,661
Change in trade payables		**1,432,917**	2,355,652
Change in advances received		**198,045**	305,897
Changes in other current liabilities		**1,274,880**	671,011
Cash flows from operating activities		**81,498,932**	76,123,090
Dividends paid on common and preferred shares	20	**(4,299,346)**	(3,627,387)
Income tax paid		**(9,129,857)**	(8,184,946)
Interest paid	42	**(7,923,012)**	(5,844,446)
Interest received		**1,778,771**	1,731,670
Net cash flows received from operating activities		**61,925,488**	60,197,981
Investing activities			
Purchase of property and equipment		**(20,330,697)**	(17,379,516)
Purchase of intangible assets		**(652,798)**	(4,047,567)
Proceeds from sale of property and equipment		**696,344**	306,631
Placement of deposits		**(64,648,712)**	(57,121,119)
Return of deposits		**49,519,792**	39,519,133
Issue of long-term loans to employees		**(2,146,515)**	(2,127,857)
Repayment of loans to employees		**421,838**	365,450
Investments in associates	9	**(986,980)**	–
Return of funds of covered bank guarantee		**50**	208,600
Financial aid repaid		**2,000**	3,496
Net cash inflow from subsidiary disposal (QazCloud LLP)	5	**30,170**	–
Net cash outflow from subsidiary disposal (QazCloud LLP)	5	**–**	(53,965)
Net cash outflow from subsidiary disposal (Altel JSC)	39	**–**	(1,683,295)
Net cash flows used in investing activities		**(38,095,508)**	(42,010,009)

The accounting policies and notes on pages 8 to 69 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of tenge	Note	2017	2016*
Financing activities			
Borrowings repaid	42	**(28,009,799)**	(8,624,665)
Repayment of finance lease liabilities	42	**(3,162,706)**	(4,707,462)
Acquisition of non-controlling interests in a subsidiary	5	**–**	(201,728)
Net cash flows used in financing activities		**(31,172,505)**	(13,533,855)
Effect of exchange rate changes on cash and cash equivalents		**(992,474)**	(298,217)
Net change in cash and cash equivalents		**(8,334,999)**	4,355,900
Cash and cash equivalents, as at 1 January	19	**24,320,942**	19,965,042
Cash and cash equivalents, as at 31 December	19	**15,985,943**	24,320,942

* *Certain amounts in this column do not agree to the consolidated financial statements for the year 2016, as they reflect the adjustments made, details of which are provided in Note 4.*

Disclosure of significant non-cash transactions is presented in *Note 40*.

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

Chief financial officier *Uzbekov A.A.*

Chief accountant *Suleimanov Y.E.*

The accounting policies and notes on pages 8 to 69 are an integral part of these consolidated financial statements.

ACCOUNTING POLICIES AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL INFORMATION

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

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

The Company is controlled by the Government of the Republic of Kazakhstan through Sovereign Wealth Fund "Samruk-Kazyna" JSC ("Samruk-Kazyna" or the "Parent"), which owns 51% of the Company's controlling shares. Below is a list of the Company's shareholders as at 31 December 2017:

	At 31 December 2017	At 31 December 2016
Samruk-Kazyna	**51.0%**	51.0%
SOBRIO LIMITED	**24.5%**	24.5%
ADR (The Bank of New York – depositor)	**9.2%**	9.2%
Alatau Capital Invest LLP	**3.7%**	3.7%
United Accumulative Pension Fund JSC	**3.4%**	3.4%
Deran Investment B.V.	**2.0%**	2.0%
Other	**6.2%**	6.2%
	100%	100%

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

The Company and its subsidiaries listed in *Note 5* (hereinafter collectively referred to as the "Group") have a significant share of the fixed line communication market, including local, long-distance intercity and international telecommunication services including CIS and non-CIS countries; and also leases out lines and provides data transfer services, as well as wireless communication.

These consolidated financial statements of the Group were approved for issue by the Chairman of the Management Board on behalf of the Management of the Company on 13 March 2018.

2. BASIS FOR PREPARATION

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (hereinafter, "IFRS"), as issued by International Accounting Standard Board (hereinafter, "IASB").

These consolidated financial statements have been prepared on a historical cost basis, except as described in the accounting policies and the notes to these consolidated financial statements. The consolidated financial statements are presented in Kazakhstan tenge ("tenge") and all amounts are rounded to the nearest thousand, except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include financial statements of the Kazakhtelecom JSC and its subsidiaries as at 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

2. BASIS FOR PREPARATION (continued)

Basis of consolidation (continued)

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control over subsidiary. Assets, liabilities, revenue and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group obtains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, revenue, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New and amended standards and interpretations

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2017. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information for both the current and the comparative period in *Note 42*.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

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

The Group applied amendments retrospectively. However, their application has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

Annual improvements cycle – 2014-2016

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10-B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. The amendments have no impact on the Group's consolidated financial statements.

Standards and interpretations issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date and will not restate comparative information.

During 2017, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9. Overall, the Group expects no significant impact on its consolidated statement of financial position and equity.

(a) Classification and measurement

IFRS 9 includes a new approach to the classification and measurement of financial assets, which reflects the business model of the organization for the management of financial assets and the characteristics of their cash flows. IFRS 9 defines three main categories of valuation for financial assets: financial assets carried at amortized cost, at fair value through other comprehensive income (OCI) and at fair value through profit or loss. The standard excludes existing categories in accordance with IFRS (IAS 39), including held-to-maturity investments, trade and other receivables, loans to related parties and other financial assets.

Based on the analysis performed, the Group does not expect significant impact on its consolidated statement of financial position and equity when applying the classification and measurement requirements of IFRS 9.

(b) Impairment

The new requirements related to impairment in IFRS 9 are based on the model of expected credit losses and replace the loss model of IFRS (IAS 39). This approach reflects a general scheme of deterioration or improvement in the credit quality of financial instruments. The amount of expected credit losses recognized as an assessment reserve or an estimated loss liability depends on the degree of deterioration in credit risk after initial recognition.

The new impairment model is applicable to financial assets discloses at amortized cost, borrowings, assets under contract in accordance with IFRS 15 *Revenue under Contracts with Customers*, trade receivables, loan commitments and financial guarantee contracts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards and interpretations issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

(b) Impairment (continued)

According to IFRS 9, there are two bases for estimating an impairment loss:

- 12-month expected credit losses: expected credit losses due to defaults possible within 12 months after the reporting date; or
- Expected credit losses over the life of the instrument: the expected credit losses that result from all possible defaults over the expected life of the financial instrument.

The Group plans to adopt a simplified approach and reflect expected credit losses for the entire life of the trade and other receivables. For the estimation of the expected credit losses, trade and other receivables will be grouped on the basis of credit risk and days of delay in payment.

For long-term bank deposits and other financial assets recorded at amortized cost, the Group plans to adopt a general approach.

For short-term bank deposits, cash and cash equivalents, the Group assessed the credit risk as low based on the credit ratings of banks and financial institutions.

Based on the analysis, the Group does not expect a significant change in the impairment loss on trade and other receivables and other financial assets recorded at amortized cost.

(c) Hedge accounting

The Group does not have hedging relationships that are designated as effective hedging relationships and, accordingly, the requirements for hedge accounting under IFRS 9 will not affect the Group consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method. During 2016 and 2017 years the Group performed a preliminary assessment of IFRS 15. Currently, the Group performs detailed anaylises to be finished in 2018.

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

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

The Group will apply these amendments when they become effective.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards and interpretations issued but not yet effective (continued)

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

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

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

IFRS 16 Leases

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

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2018, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach);
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards and interpretations issued but not yet effective (continued)

Transfers of Investment Property – Amendments to IAS 40

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. Effective for annual periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed. The Group will apply amendments when they become effective. However, since Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated financial statements.

Annual improvements 2014-2016 cycle (issued in December 2016)

These improvements include:

IFRS 1 First-time Adoption of International Financial Reporting Standards – Deletion of short-term exemptions for first-time adopters

Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from 1 January 2018. This amendment is not applicable to the Group.

IAS 28 Investments in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that:

- An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. This decision is taken separately for each investment upon initial recognition.
- If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b)the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact. These amendments are not applicable to the Group.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 *Insurance Contracts*, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS 9. These amendments are not applicable to the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards and interpretations issued but not yet effective (continued)

Annual improvements 2014-2016 cycle (issued in December 2016) (continued)

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the Interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

(i) The beginning of the reporting period in which the entity first applies the interpretation; or

(ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The Interpretation is effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. However, since the Group's current practice is in line with the Interpretation, the Group does not expect any effect on its consolidated financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply interpretation from its effective date. Since the Group operates in a complex tax environment, applying the Interpretation may affect its consolidated financial statements and the required disclosures. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

Annual improvements 2015-2017 cycle (issued in December 2017)

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value.

In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted. As the Group does not have agreements on joint activities, the Group does not expect the amendments to impact its consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards and interpretations issued but not yet effective (continued)

Annual improvements 2015-2017 cycle (issued in December 2017) (continued)

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted. As the Group does not have agreements on joint activities, the Group does not expect the amendments to impact its consolidated financial statements.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. These amendments are not applicable to the Group.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. These amendments are not applicable to the Group.

Foreign currency translation

The consolidated financial statements of the Group are presented in tenge, which is the functional currency of the Company and its main subsidiaries. Tenge is the currency of the primary economic environment in which the Company and its main subsidiaries operate. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates prevailing at the date when the transaction meets recognition criteria. Monetary assets and liabilities denominated in foreign currency are translated at the official exchange rate ruling at the reporting date established by Kazakhstan Stock Exchange ("KASE") and published by the National Bank of the Republic of Kazakhstan ("NBRK"). All translation differences are recognized in the consolidated statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation (continued)

Transactions and balances (continued)

Foreign exchange rates are presented in the following table:

	31 December 2017	31 December 2016
US dollars	**332.33**	333.29
Euro	**398.23**	352.42
Russian roubles	**5.77**	5.43

The functional currencies of foreign operations KT-IX LLC (Russian Federation) and Online.kg LLC (Kyrgyzstan) are Russian roubles and Kyrgyz soms, respectively. During consolidation the assets and liabilities of foreign operations are translated into tenge at the rate of exchange prevailing at the reporting date and their statements of comprehensive income are translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in general and administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with the changes in fair value recognised in the consolidated statement of comprehensive income.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Investments in associates

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates (continued)

The Group's investments in its associates are accounted for using the equity method.

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

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

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

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

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

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

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

Current versus non-current classification

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

- Expected to be realised or intended to sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within 12 (twelve) months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 (twelve) months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Current versus non-current classification (continued)

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Fair value measurement

Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in the *Note 42*.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the consolidated financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The respective unit of the Group (hereinafter, the "Working Group") determines the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted AFS financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operations. The composition of the Working Group is determined by the Management of the Company.

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

Non-current assets held for sale and discontinued operations

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

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

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

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

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

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

Additional disclosures are provided in *Note 39*. All other notes to the consolidated financial statements include amounts for continuing operations, unless otherwise mentioned.

Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Please refer to Other non-current liabilities *(Note 25)* for further information about decommissioning provision recognised.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

	Years
Buildings	50
Constructions	10-20
Telecommunication equipment	3-20
Other	3-20

Land is not depreciated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

An item of property and equipment and any significant component initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income when the asset is derecognised.

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

Construction-in-progress

Construction-in-progress represents property and equipment under construction and machinery and equipment awaiting installation and is recorded at cost. Construction-in-progress includes cost of construction and equipment and other direct costs. When construction of such assets is completed or when the machinery and equipment are ready for their intended use, construction-in-progress is transferred to the appropriate category of depreciable assets. Construction-in-progress is not depreciated.

Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing component of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and accumulated impairment loss. Depreciation is calculated on a straight-line basis over the estimated useful life, which is 50 years.

Investment properties are derecognised in the consolidated statement of financial position when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of comprehensive income when the asset is derecognized.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at initial cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

Intangible assets have finite useful lives.

Intangible assets with finite useful lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. Expenses on amortization of intangible assets with finite useful life are recognized in the consolidated statement of comprehensive income in the category of expenses, which corresponds to the function of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of comprehensive income when the asset is derecognised.

ACCOUNTING POLICIES AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Intangible assets are amortized on a straight-line basis within the following estimated useful lives.

	Years
Licenses and trademarks	3-20
Computer software	1-14
Customer base	8
Other	2-15

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's or cash-generating unit's (CGU) recoverable amount is the higher of: the fair value of an asset (cash generating unit) less costs of disposal and its value in use (cash generating unit). The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of 5 (five) years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of comprehensive income.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

Goodwill is tested for impairment annually as at 31 December, and when circumstances indicate that the carrying amount may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans issued and receivables, held-to-maturity investments, AFS financial assets. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification, as described below:

Loans issued and receivables

This category is the most relevant to the Group. Loans issued and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the consolidated statement of comprehensive income. The expenses arising from impairment are recognized in the consolidated statement of comprehensive income within finance costs in case of loans issued and within general and administrative expenses in case of accounts receivable.

This category generally applies to other non-current financial assets, trade receivables and other current financial assets. Further details are contained in *Notes 12, 15* and *17*, respectively.

Investments held to maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold it to maturity. After initial measurement held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the consolidated statement of comprehensive income. The losses arising from impairment are recognised in the consolidated statement of comprehensive income in finance costs. The Group did not have any held-to-maturity investments during the years ended 31 December 2017 and 2016, except for deposits placed in banks.

Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with initial maturity of 3 (three) months or less, which are subject to an insignificant risk of changes in value.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized (i.e. exluded from the Group's consolidated statement of financial position):

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Derecognition (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, the Group evaluates if it has retained the risks and rewards of the property, and to which extent, if any. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation. Besides, such evidence include observable data indicating that there is a measurable decrease in the expected future cash flows on a financial instrument such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interst rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the consolidated statement of comprehensive income. Interest income (recorded as finance income in the consolidated statement of comprehensive income) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans, together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the consolidated statement of comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities comprise trade and other accounts payable, loans and borrowings, finance lease liabilities, finance guarantee contracts and debt component of preferred shares.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings

This category is the most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the consolidated statement of comprehensive income.

This category generally applies to interest-bearing loans and borrowings. Further details are contained in *Note 21*.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of: the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

Debt component of preferred shares recorded in liabilities

The debt component of the preferred shares that exhibits characteristics of a liability is recognised as a liability in the consolidated statement of financial position, net of transaction costs. The corresponding minimal guaranteed dividends on those shares are charged as interest expense in the consolidated statement of comprehensive income. On initial recognition, the fair value of the liability component is determined by discounting expected future cash flows at a market interest rate for a comparable debt instrument. The fair value of the equity component on initial recognition is assigned the residual amount after deducting from the initial carrying amount of the instrument as a whole the fair value determined for the liability component. Subsequently, the liability component is measured according to the same principles used for loans and borrowings, and the equity component is not remeasured in subsequent years.

Trade and other accounts payable

Liabilities for trade and other accounts payable are recognised at fair value to be paid in the future for goods and services received, whether or not billed to the Group.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised through the consolidated statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are only offset and reported at the net amount in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and the Group intends to either settle on a net basis, to realise the asset and settle the liability simultaneously.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are valued at the lower of: cost of acquisition and net realisable value.

Cost comprise expenses incurred in bringing inventory to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. The same cost formula is used for all inventories having a similar nature and use. All inventories are determined based on weighted average cost method.

Lease

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected directly in the consolidated statement of comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of: the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as operating expenses in the consolidated statement of comprehensive income on a straight line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue and other income in the period in which they are earned.

Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

Decommissioning liabilities

Decommissioning liabilities are recognized in respect of the estimated future costs of closure and restoration and for environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the reporting period when the related environmental disturbance occurs. Decommissioning costs are recorded at the discounted value of expected liability settlement costs calculated using estimated cash flows and recognized as part of the initial cost of the particular asset. Cash flows are discounted at the current rate before tax, which reflects risks inherent to the decommissioning obligations. Unwinding of discount is expensed as incurred and recognised in the consolidated statement of comprehensive income as finance costs. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs, or in the discount rate applied, are added to or deducted from the cost of the asset.

Employee benefit

Social tax

The Group pays social tax according to the current statutory requirements of the Republic of Kazakhstan. Social tax expenses are charged to expenses as incurred.

Besides, the Group withholds 10% of the salary of employees paid as contributions of employees to the accumulating pension funds. Under the legislation, employees are responsible for their retirement benefits and the Group has no present or future obligation to further compensate its employees upon their retirement, except as provided below.

Defined benefits pension plan

In accordance with the Collective Agreement the Company provides certain long-term and retirement benefits to some of its employees (the "Defined Benefit Scheme").

Long-term benefits are paid to employees upon completion of a certain number of years of service whereas retirement benefits represent one-off payments paid upon retirement in accordance with the the Collective Agreement. Both items vary according to the employee's average salary and length of service.

Cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit obligation and the return on plan assets (excluding amounts included in net interest on the net defined benefit obligation), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment; and
- The date that the Group recognises related restructuring costs.

Net interest is calculated by applying the discount rate to the net defined benefit obligation or asset. The Group recognises the outlined changes of net defined benefit obligation in the lines: "cost of sales", "general and administrative expenses" in the consolidated statement of comprehensive income.

Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the acquisition, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in equity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash dividend and non-cash distribution to equity holders of the Parent

The Company recognises a liability to make cash or non-cash distributions to equity holders of the Parent when the distribution is authorised and the distribution is no longer at the discretion of the Company. According to the legislation, distribution is approved by the shareholders. A corresponding amount is recognised directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value remeasurement recognised directly in equity.

Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in the consolidated statement of comprehensive income.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, irrespective of the period of payment. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude, and is also exposed to inventory and credit risks.

The specific recognition criteria described below must also be met before revenue is recognised.

Rendering of services

The Group's revenues are principally derived from the provision of local, domestic long distance and international long distance telecommunication services which consist of (i) usage charges for telephone services, which vary depending on the day, the time of the day, distance and duration of the telephone call, (ii) a monthly fee for telecommunication services, (iii) service activation and installation fees, (iv) provision of internet and data services, and (v) interconnection fees from domestic and foreign telecommunications operators.

The Group records revenues over the periods they are earned as follows:

(i) Revenues derived from fixed line and wireless phone services are recognised as the services are provided;

(ii) Monthly fees for telecommunication services are recognised in the month in which the services are provided to customers;

(iii) Upfront fees received for activation of connection to the fixed line and wireless network that do not represent a separate earnings process and are deferred and recognised over the expected period of the customer relationship. The expected period of the customer relationship is based on past history of customer period and industry practice;

(iv) Revenue from provision of data transfer services are recognised when the services are provided to customers;

(v) Interconnection fees from domestic and foreign telecommunications operators are recognised when the services are rendered as measured by the actual minutes of traffic processed.

Rental income

Rental income arising from operating leases of telecommunication channels is accounted for on a straight-line basis over the lease terms and included in revenue due to its operating nature.

Compensation for provision of universal services in rural areas

Compensation for provision of universal services is recognised where there is reasonable assurance that the compensation will be received and all attached conditions will be complied with. When the compensation relates to an expense item, it is recognised as income over the period necessary to match the compensation on a systematic basis to the costs that it is intended to compensate. Where the compensation relates to an asset, it is recognised as deferred income and released to the consolidated statement of comprehensive income in equal amounts over the expected useful life of the related asset.

Compensation related to income is presented separately in the consolidated statement of comprehensive income within revenues from operating activities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Interest income

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as AFS, interest income is recorded using the effective interest rate (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The interest income is recorded as part of finance income in the consolidated statement of comprehensive income.

Dividends

Revenue is recognised when the Group's right to receive the payment is established, which is generally when shareholders approve the dividend.

Expense recognition

Expenses are recognized as incurred and reported in the consolidated statement of comprehensive income in the period to which they relate on the accrual basis.

Connection cost

The Group records connection costs incurred and attributable to the related deferred income over the expected period of the customer relationship.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

Income tax

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Group operates and generates taxable profit.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated statement of comprehensive income. Management of the Group periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in relation to the underlying transaction either in the consolidated statement of comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

4. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires the management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of these items and contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

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

- Financial instruments and financial risk management objectives and principles – *Note 42*;
- Sensitivity analyses disclosures – *Notes 10 and 23.*

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

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

Useful lives of property and equipment and intangible assets

The Group assesses the remaining useful lives of items of property and equipment and intangible assets at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the carrying amounts of property and equipment and intangible assets and on depreciation and amortization expenses recognized in profit or loss. In 2017, the Group reassessed the remaining useful lives of certain telecommunications equipment, which resulted in decrease in the remaining useful life by 2 to 5 years on average. The change in the remaining useful lives resulted in a total increase in depreciation expenses for the year ended 31 December 2017 in the amount of KZT 10,995,026 thousand.

Impairment of non-financial assets

An impairment exists when the carrying amount of an asset or cash generating unit exceeds its recoverable amount, which is the higher of: its fair value less costs of disposal and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next 5 (five) years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and growth rates used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in *Note 10*.

Allowances

The Group makes allowances for doubtful accounts receivable. Significant judgement is used to estimate doubtful accounts. In assessing doubtful accounts, historical and anticipated performance of buyer or customer is taken into account. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful debts recorded in the consolidated financial statements.

As at 31 December 2017, the Group had an allowance for doubtful receivables in the amount of KZT 3,038,439 thousand (as at 31 December 2016: KZT 2,957,611 thousand) *(Notes 15, 16* and *17)*.

Connection fees

Upfront fees received for activation and connection to the fixed line and wireless network that do not represent a separate earning process are deferred and recognized over the expected period of the customer relationship. In making its judgments, management considered the detailed criteria for the recognition of revenues from connection fees set out in IAS 18, industry practice and the Company's historical churn rate. As at 31 December 2017, average customer relationship period is assessed as 13 (thirteen) years for fixed line customers and 5 (five) years for internet customers.

Finance – Group as lessee

The Group has entered into leases with respect to certain telecommunication equipment. The Group determined that under these agreements, substantially all the risks and benefits incidental to ownership of the leased item are transferred to the Group and, respectively, the lease is classified as finance lease.

Employee benefit obligations

The Group uses actuarial valuation method for measurement of the present value of defined employee benefit obligation and related current service cost. This involves the use of demographic assumptions about the future characteristics of current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, etc.) as well as financial assumptions (discount rate, future salary increases). Due to the long term nature of these benefits, such estimates are subject to significant uncertainty.

The current portion of employee benefit obligations represents the obligations which the Group is going to repay within the twelve months period since the end of the annual reporting period.

In determining the appropriate discount rate, management of the Group considers the interest rates of high-yield corporate bonds in respective currencies.

ACCOUNTING POLICIES AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Employee benefit obligations (continued)

The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates.

Further details about employee benefit obligations are contained in *Note 23*.

Discontinued operations

On 3 November 2015, the Company announced its decision to enter into an agreement with Tele2 Group to establish a joint venture in wireless segment based on Altel JSC (ALTEL 4G brand) and Mobile Telecom-Service LLP (Tele2 brand). On 29 February 2016, Kazakhtelecom JSC and Tele2 completed the transaction on formation of a joint venture. As a result of this transaction, Kazakhtelecom JSC received 51% of the authorised capital and 49.48% of voting shares in Khan Tengri Holding B.V. in exchange for 100% share in Altel JSC *(Note 9)*. Thus, Altel JSC activities were classified as discontinued operations.

Refer to *Note 39* for more details regarding discontinued operations.

Investments in associates

On 29 February, 2016, the Group acquired 51% of the share capital and 49.48% of voting shares in Khan Tengri Holding B.V., which provides mobile telecommunications services in the GSM and LTE standard in the Republic of Kazakhstan. Due to the fact that the Group owns 49.48% of the voting shares of Khan Tengri Holding B.V, the Group has a significant influence on the activities of Khan Tengri Holding B.V. and, accordingly, the interest in Khan Tengri Holding B.V. is accounted for as an investment in an associate and is recorded in the consolidated financial statements using the equity method *(Note 9)*.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

As at 31 December 2017, the Group did not have tax losses carried forward (31 December 2016: KZT 17,384 thousand) *(Note 38)*.

As at 31 December 2017, deferred tax assets of the Group were equal to KZT 104,614 thousand (at 31 December 2016: nil). As at 31 December 2017, the carrying amount of un-recognized tax assets was equal to KZT 92,891 thousand (31 December 2016: KZT 137,346 thousand). Further details are contained in *Note 38*.

Fair value measurement of financial instruments

When the fair value of financial instruments and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on data in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the fair value reported in the consolidated financial statements. For more details on the fair values refer to *Note 42*.

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

Reclassifications and adjustments of comparative data

Certain amounts in the consolidated statement of financial position, the consolidated statement of comprehensive income and the consolidated statement of cash flow for the year ended 31 December 2016 were reclassified to conform with the presentation used in the consolidated statement of financial position as at 31 December 2017 and to correct presentation in the consolidated statement of comprehensive income and the consolidated statement of cash flow for the year ended 31 December 2016:

In thousand tenge	As previously presented	Reclassifications and adjustments	Note	As adjusted
Consolidated statement of financial position as at 31 December 2016				
Non-current assets				
Other non-current financial assets	5,876,966	106,131	[1]	**5,983,097**
Other non-current assets	1,708,901	(106,131)	[1]	**1,602,770**
Total non-current assets	364,102,896	–		**364,102,896**
Current assets				
Other current financial assets	48,133,067	1,032,961	[2]	**49,166,028**
Other current assets	2,628,449	(1,032,961)	[2]	**1,595,488**
Total current assets	104,859,216	–		**104,859,216**
Non-current liabilities				
Other non-current financial liabilities	–	728,982	[3]	**728,982**
Other non-current liabilities	4,209,139	(728,982)	[3]	**3,480,157**
Total non-current liabilities	87,564,132	–		**87,564,132**
Current liabilities				
Other current financial liabilities	–	11,810,685	[4]	**11,810,685**
Other current liabilities	16,129,172	(11,810,685)	[4]	**4,318,487**
Total current liabilities	125,164,502	–		**125,164,502**
Consolidated statement of comprehensive income for the year ended 31 December 2016				
Share in loss of associates	(13,568,195)	(4,842,282)	[5]	**(18,410,477)**
Other expenses	(5,312,424)	4,842,282	[5]	**(470,142)**
Profit before tax from continuing operations	24,082,039	–		**24,082,039**
Consolidated statement of cash flows for the year ended 31 December 2016				
Share in loss of associates	13,568,195	4,842,282	[5]	**18,410,477**
Changes in other current liabilities	5,513,293	(4,842,282)	[5]	**671,011**
Cash flows from operating activities	60,197,981	–		**60,197,981**

[1] Long-term accounts receivable in the amount of KZT 106,131 thousand were reclassified to other non-current financial assets.

[2] Restricted cash, due from employees, reimbursement of fee for using radio frequencies and other receivables in the amount of KZT 446,198 thousand, KZT 97,098 thousand, KZT 173,184 thousand and KZT 977,202 thousand, respectively, were reclassified to other current financial assets. Allowance for doubtful receivables also was also reclassified to other current financial assets in the amount of KZT 660,721 thousand.

[3] Guarantees issued and other long term payables in the amount of KZT 726,808 thousand and KZT 2,174 thousand, respectively, were reclassified to other non-current financial liabilities.

[4] Payables employees, payable to Khan Tengri Holding B.V., guarantees issued and other liabilities in the amount of KZT 4,363,711 thousand, KZT 4,842,282 thousand, 1,547,439 thousand, KZT 151,852 thousand and KZT 905,401 thousand, respectively, were reclassified to other current financial liabilities.

[5] Loss from impairment on investment in the associate in the amount of KZT 4,842,282 thousand was reclassified from othe expenses to share in loss of associates from other expenses, to conform with the Group accounting policy requirements.

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

Reclassifications and adjustments of comparative data (continued)

The above reclassifications and adjustments made had no impact on previously reported net profit, total comprehensive income or equity. The changes did not have an impact the Group's investing and financing cash flows. All disclosure amounts within the comparative information were changed respectively. In addition, the Group made certain reclassifications within cost of sales for the year ended 31 December 2016 to be consistent with the current year presentation.

5. CONSOLIDATION

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

		Percentage ownership	
	Country of incorporation	31 December 2017	31 December 2016
Nursat JSC	Kazakhstan	**100.00%**	100.00%
KT-IX LLC	Russia	**100.00%**	100.00%
KT Cloud Lab LLP	Kazakhstan	**100.00%**	100.00%
VostokTelecom LLP	Kazakhstan	**100.00%**	100.00%
Info-Net Wireless LLP	Kazakhstan	**100.00%**	100.00%
Nursat+ LLP	Kazakhstan	**100.00%**	100.00%
Online.kg LLC	Kyrgyzstan	–	100.00%

On 25 January 2016, the Company acquired 20% shares in Nursat JSC in cash from a minority shareholder represented by the Committee for State Property and Privatization of the Ministry of Finance of the Republic of Kazakhstan for KZT 235,326 thousand. As at 31 December 2015, prepayment of KZT 33,598 thousand was made out of this amount.

Based on the decision of the Board of Directors of Kazakhtelecom JSC on 17 August 2016 a purchase and sale agreement was concluded between Kazakhtelecom JSC and Samruk-Kazyna Business Services LLP for 51% interest of Kazakhtelecom JSC in the charter capital of Kazakhtelecom Industrial Enterprises Services LLP. As a result of the transaction, the net cash outflow amounted to KZT 53,965 thousand. The transaction value was equal to KZT 30,170 thousand and was paid on 29 March 2017.

On 16 November 2016, Signum LLC was reregistered and renamed to KT-IX LLC.

On 22 December 2017 the liquidation of Online.kg LLC was completed. The company ceased operations due to its liquidation. During 2014-2017, the assets of Online.kg LLC were sold through auctions. Funds received from the sale of assets after settlements with creditors and fulfillment of all obligations of Online.kg LLC in the amount of KZT 17,982 thousand were transferred to Kazakhtelecom JSC, its sole participant, before the completion of liquidation, including the return of the charter capital.

6. SEGMENT INFORMATION

For management purposes, the Group represents business units based on the organizational structure of the Group and has reportable operating segments as follows:

- Rendering fixed-line telecommunication services to local, national long-distance and international to business units of Kazakhtelecom JSC, Vostoktelecom LLP, KT Cloud Lab LLP and Nursat JSC;
- Rendering mobile telecommunication services in GSM and LTE standards by a business unit of an associate Khan Tengri Holding B.V.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

In February 2016, the Group lost control over the subsidiary rendering mobile telecommunication services in GSM and LTE standards *(Note 39)*. This disclosure of segment information does not include amounts related to discontinued operations.

6. SEGMENT INFORMATION (continued)

The following tables disclose revenue and profit information for the Group's operating segments for the years ended 31 December 2017 and 2016.

For the year ended 31 December 2017

In thousands of tenge	Fixed line	Mobile telecommunication services in GSM and LTE standards	Other	Eliminations and adjustments	Group
Revenue					
Sales to external customers	210,224,025	–	1,200	–	210,225,225
Inter-segment	–	–	210,405	(210,405)	–
Total revenue	210,224,025	–	211,605	(210,405)	210,225,225
Financial results					
Depreciation and amortisation	(43,122,634)	–	(28,352)	–	(43,150,986)
Finance costs	(7,825,754)	–	–	–	(7,825,754)
Finance income	4,843,630	–	4,929	(723,505)	4,125,054
Share in proft/(loss) of associates	–	1,166,223	(67,855)	–	1,098,368
Impairment loss	1,246,347	–	–	–	1,246,347
Allowance for doubtful receivables	(881,870)	–	(533)	–	(882,403)
Income tax expenses	(8,209,058)	–	(9,787)	–	(8,218,845)
Segment profit/(loss)	32,826,988	1,166,223	(76,973)	(979,572)	32,936,666
Operating assets	401,862,495	68,327,015	1,614,407	(489,725)	471,314,192
Operating liabilities	111,850,809	–	354,742	704	112,206,255
Other disclosures					
Investments in associates	–	68,327,015	919,125	–	69,246,140
Capital expenditures	30,221,868	–	154,902	–	30,376,770

For the year ended 31 December 2016

In thousands of tenge	Fixed line	Mobile telecommunication services in GSM and LTE standards	Other	Eliminations and adjustments	Group
Revenue					
Sales to external customers	205,819,968	–	–	–	205,819,968
Inter-segment	268	–	131,602	(131,870)	–
Total revenue	205,820,236	–	131,602	(131,870)	205,819,968
Financial results					
Depreciation and amortisation	(30,859,109)	–	(50,805)	–	(30,909,914)
Finance costs	(6,417,739)	–	–	5,194	(6,412,545)
Finance income	3,699,363	–	–	(124,080)	3,575,283
Share in loss of associates	–	(18,381,490)	(28,987)	–	(18,410,477)
Allowance for doubtful receivables	(1,411,405)	–	–	–	(1,411,405)
Income tax expenses	(9,216,687)	–	6,657	–	(9,210,030)
Segment profit/(loss)	39,933,806	(18,381,490)	(62,714)	2,592,437	24,082,039
Operating assets	401,684,781	67,160,792	441,401	(324,862)	468,962,112
Operating liabilities	124,895,545	–	254,647	14,310	125,164,502
Other disclosures					
Investments in associates	–	67,160,792	–	–	67,160,792
Capital expenditures	15,960,247	–	18,492	–	15,978,739

6. SEGMENT INFORMATION (continued)

1) Income and expenses between segments are excluded during consolidation;
2) Finance costs and finance income comprise intersegment finance costs and intersegment finance income;
3) Operating income of segments comprises income from intersegment transactions;
4) Capital expenditures include additions to property and equipment and intangible assets.

Reconciliation of profit

In thousands of tenge	2017	2016
Segment profit	**33,916,238**	21,489,602
Other	**(979,572)**	2,592,437
Profit of the Group	**32,936,666**	24,082,039

Reconciliation of operating assets

In thousands of tenge	2017	2016
Segment operating assets	**471,803,917**	469,286,974
Elimination of the Company's investments in subsidiaries	**(250,965)**	(73,877)
Elimination of intra-group receivables and payables	**(238,760)**	(250,985)
Operating assets of the Group	**471,314,192**	468,962,112

Reconciliation of operating liabilities

In thousands of tenge	2017	2016
Segment operating liabilities	**112,205,551**	125,150,192
Deferred tax liabilities	**239,464**	265,295
Elimination of intra-group receivables and payables	**(238,760)**	(250,985)
Operating liabilities of the Group	**112,206,255**	125,164,502

7. PROPERTY AND EQUIPMENT

Movements of property and equipment in 2017 and 2016 were as follows:

In thousands of tenge	Land	Buildings and construc-tions	Equipment	Other	Construc-tion in progress	Total
Cost						
At 1 January 2016	558,088	47,892,318	492,557,643	13,066,339	12,757,347	566,831,735
Additions	924	56,879	11,428,420	369,753	3,949,175	15,805,151
Transfers	85	471,127	4,257,904	(43,588)	(4,685,528)	–
Disposals	(4,279)	(262,949)	(5,370,652)	(228,039)	(247,934)	(6,113,853)
Transfers to intangible assets *(Note 8)*	–	–	–	–	(685,390)	(685,390)
At 31 December 2016	554,818	48,157,375	502,873,315	13,164,465	11,087,670	575,837,643
Additions	**148,543**	**100,816**	**9,105,525**	**1,053,724**	**19,338,230**	**29,746,838**
Transfers	**–**	**1,253,906**	**10,802,436**	**19,248**	**(12,075,590)**	**–**
Disposals	**(12,263)**	**(464,406)**	**(4,849,673)**	**(401,820)**	**(1,214)**	**(5,729,376)**
Transfers to intangible assets *(Note 8)*	**–**	**–**	**–**	**–**	**(957,300)**	**(957,300)**
At 31 December 2017	**691,098**	**49,047,691**	**517,931,603**	**13,835,617**	**17,391,796**	**598,897,805**
Accumulated depreciation and impairment						
At 1 January 2016	–	14,846,410	255,078,123	10,077,671	1,273,823	281,276,027
Depreciation charge	–	1,900,704	25,197,800	763,118	–	27,861,622
Disposals	–	(88,530)	(5,169,593)	(217,756)	–	(5,475,879)
At 31 December 2016	–	16,658,584	275,106,330	10,623,033	1,273,823	303,661,770
Depreciation charge	**–**	**1,896,927**	**37,513,243**	**709,252**	**–**	**40,119,422**
Impairment	**589**	**2,964**	**932,073**	**729**	**257,027**	**1,193,382**
Disposals	**–**	**(211,648)**	**(4,224,964)**	**(390,457)**	**(271,312)**	**(5,098,381)**
At 31 December 2017	**589**	**18,346,827**	**309,326,682**	**10,942,557**	**1,259,538**	**339,876,193**
Net book value						
At 31 December 2016	554,818	31,498,791	227,766,985	2,541,432	9,813,847	272,175,873
At 31 December 2017	**690,509**	**30,700,864**	**208,604,921**	**2,893,060**	**16,132,258**	**259,021,612**

Construction-in-progress is mainly represented by network construction and telecommunication equipment for installation.

During 2017, the Group recognized an impairment loss of KZT 1,193,382 thousand (2016: no impairment loss), related to write-off of certain fixed assets in the fixed line segment to recoverable amount due to technological obsolescence. Loss was recorded in the consolidated statement of comprehensive income as Other expenses. As at 31 December 2017 their recoverable amount of nil tenge was determined on the basis of calculated value in use of assets at individual asset level.

At 31 December 2017, the net book value of equipment used by the Group under finance leases and included in property and equipment was equal to KZT 23,365,385 thousand (at 31 December 2016: KZT 25,570,125 thousand). Additions during the year include fixed assets in the amount of 9,019,870 thousand tenge received under finance lease agreements (2016: no additions of fixed assets under finance lease agreements). Leased assets were pledged as collateral under the respective finance lease agreements.

As at 31 December 2017, property and equipment with the cost of KZT 135,390,566 thousand were fully depreciated (at 31 December 2016: KZT 116,565,628 thousand).

For the year ended 31 December, 2017, depreciation expenses included in the cost of construction in progress were equial KZT 4,670 thousand (for 2016: KZT 19,211 thousand).

8. INTANGIBLE ASSETS

Movements of intangible assets for 2017 and 2016 were as follows:

In thousands of tenge	Licenses and trademarks	Software	Goodwill	Other	Total
Cost					
At 1 January 2016	16,276,647	21,214,456	2,706,335	4,329,457	44,526,895
Additions	129,169	44,419	–	–	173,588
Transfers	6,415	(6,415)	–	–	–
Disposals	(18,791)	(231,267)	–	–	(250,058)
Transfers from construction-in-progress *(Note 7)*	151,538	533,852	–	–	685,390
At 31 December 2016	16,544,978	21,555,045	2,706,335	4,329,457	45,135,815
Additions	**434,575**	**156,231**	**–**	**39,126**	**629,932**
Transfers	**25,770**	**(25,764)**	**–**	**(6)**	**–**
Disposals	**(1,652,307)**	**(1,316,169)**	**–**	**–**	**(2,968,476)**
Transfers from construction-in-progress *(Note 7)*	**376,982**	**580,318**	**–**	**–**	**957,300**
At 31 December 2017	**15,729,998**	**20,949,661**	**2,706,335**	**4,368,577**	**43,754,571**
Accumulated amortisation and impairment					
At 1 January 2016	8,008,151	15,140,416	–	1,820,163	24,968,730
Amortisation charges	1,052,351	1,400,658	–	615,609	3,068,618
Disposals	(4,761)	(36,893)	–	–	(41,654)
At 31 December 2016	9,055,741	16,504,181	–	2,435,772	27,995,694
Amortisation charges	**1,162,646**	**1,287,779**	**–**	**619,995**	**3,070,420**
Impairment	**9,933**	**43,032**	**–**	**–**	**52,965**
Disposals	**(1,646,437)**	**(1,310,615)**	**–**	**–**	**(2,957,052)**
At 31 December 2017	**8,581,883**	**16,524,377**	**–**	**3,055,767**	**28,162,027**
Net book value					
At 31 December 2016	7,489,237	5,050,864	2,706,335	1,893,685	17,140,121
At 31 December 2017	**7,148,115**	**4,425,284**	**2,706,335**	**1,312,810**	**15,592,544**

Licenses and trademarks, software and other include intangible assets acquired as a result of business combination.

As at 31 December 2017 intangible assets (mainly software) with the cost of KZT 8,372,440 thousand were fully amortized (as at 31 December 2016: KZT 8,508,183 thousand).

9. INVESTMENTS IN ASSOCIATES

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

			31 December 2017		31 December 2016	
In thousands of tenge	**Primary activities**	**Country of incorpo-ration**	**Carrying amount**	**Ownership share**	Carrying amount	Ownership share
Khan Tengri Holding B.V.	Telecommu-nication services	Netherlands	**68,327,015**	**51%**	67,160,792	51%
QazCloud LLP (Kazakhtelecom Industrial Enterprises Services LLP)	IT services	Kazakhstan	**919,125**	**49%**	–	49%
			69,246,140		67,160,792	

9. INVESTMENTS IN ASSOCIATES (continued)

Movements in investments in associates for the years 2017 and 2016 are as follows:

In thousands of tenge	Khan Tengri Holding B.V.	QazCloud LLP	Total
At 31 December 2015	–	–	–
Acquisition of associates	80,700,000	28,987	80,728,987
Deferred consideration by the Group to the associate equity	4,842,282	–	4,842,282
Share in loss of associates	(18,381,490)	(28,987)	(18,410,477)
Share in other comprehensive income of associates	–	–	–
Dividends declared	–	–	–
At 31 December 2016	67,160,792	–	67,160,792
Additional contribution to the charter capital of an associate	–	**986,980**	**986,980**
Share in proft/(loss) of associates	**1,166,223**	**(67,855)**	**1,098,368**
Share in other comprehensive income of associates	–	–	–
Dividends declared	–	–	–
At 31 December 2017	**68,327,015**	**919,125**	**69,246,140**

Investments in Khan Tengri Holding B.V.

On 29 February 2016, the Group acquired 51% share capital and 49.48% of voting shares in Khan Tengri Holding B.V. *(Note 39)* rendering GSM and LTE mobile telecommunication services in the Republic of Kazakhstan. Khan Tengri Holding B.V. is a private entity and not listed on the stock exchange. The Group's interest in Khan Tengri Holding B.V. is recorded in the consolidated financial statements using the equity method.

At the acquisition date, the investment was recognized based on a fair value estimate of KZT 80,700,000 thousand.

In November 2016, after final settlements on acquisition of interest in Khan Tengri Holding B.V. the Group recognized a liability to Khan Tengri Holding B.V. in the amount of KZT 4,842,282 thousand. This liability was capitalized in the cost of investment, as an deferred consideration by the Group to the equity of the associate. In 2016, the Group recognized an impairment loss for an investment in the associate in the amount of KZT 4,842,282 thousand which was included in share in loss of associates in the consolidated statement of comprehensive income *(Note 10)*.

The table below provides a summarized financial information on the Group's investment in Khan Tengri Holding B.V. on the basis of an assessment of the fair value:

In thousands of tenge	**31 December 2017**	31 December 2016
Current assets	**39,906,159**	29,436,215
Non-current assets	**153,137,417**	157,990,732
Current liabilities	**(46,052,692)**	(51,528,003)
Non-current liabilities	**(126,441,186)**	(117,635,958)
Equity	**20,549,698**	18,262,986
Share of the Group in equity – 51%	**10,480,346**	9,314,123
Goodwill	**57,846,669**	57,846,669
Carrying amount of investment of the Group	**68,327,015**	67,160,792

9. INVESTMENTS IN ASSOCIATES (continued)

Investments in Khan Tengri Holding B.V. (continued)

In thousands of tenge	2017	2016
Revenue	**104,154,218**	78,190,273
Operating expenses	**(100,929,964)**	(93,812,416)
Non-operating expenses	**(10,566,819)**	(10,520,833)
Loss before tax	**(7,342,565)**	(26,142,976)
Income tax benefit/(expenses)	**9,629,276**	(404,491)
Profit/(loss) for the period	**2,286,711**	(26,547,467)
Total comprehensive income/(loss) for the year	**2,286,711**	(26,547,467)
Impairment of investments in associate *(Note 10)*	**–**	(4,842,282)
Share of the Group in profit/(loss) for the year	**1,166,223**	(18,381,490)

As at 31 December 2017, Khan Tengri Holding B.V. had obligations to make capital investments in the future in the amount of KZT 1,944,930 thousand (as at 31 December 2016: KZT 8,104,914 thousand).

Options to acquire interest in an associate

According to the agreement between the Group and Tele2, the Group has an unconditional right to require Tele2 to sell its 49% of the interest in Khan Tengri Holding B.V. at any time, after three years after the closing date of the transaction (call option). Tele2 has a similar unconditional right to require the Group to acquire a 49% interest in Khan Tengri Holding B.V. (put option).

The price of an option is expressed in US dollars and should be equal to the fair market value of the shares transferred as of the day of its determination.

The Group estimated the fair value of the option and as at 31 December 2017 the fair value of the option is nil (2016: nil).

Investments in QazCloud LLP

Based on the decision of the Board of Directors of Kazakhtelecom JSC, on 17 of August 2016, Kazakhtelecom JSC and Samruk-Kazyna Business Service LLP signed the agreement of purchase and sale of 51% interest of Kazakhtelecom JSC in the charter capital of Kazakhtelecom Industrial Enterprises Services LLP.

On 4 October 2017, Kazakhtelecom Industrial Enterprises Services LLP was re-registred with name being changed to QazCloud LLP.

On 25 July 2017, the Board of Directors of Kazakhtelecom JSC approved a decision to make an additional investment contribution to the charter capital of QazCloud LLP in the amount of KZT 1,973,960 thousand.

On 15 November 2017, the Group made a partial contribution, in the amount of KZT 986,980 thousand, in accordance with the actual need for the charter capital of QazCloud LLP.

The table below provides summarized financial information on individually insignificant associate, QazCloud LLP:

In thousands of tenge	2017	2016
Revenue	**35,446**	19,574
Operating expenses	**(165,446)**	(98,358)
Non-operating expenses	**7,822**	–
Loss before tax	**(122,178)**	(78,784)
Income tax benefit	**–**	–
Loss for the year	**(122,178)**	(78,784)
Total comprehensive loss for the year	**(122,178)**	(78,784)
Unrecognized accumulated losses	**(7,988)**	9,617
Share of the Group in loss for the year	**(67,855)**	(28,987)

10. IMPAIRMENT TESTING

Goodwill

Goodwill acquired through business combination has been allocated to IP TV cash generating unit ("CGU"). This CGU is also a part of fixed line segment.

The carrying amount of goodwill allocated to IP TV CGU was as follows:

	IP TV	
	2017	2016
Goodwill	**2,706,335**	2,706,335

The Group performed testing for impairment in December 2017 and 2016.

The recoverable amount of IP TV CGU has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period.

The after tax discount rate applied to the cash flow projections is 14.86% (2016: 14.95%), and cash flows beyond the five-year period are extrapolated using a 0% growth rate (2016: 0%).

As a result of this analysis as at 31 December 2017, the management have not identified any evidence of impairment of this CGU.

Key assumptions used in value in use calculations

The calculation of value-in-use for IPTV CGU is most sensitive to the following assumptions:

- The customer base over the forecast period and an average revenue per customer;
- Growth rate for cash flow extrapolation beyond the forecast period;
- Discount rate.

Customer base and average revenue per customer

The customer base and average revenue per customer is important because management of the Group estimates how the unit's position may change over the forecast period against its competitors. The Group expects to increase IPTV customer base over the forecast period, as the Group plans to use the advantage of Kazakhtelecom JSC infrastructure to increase the market share of Kazakhtelecom JSC. Given competition, average revenue will decline during the forecast period.

Growth rates

Rates are based on published industry research.

Discount rate

Discount rates represent the current market assessment of the risks specific to this CGU, taking into consideration the time value of money and individual risks of the CGU underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

Sensitivity to changes in assumptions

The effect of changes in key assumptions on the recoverable amount is discussed below:

Customer base and average revenue per customer

Although management expects that the market share owned by the Group will grow over the forecast period, a decrease in the customer base and average revenue per customer by 25.01% (2016: 36.71%) would result in a loss from impairment in IP TV CGU.

10. IMPAIRMENT TESTING (continued)

Sensitivity to changes in assumptions (continued)

Growth rates

Management recognises that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions. A reduction to 8.31% per annum in the long-term growth rate (2016: 12.3% per annum) for IP TV unit would result in impairment loss.

Discount rate

An increase in after tax discount rate to 19.32% (2016: 21.8%) would result in impairment loss in IP TV CGU.

Investment in associate – Khan Tengri Holding B.V.

Investment in associate, Khan Tengri Holding B.V., represents CGU. This CGU is an operating segment for rendering of GSM and LTE mobile telecommunication services.

The carrying amount of investment in this CGU was as follows:

	2017	2016
Investment in an associate	**68,327,015**	67,160,792

The Group performed testing for impairment in December 2017 and 2016.

The recoverable amount of Khan Tengri Holding B.V. CGU has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a eight-year period.

The after tax discount rate applied to the cash flow projections is 14.86% (2016: 14.95%), and cash flows beyond the eight-year period are extrapolated using a 1.5% (2016: 3.72%) growth rate.

As a result of this analysis as at 31 December 2017, the management have not identified any evidence of impairment of this CGU. As at 31 December 2016, the Group recognized impairment of the investment in Khan Tengri Holding B.V. in the amount of KZT 4,842,282 thousand.

Key assumptions used in value in use calculations

The calculation of value in use for CGU is most sensitive to the following assumptions:

- Customer base over the forecast period and average revenue per customer with direct impact on revenue growth rates;
- The level of capital investments included in the financial plan;
- EBITDA margin included in the financial plan;
- Growth rate for cash flow extrapolation beyond the forecast period;
- Discount rate.

Customer base, average revenue per customer and revenue growth rates

The customer base and average revenue per customer is important because management of the Group estimates how the unit's position may change over the forecast period against its competitors. The Group's management expects an increase in the customer base over the forecast period because Khan Tengri Holding B.V. plans to take advantage over the competitors of 4G/LTE coverage and speed of mobile internet as well as attractive tariffs to increase its market share. As a result the Group expects an increase in revenue of the unit over the entire forecast period.

Level of capital investments

The level of capital investments is important because it defines the ability of the unit to technically maintain an increase in the customer base and meet the changing market requirements. The level of investments is determined by the needs of the units in completing the technical integration of the two networks in a timely manner, as well as the need to secure and strengthen the advantages of covering the public demand for communication services and improve network quality.

10. IMPAIRMENT TESTING (continued)

Key assumptions used in value in use calculations (continued)

EBITDA margin

EBITDA margin reflects the rate of return included by the unit into its financial plan with consideration of market conditions, competition and other factors. The growing dynamics of this index corresponds to operational growth of the unit and related cost savings.

Growth rates

Rates are based on published industry research.

Discount rate

Discount rates represent the current market assessment of the risks specific to this CGU, taking into consideration the time value of money and individual risks of the CGU underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

Sensitivity to changes in assumptions

The effect of changes in key assumptions on the recoverable amount is discussed below:

Customer base, average revenue per customer and revenue growth rates

Although the management expects that the market share owned by the Group will grow over the forecast period, according to the financial plan, slowing growth of customer base or decrease in the average revenue per customer, leading to a slowdown in revenue growth by more than 2.7%, would result in a loss from impairment in CGU (2016: a slowdown in growth rate by 1% will result to an increase in impairment loss).

Level of capital investments

Increase in capital investments by more than 5.87% will result in loss from impairment in this unit (2016: an increase in capital investments by more than 4.5% will result to an increase in impairment loss).

EBITDA margin

Decrease in EBITDA margin by more than 2.79% will result in loss from impairment in this unit (2016: a decrease in EBITDA margin of more than 1% will result to an increase in impairment loss).

Growth rates

Management recognises that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions. A reduction to (1)% per annum in the long-term growth rate in this unit would result in impairment loss (2016: reduction in the long-term growth rate lower than 3.4% will result to an increase in impairment loss).

Discount rate

An increase in after tax discount rate to 16.52% would result in impairment losses in CGU (2016: an increase in after tax discount rate to 15.28% will result to an increase in impairment losses).

11. INVESTMENT PROPERTY

Movements in investment property for the years ended 31 December 2017 and 2016 were as follows:

In thousands of tenge	2017	2016
Cost		
At 1 January	**1,264,668**	1,264,668
At 31 December	**1,264,668**	1,264,668
Accumulated depreciation and impairment		
At 1 January	**(1,264,668)**	(1,264,668)
At 31 December	**(1,264,668)**	(1,264,668)
Carrying amount		
At 1 January	**–**	–
At 31 December	**–**	–

Investment property is represented by an office building constructed in order to lease it out to the Government related entities.

The impairment of KZT 1,264,668 thousand represents the write down of the carrying amount of the investment property to its recoverable amount. The recoverable amount was based on analysis of value in use and fair value less costs to sell and estimated to be nil as at 31 December 2017 and 2016, as it is unlikely that the Group will receive reimbursement for its construction costs either through sale of the office building or rental payments. However, these assumptions may change in the future.

12. OTHER NON-CURRENT FINANCIAL ASSETS

As at 31 December 2017 and 2016 other non-current financial assets comprised:

In thousands of tenge	2017	2016
Long-term accounts receivable	**3,326,666**	3,024,242
Long-term bank deposits	**3,323,300**	50
Loans to employees	**2,603,464**	2,733,636
Other	**203,876**	225,169
	9,457,306	5,983,097

As at 31 December 2017 and 2016, ageing analysis of long-term receivables, loans to employees and other was as follows:

			Past due but not impaired				
In thousands of tenge	Total	Neither past due nor impaired	Less than 30 days	30 to 90 days	90 to 120 days	120 to 360 days	Over 360 days
31 December 2017	**6,134,006**	**6,134,006**	**–**	**–**	**–**	**–**	**–**
31 December 2016	5,983,047	5,983,047	–	–	–	–	–

As at 31 December 2017 and 2016 the Group's other non-current financial assers were denominated in the following currencies:

In thousands of tenge	2017	2016
KZT	**6,134,006**	5,983,097
US dollars	**3,323,300**	–
	9,457,306	5,983,097

As at 31 December 2017, the long-term receivables represent amounts due from Mobile Telecom Service LLP. As disclosed in *Note 39*, on 29 February 2016 the Company and Mobile Telecom Service LLP agreed to extend the maturity of the Company's receivables from Mobile Telecom Service LLP until 2031. These receivables were discounted at the date of restructuring using 10% rate.

12. OTHER NON-CURRENT FINANCIAL ASSETS (continued)

Loans to employees are interest free loans provided for the period from 1 to 15 years. These loans were discounted as at the issue date using market interest rates of 12.2% per annum to 22% (2016: from 12.2 to 22% per annum). Repayment of long-term loans to employees is made through withholding of amounts due from employees' salaries. Loans are secured by employees' real estate properties.

As at 31 December, 2017, the Group placed a long-term deposit with Eximbank Kazakhstan JSC in the amount of KZT 3,323,300 thousand, with a maturity period of up to 2019 and an interest rate of 2.5% per annum.

13. OTHER NON-CURRENT ASSETS

As at 31 December 2017 and 2016 other non-current assets comprised:

In thousands of tenge	**2017**	2016
Deferred connection cost on subscribers	**1,034,865**	1,392,240
Long-term VAT receivable	**822,977**	137,188
Deferred cost on operators	**522,337**	–
Other	**73,342**	73,342
	2,453,521	1,602,770

14. INVENTORIES

As at 31 December 2017 and 2016, inventories comprised:

In thousands of tenge	**2017**	2016
Cable materials at cost	**1,425,726**	1,964,441
Raw and other materials at cost	**556,203**	869,715
Spare parts at cost	**409,529**	787,676
Fuel at cost	**403,243**	542,862
Goods for resale at net realisable value	**220,171**	319,030
	3,014,872	4,483,724

During 2017, an amount of KZT 13,729 thousand (2016: KZT 192,139 thousand) was recognized as expenses in respect of inventories recorded at net realizable value. This amount was recorded within the item "General and administrative expenses".

15. TRADE RECEIVABLES

As at 31 December 2017 and 2016, trade receivables comprised:

In thousands of tenge	**2017**	2016
Trade receivables	**34,370,423**	27,216,691
	34,370,423	27,216,691
Less: allowance for doubtful receivables	**(2,276,195)**	(2,224,485)
	32,094,228	24,992,206

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

In thousands of tenge	**2017**	2016
Allowance for doubtful receivables at the beginning of the year	**(2,224,485)**	(1,914,169)
Charge for the year	**(838,049)**	(876,706)
Write-off for the year	**786,339**	566,390
Allowance for doubtful receivables at the end of the year	**(2,276,195)**	(2,224,485)

ACCOUNTING POLICIES AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. TRADE RECEIVABLES (continued)

As at 31 December 2017 and 2016, the ageing analysis of trade receivables was as follows:

In thousands of tenge	Total	Neither past due nor impaired	Past due but not impaired				
			Less than 30 days	30 to 90 days	90 to 120 days	120 to 360 days	Over 360 days
31 December 2017	**32,094,228**	**28,853,169**	**1,712,306**	**1,103,628**	**200,939**	**224,186**	**–**
31 December 2016	24,992,206	23,098,804	989,484	537,916	136,265	229,737	–

As at 31 December 2017 and 2016 the Group's trade receivables were denominated in the following currencies:

In thousands of tenge	2017	2016
Tenge	**31,030,653**	23,928,901
US dollars	**1,060,084**	1,008,804
Other currencies	**3,491**	54,501
	32,094,228	24,992,206

As at 31 December 2017 the Group's trade receivables include amounts due from Mobile Telecom Service LLP of KZT 11,397,300 thousand (31 December 2016: KZT 7,920,728 thousand) resulted from rendering of telecommunication services and providing access to data transfer via IP VPN network. With regards to this receivable the Group plans to make a net offset in the amount of KZT 4,842,282 thousand with Mobile Telecom-Service LLP against of accounts payable to Khan Tengri Holding B.V. *(Note 27)*.

16. ADVANCES PAID

As at 31 December 2017 and 2016, advances paid comprised:

In thousands of tenge	2017	2016
Advances paid	**609,409**	369,685
	609,409	369,685
Less: allowance for doubtful amounts	**(70,653)**	(72,405)
	538,756	297,280

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

In thousands of tenge	2017	2016
Allowance at the beginning of the year	**(72,405)**	(30,716)
Reversal/(charge) for the year	**1,752**	(41,689)
Allowance at the end of the year	**(70,653)**	(72,405)

17. OTHER CURRENT FINANCIAL ASSETS

As at 31 December 2017 and 2016 other current financial assets comprised:

In thousands of tenge	2017	2016
Bank deposits	**58,493,090**	45,889,260
Loans to employees	**2,060,217**	1,896,652
Restricted cash	**446,198**	446,198
Interest receivable	**371,432**	242,197
Reimbursement of fee for using radio frequencies	**205,709**	173,184
Due from employees	**114,825**	97,098
Other accounts receivable	**1,129,742**	1,076,355
Other	**4,065**	5,805
	62,825,278	49,826,749
Less: allowance for doubtful amounts	**(691,591)**	(660,721)
	62,133,687	49,166,028

17. OTHER CURRENT FINANCIAL ASSETS (continued)

Bank deposits with initial maturity of more than 3 (three) months but less than 12 (twelve) months have been placed with local banks and earned income at interest rates of 1 to 13% per annum (2016: 1 to 14.5% per annum).

As at 31 December 2017 and 2016, the ageing analysis of loans to employees and other receivables was as follows:

In thousands of tenge	Total	Neither past due nor impaired	Past due but not impaired: Less than 30 days	30 to 90 days	90 to 120 days	120 to 360 days	Over 360 days
31 December 2017	**3,636,532**	**3,603,623**	**10,846**	**7,061**	**6,053**	**8,949**	**–**
31 December 2016	3,270,963	3,249,131	7,717	5,020	1,812	7,283	–

As at 31 December 2017 and 2016 other financial assets were denominated in the following currencies:

In thousands of tenge	2017	2016
US dollars	**57,772,374**	45,931,882
KZT	**4,357,248**	3,207,484
Other	**4,065**	26,662
	62,133,687	49,166,028

Cash restricted in use represents cash on the accounts with KazInvestBank JSC, which are assessed as unlikely to be recovered due to the revocation of its banking license. Impairment allowance was recorded for the whole amount of this cash.

Reimbursement of fees for using radio frequencies represents receivables from Mobile Telecom Service LLP to refund of the Group's expenses for radio frequencies use fees.

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

In thousands of tenge	2017	2016
Allowance at the beginning of the year	**(660,721)**	(186,760)
Charge for the year	**(46,106)**	(483,549)
Write-off for the year	**15,236**	9,588
Allowance at the end of the year	**(691,591)**	(660,721)

18. OTHER CURRENT ASSETS

As at 31 December 2017 and 2016 other current assets comprised:

In thousands of tenge	2017	2016
Deferred connection costs	**820,026**	934,227
VAT receivable	**495,503**	431,782
Taxes prepaid other than corporate income tax	**161,181**	162,106
Deferred costs on operators	**86,027**	–
Other	**61,285**	67,373
	1,624,022	1,595,488

19. CASH AND CASH EQUIVALENTS

As at 31 December 2017 and 2016 cash and cash equivalents comprised:

In thousands of tenge	2017	2016
Cash on current bank accounts	**14,909,487**	20,976,246
Deposits with less than 90 days' maturity from the date of opening	**1,071,989**	3,332,900
Cash on hand	**4,467**	11,796
	15,985,943	24,320,942

19. CASH AND CASH EQUIVALENTS (continued)

Cash on current bank accounts earn interest at the rates ranging from 0.1% to 10% per annum (2016: from 0.1% to 13% per annum). As at 31 December 2017 cash on current bank accounts included an amount of KZT 74,999 thousand placed on overnight deposits with a rate of up to 7% (as of 31 December 2016, "overnight" deposits were not placed). Short-term deposits are made for varying periods between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the rates ranging from 0.15 to 1.5% per annum (2016: from 0.8 to 1% per annum).

As at 31 December 2017 and 2016 cash and cash equivalents were denominated in the following currencies:

In thousands of tenge	**2017**	2016
US dollars	**8,654,970**	17,049,152
Tenge	**7,200,660**	7,237,491
Russian roubles	**98,540**	28,249
Other	**31,773**	6,050
	15,985,943	24,320,942

20. EQUITY

Authorised and issued shares

	Number of shares		In thousands of tenge		
	Common shares	Preferred non-voting shares	Common shares	Preferred non-voting shares	Total issued shares
At 31 December 2015	10,922,876	1,213,653	10,922,876	1,213,653	12,136,529
At 31 December 2016	10,922,876	1,213,653	10,922,876	1,213,653	12,136,529
At 31 December 2017	**10,922,876**	**1,213,653**	**10,922,876**	**1,213,653**	**12,136,529**

Treasury shares

	Number of shares		In thousands of tenge		
	Common shares	Preferred non-voting shares	Common shares	Preferred non-voting shares	Total
At 31 December 2015	215,553	893,129	2,966,250	3,498,238	6,464,488
Treasury shares reacquired	–	–	–	–	–
Sale of treasury shares	–	(32)	–	(114)	(114)
At 31 December 2016	215,553	893,097	2,966,250	3,498,124	6,464,374
Treasury shares reacquired	–	–	–	–	–
Sale of treasury shares	–	–	–	–	–
At 31 December 2017	**215,553**	**893,097**	**2,966,250**	**3,498,124**	**6,464,374**

Shares issued less reacquired shares

As at 31 December 2017, number of common and preferred shares issued net of reacquired shares was 10,707,323 and 320,556 shares, respectively (31 December 2016: 10,707,323 and 320,556 shares, respectively).

Preferred shares

Holders of preferred shares are entitled to receive annual cumulative dividends of 300 tenge per share, and not less than the amount of the dividends per share paid to holders of common shares. Payment of preferred shares dividends does not require a resolution of Kazakhtelecom JSC shareholders meeting. The discounted value of future cash flows of annual cumulative dividends is recorded as a financial liability as at 31 December 2017 in the amount of KZT 874,244 thousand (31 December 2016: KZT 874,244 thousand). This liability has been included in non-current liabilities as a debt component of preferred shares. Preferred shareholders receive the right to vote if the general meeting of shareholders considers decisions restricting rights of preferred shareholders, decisions on reorganization or liquidation of the Company and if dividends on preferred shares are not paid within 3 (three) months after a specified payment date.

20. EQUITY (continued)

Dividends

The preferred shares earn a non-discretionary dividend of 300 tenge per share in accordance with the Company's charter documents. Preferred shares are considered to be compound financial instruments, and accordingly the liability and equity components are presented separately in the consolidated statement of financial position. Dividends in the amount of KZT 96,167 thousand were accrued as at 31 December 2017 (at 31 December 2016: KZT 96,167 thousand) and are recorded as interest expenses in the consolidated statement of comprehensive income *(Note 35)*.

On the basis of the decision made at the annual shareholders general meeting of Kazakhtelecom JSC on 21 April 2017, the Company declared dividends on preferred shares based on 2016 results in the amount of KZT 33,520 thousand and dividends on common shares in the amount of KZT 4,331,862 thousand (2016: KZT 10,896 thousand and KZT 3,551,940 thousand, respectively). The dividends accrued on common shares were repaid during 2017. Dividends per share (common and preferred) as at 31 December 2017 were equal to KZT 404.57 (as at 31 December 2016: KZT 331.73 per common and preferred share).

Movements in dividends payable for the years ended 31 December were as follow:

In thousands of tenge	**2017**	2016
Dividends payable at the beginning of the year	**1,547,439**	1,582,251
Dividends declared on common shares	**4,331,862**	3,551,940
Dividends declared on preferred shares in excess of the obligatory amount	**33,520**	10,896
Interest on debt component of preferred shares *(Note 35)*	**96,167**	96,167
Withholding tax	**(81,017)**	(66,428)
Dividends paid on common and preferred shares	**(4,299,346)**	(3,627,387)
Dividends payable at the end of the year *(Note 27)*	**1,628,625**	1,547,439

Other reserves

According to the Company's Charter, the Company created a reserve capital equal to 15% of the authorized share capital. This reserve capital was created through appropriation of the retained earnings. There were no movements in the reserve capital in 2017 and 2016.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of financial statements of the subsidiaries, whose functional currency is not tenge and whose financial statements are included in these consolidated financial statements in accordance with the accounting policy disclosed in *Note 3*.

Earnings per share

Basic earnings per share are calculated by dividing net profit for the year attributable to common equity holders of the Parent (after adjusting for the after-tax amount of dividends on preferred shares) by the weighted average number of common and preferred shares outstanding during the year.

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

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

In thousands of tenge	**2017**	2016
Net profit from continuing operations	**24,717,821**	14,872,009
Net profit from discontinued operations	**–**	40,959,809
Net profit	**24,717,821**	55,831,818
Interest on preferred shares	**96,167**	96,167
Net profit	**24,813,988**	55,927,985
Weighted average number of common and preferred shares for calculation of basic and diluted earnings per share	**11,027,879**	11,027,863
Basic and diluted earnings per share, tenge	**2,250.11**	5,071.51

20. EQUITY (continued)

Earnings per share (continued)

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

In thousands of tenge	**2017**	2016
Net profit from continuing operations	**24,717,821**	14,872,009
Interest on preferred shares	**96,167**	96,167
Weighted average number of common and preferred shares for calculation of basic and diluted earnings per share	**11,027,879**	11,027,863
Basic and diluted earnings per share, profit from continuing operations for the year, tenge	**2,250.11**	1,357.30

There have been no other transactions involving common shares or potential common shares between the reporting date and the date of preparation of these consolidated financial statements.

In accordance with listing requirements of Kazakhstan Stock Exchange, the Group should disclose ratio of total assets less total intangible assets, total liabilities and preferred non-voting shares (in equity) to the number of issued common shares at the end of the year. As at 31 December 2017, this ratio was equal to KZT 32,052 (as at 31 December 2016: KZT 30,478). Another requirement for disclosure is the amount of the dividends payable to owners of preferred non-voting shares, preferred non-voting shares in the equity and debt component of preferred non-voting shares, divided by number of preferred non-voting shares. As at 31 December 2017 this ratio was equal to KZT 8,538 (as at 31 December 2016: KZT 8,553).

21. BORROWINGS

As at 31 December 2017 and 2016, borrowings comprised:

In thousands of tenge	**Weighted average interest rate**	**2017**	Weighted average interest rate	2016
Borrowings with a fixed interest rate of 7% to 9% per annum	**8.13%**	**27,325,554**	8.35%	56,268,176
		27,325,554		56,268,176

As at 31 December 2017 and 2016, borrowings were denominated in the following currencies:

In thousands of tenge	**2017**	2016
Tenge	**27,325,554**	28,450,534
Tenge, payments indexed to exchange rate tenge / US dollar	**–**	27,817,642
	27,325,554	56,268,176

Borrowings are repayable as follows:

In thousands of tenge	**2017**	2016
Current portion of borrowings	**2,357,864**	2,473,507
Maturity between 1 and 2 years	**4,065,248**	2,029,593
Maturity between 2 and 5 years	**12,177,556**	38,981,004
Maturity over 5 years	**8,724,886**	12,784,072
Total non-current portion of borrowings	**24,967,690**	53,794,669
Total borrowings	**27,325,554**	56,268,176

As at 31 December 2017, the Parent is a guarantor of the Group's credit facility in the amount of KZT 26,991,220 thousand received from Development Bank of Kazakhstan JSC (as at 31 December 2016: KZT 26,991,220 thousand). As at 31 December, 2017 and 2016, the Group's borrowings are not collateralized by any property other than the above-mentioned guarantee.

22. LEASE

Finance lease

The Group has entered into finance lease agreements on the number of property and equipment, primarily telecommunication equipment. According to agreement terms, leased assets pass into the Group's ownership after the expiry of lease term. The amounts of future minimum lease payments and their present values are presented as follows:

	2017		2016	
In thousands of tenge	**Minimum lease payments**	**Present value of minimum lease payments**	Minimum lease payments	Discounted value of minimum lease payments
Within one year	**5,305,919**	**3,920,719**	3,514,387	3,162,706
After one year but not more than five years	**9,331,352**	**7,681,118**	1,333,351	1,273,015
Less: amounts representing future finance costs	**(3,035,434)**	**–**	(412,017)	–
Discounted value of minimum lease payments	**11,601,837**	**11,601,837**	4,435,721	4,435,721
Less: amounts due for settlement within 12 months		**3,920,719**		3,162,706
Amounts due for settlement after 12 months		**7,681,118**		1,273,015

The amounts representing finance costs are based on effective interest rates from 12.5% to 14.6% per annum.

Operating lease

The Group has entered into commercial agreements of operating lease on certain property and equipment, primarily buildings and constructions. These leases have an average life of 1 year with renewal option included in the agreements. There are no restrictions placed upon the lessee by entering into these leases. Information on obligations under operating lease agreements is disclosed in *Note 43*.

23. EMPLOYEE BENEFIT OBLIGATIONS

State contribution plan

The Group pays social tax according to the current statutory requirements of the Republic of Kazakhstan. The social tax and salary accruals are recorded in expenses as incurred.

In addtions, the Group withholds 10% of the salary of employees paid as contributions of employees to the accumulating pension funds. These expenses are recorded in the period when they were incurred.

Employee benefit obligations

As at 31 December 2017 and 2016 the total employee benefit obligations of the Group comprised the following:

In thousands of tenge	**2017**	2016
Present value of defined benefit pension plan obligation	**12,474,055**	7,831,035
Present value of obligations for other long-term payments	**458,129**	388,503
	12,932,184	8,219,538

23. EMPLOYEE BENEFIT OBLIGATIONS (continued)

Employee benefit obligations (continued)

A defined benefit pension plan provides for the fulfillment of obligations under the state pension provision in accordance with the Collective Agreement concluded between the Company and employees. Other long-term payments include anniversaries, funeral payments, and others.

The Group did not create a fund for such obligations.

A reconciliation of the present value of the defined benefit plan obligation with specified payments was as follows for the years ended 31 December 2017 and 2016:

In thousands of tenge	2017	2016
Total liability at the beginning of the year	**7,831,035**	7,362,909
Current service cost	**334,343**	256,175
Interest expenses	**747,081**	699,476
Benefits paid during the year	**(1,736,771)**	(1,247,503)
Actuarial losses recognized during the period within other comprehensive income	**5,298,367**	759,978
Total liability at the end of the year	**12,474,055**	7,831,035
Liability payable within one year	**(909,227)**	(350,182)
Liability payable after one year	**11,564,828**	7,480,853

A reconciliation of the present value of obligations for other long-term payments with specified payments was as follows for the years ended 31 December 2017 and 2016:

In thousands of tenge	2017	2016
Total liability at the beginning of the year	**388,503**	423,136
Current service cost	**34,668**	38,689
Interest expenses	**37,063**	40,198
Benefits paid during the year	**(79,858)**	(73,085)
Actuarial losses recognized during the period within expenses	**77,753**	(40,435)
Total liability at the end of the year	**458,129**	388,503
Liability payable within one year	**(82,943)**	(80,372)
Liability payable after one year	**375,186**	308,131

Actuarial losses recognised in 2017 have resulted primarily from changes in the assumptions relating to the discount rate and from historical adjustments.

Cost of current service, interest expenses and actuarial losses in the total amount of KZT 1,230,908 thousand were recorded in cost of sales and general and administrative expenses within personnel costs (2016: KZT 994,103 thousand) *(Note 34)*.

Actuarial losses recognized in 2017 within other comprehensive income, net of income tax, were equal to KZT 5,037,715 thousand (2016: KZT 607,983 thousand).

There were no unrecognised actuarial losses or past service costs.

The estimates of the liability were made on the basis of the published statistical data regarding mortality of employees and actual Company's data concerning the number, age, gender and years of employee service. Other principal assumptions used in determining benefit obligations for the Company's plan were shown below:

	2017	2016
Discount rate	**7.40%**	9.54%
The expected rate of future annual minimum salary increases	**8.70%**	7.00%

23. EMPLOYEE BENEFIT OBLIGATIONS (continued)

Employee benefit obligations (continued)

A quantitative sensitivity analysis for significant assumptions as at 31 December 2017, was as follows:

	Discount rate		The expected rate of future annual minimum salary increases	
Sensitivity level	Growth by 0.5%	Reduction by 0.5%	Growth by 1%	Reduction by 1%
Impact on defined benefit plan obligations, in thousands tenge	(636,998)	691,057	1,337,969	(1,160,631)

A quantitative sensitivity analysis for significant assumptions as at 31 December 2016, was as follows:

	Discount rate		The expected rate of future annual minimum salary increases	
Sensitivity level	Growth by 0.5%	Reduction by 0.5%	Growth by 1%	Reduction by 1%
Impact on defined benefit plan obligations, in thousands tenge	(195,110)	296,804	539,718	(460,198)

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

24. OTHER NON-CURRENT FINANCIAL LIABILITIES

As at 31 December 2017 and 2016 other non-current financial liabilities comprised :

In thousands of tenge	**2017**	2016
Guarantees issued	**258,551**	726,808
Non-current accounts payable	**1,880**	2,174
	260,431	728,982

Guarantees issued

As disclosed in *Note 39*, on 25 February 2016, the Company provided a guarantee to Mobile Telecom Service LLP under the credit facility from Kazkommertsbank with a credit limit of up to KZT 14,000,000 thousand for the period until 25 February 2023 and a guarantee to Altel JSC under the credit facility from Development Bank of Kazakhstan JSC with a credit limit of up to KZT 10,008,780 thousand for the period until 19 December 2024.

Kazkommertsbank JSC

On 30 December 2016, an additional agreement was signed to the Guarantee Agreement of 25 February 2016 between Kazkommertsbank JSC and the Company to reduce from KZT 14,000,000 thousand to KZT 7,000,000 thousand. On 24 April 2017, the Company and Kazkommertsbank JSC signed an agreement on termination of the Guarantee Agreement of 25 February 2016 for the amount of KZT 7,000,000 thousand. The actual use of credit funds under this guarantee has not been made. As at 31 December 2017, this debt was equal to nil, the guarantee is canceled.

24. OTHER NON-CURRENT FINANCIAL LIABILITIES (continued)

Guarantees issued (continued)

Halyk Bank JSC

On 30 December 2016, the Company provided a guarantee for the obligations of Mobile Telecom-Service LLP under a credit line with Halyk Bank of Kazakhstan JSC with a credit limit of up to KZT 7,000,000 thousand for the period until 20 December 2023.

On 28 December 2017, the Agreement on the provision of a credit line dated 20 December 2016, concluded between the Company, Mobile Telecom-Service LLP and Halyk Bank of Kazakhstan JSC. The agreement was terminated due to maturity of availability of credit funds (19 December 2017), as well as due to not using funds under the specified line of credit from Mobile Telecom-Service LLP. In addition, due to termination, all obligations of the Company as the Guarantor Guarantee dated 30 December 2016 were terminated. As at 31 December 2017, the actual amount of the credit line in JSC Halyk Bank of Kazakhstan was nil, the guarantee was canceled.

Development Bank of Kazakhstan JSC

As at 31 December 2017, the only current guarantee for the obligations of Mobile Telecom-Service LLP to banks is a credit line guarantee to Development Bank of Kazakhstan JSC. The actual amount of the loan under the credit line in Development Bank of Kazakhstan JSC was KZT 9,984,421 thousand as at 31 December 2017.

25. OTHER NON-CURRENT LIABILITIES

As at 31 December 2017 and 2016 other non-current liabilities comprised :

In thousands of tenge	**2017**	2016
Deferred connection income on subscribers	**1,444,644**	1,763,417
Deferred income from operators	**2,758,768**	–
Decommissioning liabilities	**145,985**	141,564
Other	**1,012,450**	1,575,176
	5,361,847	3,480,157

Decommissioning liabilities

Provision for decommissioning liabilities is recorded at the discounted value of expected costs to bring the sites and facilities to their original condition using estimated cash flows and is recognised as part of the cost of the specific asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability.

Movements in provision for decommissioning liabilities for the years ended 31 December 2017 were as follows:

In thousands of tenge	**2017**	2016
Provision for decommissioning liabilities as at 1 January	**141,564**	66,614
Additional provisions	**1,114**	61,057
Amortization of discount on continuing operations *(Note 35)*	**3,307**	13,893
Provision for decommissioning liabilities as at 31 December	**145,985**	141,564

26. TRADE PAYABLES

As at 31 December 2017 and 2016 trade payables comprised:

In thousands of tenge	**2017**	2016
Trade payables for services rendered	**8,546,021**	6,635,766
Trade payables for supply of property and equipment	**4,635,227**	4,558,941
Trade payables for inventory received	**325,297**	802,635
	13,506,545	11,997,342

As at 31 December 2017 and 2016 trade payables were interest-free.

26. TRADE PAYABLES (continued)

As at 31 December 2017 and 2016 trade payables were mainly denominated in the following currencies:

In thousands of tenge	2017	2016
Tenge	**12,146,351**	11,429,856
US dollars	**994,400**	379,761
Other	**365,794**	187,725
	13,506,545	11,997,342

27. OTHER CURRENT FINANCIAL LIABILITIES

As at 31 December 2017 and 2016 other current financial liabilities comprised:

In thousands of tenge	2017	2016
Payables to employees	**6,239,349**	4,363,711
Payable to Khan Tengri Holding B.V.	**4,842,282**	4,842,282
Dividends payable *(Note 20)*	**1,628,625**	1,547,439
Guarantees issued	**82,150**	151,852
Other	**563,655**	905,401
	13,356,061	11,810,685

Payable to Khan Tengri Holding B.V. is related to final settlements on acquisition of interest in associate of Khan Tengri Holding B.V. *(Note 9, 39)*.

As at 31 December 2017 and 2016, other current financial liabilities was not interest bearing and the balances were mainly denominated in tenge.

28. OTHER CURRENT LIABILITIES

As at 31 December 2017 and 2016 other current liabilities comprised:

In thousands of tenge	2017	2016
Taxes payable other than income tax	**2,600,717**	2,335,514
Payable to pension funds	**718,267**	864,145
Deferred connection income on subscribers	**586,369**	662,586
Deferred income from operators	**412,170**	–
Other	**504,137**	456,242
	4,821,660	4,318,487

29. REVENUE

Revenue for the years ended 31 December comprised:

In thousands of tenge	2017	2016
Data transfer services	**106,291,761**	102,272,443
Rendering of fixed line and wireless phone services	**48,325,566**	52,923,822
Rent of lines	**18,419,971**	16,537,084
Interconnect	**15,876,122**	18,344,782
Other	**14,144,120**	8,388,580
	203,057,540	198,466,711

30. COMPENSATION FOR PROVISION OF UNIVERSAL SERVICES IN RURAL AREAS

According to the Resolution of the Government of the Republic of Kazakhstan No. 451, dated 31 March 2009, *On the Approval of Subsidies for Telecommunication Operators Losses Related to the Provision of Universal Telecommunication Services in Rural Areas*, the Group receives government subsidies as compensation for operators' losses for the provision of telecommunication services to socially important destinations. There are no unfulfilled conditions or contingencies attached to these subsidies. The compensation received for the year ended 31 December 2017 was equal to KZT 7,167,685 thousand (2016: KZT 7,353,257 thousand).

31. COST OF SALES

Cost of sales for the years ended 31 December comprised:

In thousands of tenge	2017	2016
Personnel costs *(Note 34)*	**51,977,009**	52,015,463
Depreciation and amortization	**42,929,496**	30,652,953
Repair and maintenance expenses	**7,981,590**	8,273,302
Rental of channels	**7,569,127**	8,641,512
Inventories	**7,301,851**	6,634,679
Interconnect	**7,068,297**	7,501,132
Fees for usage of GSM radiofrequencies of Mobile Telecom Services LLP	**5,446,007**	5,108,840
Content	**4,995,547**	4,248,377
Fee to provide telecom services	**2,831,806**	2,749,103
Electricity	**2,763,385**	2,719,383
Security and safety	**2,488,223**	2,258,226
Utilities	**1,709,762**	1,481,762
Rental of equipment	**960,294**	903,224
Business trip expenses	**737,406**	622,107
Rent of transponders related to satelite communications	**698,782**	717,746
Insurance	**524,521**	363,518
Fees for usage of billing system of Mobile Telecom Services LLP	**250,000**	234,000
Fees for radiofrequencies use	**202,632**	351,398
Other	**3,240,981**	2,815,636
	151,676,716	138,292,361

32. GENERAL AND ADMINISTRATIVE EXPENSES

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

In thousands of tenge	2017	2016
Personnel costs *(Note 34)*	**12,385,800**	12,056,669
Taxes other than corporate income tax	**3,083,629**	2,937,777
Consulting services	**1,169,063**	1,466,552
Allowance for doubtful receivables *(Notes 15, 16* and *17)*	**882,403**	1,411,405
Social activities	**731,491**	637,038
Business trips expenses	**458,529**	349,215
Insurance	**258,001**	211,589
Repair and maintenance expenses	**253,984**	247,609
Inventories	**247,306**	230,387
Depreciation and amortization	**221,490**	256,961
Trainings	**126,362**	83,478
Bank fees	**101,379**	198,175
Security and safety	**69,767**	87,611
Rental of equipment	**33,319**	78,375
Write-down of inventories to net realizable value *(Note 14)*	**13,729**	192,139
Other	**1,416,098**	1,346,061
	21,452,350	21,791,041

33. SELLING EXPENSES

Selling expenses for the years ended 31 December comprised:

In thousands of tenge	2017	2016
Marketing and advertising	**2,109,757**	1,744,576
Dealers commission	**1,289,929**	801,790
Other	**402,486**	382,430
	3,802,172	2,928,796

34. PERSONNEL EXPENSES

Personnel expenses for the years ended 31 December comprised:

In thousands of tenge	2017	2016
Payroll	**57,235,422**	57,456,111
Payroll related taxes	**5,896,479**	5,621,918
Employee benefits *(Note 23)*	**1,230,908**	994,103
	64,362,809	64,072,132

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

In thousands of tenge	2017	2016
Cost of sales *(Note 31)*	**51,977,009**	52,015,463
General and administrative expenses *(Note 32)*	**12,385,800**	12,056,669
	64,362,809	64,072,132

35. (FINANCE COSTS) / FINANCE INCOME

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

In thousands of tenge	2017	2016
Finance costs		
Interest expense on loans *(Note 42)*	**(6,535,447)**	(4,591,568)
Discounting of long-term loans to employees	**(601,926)**	(678,722)
Interest payable under finance leases *(Note 42)*	**(578,249)**	(872,127)
Interest on debt component of preferred shares *(Note 20)*	**(96,167)**	(96,167)
Discounting of other non-current financial assets	**(6,993)**	(139,048)
Unwinding of discount on long-term accounts payable	**(3,665)**	(21,020)
Unwinding of discount (provision for decommissioning liability) *(Note 25)*	**(3,307)**	(13,893)
	(7,825,754)	(6,412,545)
Finance income		
Interest income on deposits	**1,403,158**	1,028,267
Unwinding of discount on long-term loans to employees	**1,019,945**	1,058,544
Interest income on cash balances	**799,590**	860,930
Interest income on guarantees issued *(Note 24)*	**537,959**	128,218
Unwinding of discount on long-term accounts receivable	**364,402**	499,324
	4,125,054	3,575,283

36. NET FOREIGN EXCHANGE LOSS

On 20 August 2015, the National Bank and the Government of the Republic of Kazakhstan announced the transition to "free floating exchange rate of tenge" and cancelation of the currency corridor. As a result, Kazakhstani tenge significantly devalued against US dollar and other major currencies approximately by 90%. In 2017 and 2016 the Group had a balanced foreign exchange position, and therefore, for the year ended 31 December 2017, the Group recognized a net foreign exchange loss in the amount of KZT 633,942 thousand (in 2016: net foreign exchange loss in the amount of KZT 890,461 thousand).

37. OTHER INCOME/(EXPENSES)

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

In thousands of tenge	2017	2016
Other income		
Rental income	**3,247,383**	3,194,530
Non-core operations	**459,366**	452,817
Other	**720,901**	550,288
	4,427,650	4,197,635
Other expenses		
Impairment loss of property and equipment and intangible assets *(Notes 7, 8)*	**(1,246,347)**	–
Non-core operations	**(403,235)**	(427,284)
Rent	**(11,916)**	(12,310)
Other	**(198,273)**	(30,548)
	(1,859,771)	(470,142)

Rental income mainly represents rent of spaces used for the installation of technological equipment by third parties.

38. INCOME TAX EXPENSES

Income tax expenses for the years ended 31 December comprised:

In thousands of tenge	2017	2016
Current corporate income tax expenses	**8,646,038**	7,432,290
Deferred income tax (benefit)/expenses	**(427,193)**	1,777,740
	8,218,845	9,210,030

The Group and its subsidiaries except for KT-IX LLC and Online.kg LLC are subject to taxation in the Republic of Kazakhstan. KT-IX LLC is subject to taxation in the Russian Federation.

Tax rate for the Group and subsidiaries except for subsidiaries stated above was 20% in 2017 and 2016.

A reconciliation of income tax expenses applicable to profit before taxation at the statutory rate of 20% (2016: 20%), with the current corporate income tax expenses for the years ended 31 December is out below:

In thousands of tenge	2017	2016
Profit before tax from continuing operations	**32,936,666**	24,082,039
Profit before tax from discontinued operations	**–**	42,621,503
Profit before taxation	**32,936,666**	66,703,542
Income tax at statutory income tax rate of 20%	**6,587,333**	13,340,708
Inventories write-offs	**29,800**	125,727
Changes in unrecognised deferred tax assets	**(44,455)**	(139,348)
Share in (profit)/loss of associates non-deductible for tax purposes	**(219,673)**	2,713,639
Non-taxable gain from discontinued operations	**–**	(6,091,417)
Employee benefits obligations	**834,592**	–
Non-deductible expenses	**1,031,248**	922,415
Total income tax expenses	**8,218,845**	10,871,724
Income tax expense reported in the consolidated statement of comprehensive income as continued operations	**8,218,845**	9,210,030
Income tax related to discontinued operations *(Note 39)*	**–**	1,661,694
Total income tax expenses	**8,218,845**	10,871,724

38. INCOME TAX EXPENSES (continued)

Deferred tax balances, calculated by applying the statutory tax rates in effect at the reporting date to the temporary differences between tax basis of assets and liabilities and the amounts reported in the consolidated financial statements, comprised the following as at 31 December 2017:

	Consolidated statement of financial position		Consolidated statement of comprehensive income		Charged to other comprehensive income	
In thousands of tenge	**31 December 2017**	31 December 2016	**2017**	2016	**2017**	2016
Deferred tax assets						
Tax losses carry-forward	**–**	17,384	**(17,384)**	(2,064,383)	**–**	–
Employee benefit obligations	**935,383**	1,643,908	**(969,177)**	(65,296)	**260,652**	151,995
Discount on long-term assets	**936,763**	1,037,058	**(100,295)**	(126,506)	**–**	–
Accrued expenses	**–**	–	**–**	(1,105,482)	**–**	–
Accrued provisions for unused vacations	**257,068**	256,363	**705**	(136,527)	**–**	–
Allowance for doubtful receivables	**454,985**	507,331	**(52,346)**	135,510	**–**	–
Interest payable on borrowings	**–**	272,588	**(272,588)**	47,328	**–**	–
Intangible assets	**165,350**	128,609	**36,741**	68,537	**–**	–
Deferred income	**35,224**	17,860	**17,364**	(38,002)	**–**	–
Other	**934,596**	654,286	**280,310**	(226,914)	**–**	–
Less: unrecognised tax assets	**(92,891)**	(137,346)	**44,455**	139,348	**–**	–
Less: deferred tax assets less deferred tax liabilities	**(3,521,864)**	(4,398,041)	**876,177**	1,715,171	**–**	–
Deferred tax assets	**104,614**	–	**(156,038)**	(1,657,216)	**260,652**	151,995
Deferred tax liabilities						
Property and equipment	**22,323,250**	23,756,637	**(1,433,387)**	67,414	**–**	–
Intangible assets	**239,464**	265,485	**(26,021)**	(325,844)	**–**	–
Less: deferred tax assets less deferred tax liabilities	**(3,521,864)**	(4,398,041)	**876,177**	1,715,171	**–**	–
Deferred tax liabilities	**19,040,850**	19,624,081	**(583,231)**	1,456,741	**–**	–
Deferred income tax (expense)/benefit			**427,193**	(3,113,957)	**260,652**	151,995

Deferred tax assets and liabilities are presented in the consolidated statement of financial position as follows:

In thousands of tenge	**2017**	2016
Deferred tax assets		
Continuing operations	**104,614**	–
Deferred tax liabilities	**(19,040,850)**	(19,624,081)
Net deferred tax liabilities	**(18,936,236)**	(19,624,081)

In thousands of tenge	**2017**	2016
Reconciliation of deferred tax liabilities, net		
Balance at 1 January	**(19,624,081)**	(16,662,119)
Income tax benefit/(expenses) for the reporting period – origination and recovery of temporary differences	**427,193**	(1,777,740)
Less: deferred tax recognised within other comprehensive income	**260,652**	151,995
Discontinued operations *(Note 39)*	**–**	(1,336,217)
Balance at 31 December	**(18,936,236)**	(19,624,081)

The Group performs offsetting of tax assets and liabilities only if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred tax assets and deferred tax lbiabilities relating to income tax collected by the same taxation authority.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. In accordance with legislation of the Republic of Kazakhstan, tax losses may be deferred for 10 (ten) years from the date of their origination and will expire in 2019. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

38. INCOME TAX EXPENSES (continued)

As at 31 December 2017, the Group has not recognised deferred tax assets in relation to the temporary difference in the amount of 20,554,741 thousand tenge related to investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not expect to reverse them in the foreseeable future.

39. DISCONTINUED OPERATIONS

On 3 November 2015, the Group announced the decision of its Board of directors to enter into an agreement to form a joint venture in mobile segment based on Altel JSC (ALTEL 4G brand) and Mobile Telecom-Service LLP (Tele2 brand) businesses.

On 29 February 2016, Kazakhtelecom JSC and Tele2 completed the transaction on formation of a joint venture in mobile segment based on Altel JSC and Mobile Telecom-Service LLP businesses. As a result of this transaction, Kazakhtelecom JSC received 51% of the authorised capital and 49.48% of voting shares in Khan Tengri Holding B.V. in exchange for 100% share in Altel JSC *(Note 9)*.

According to the transaction terms, on 25 February 2016, the Company provided a guarantee to Mobile Telecom Service LLP under the credit facility from Kazkommertsbank with a credit limit of up to KZT 14,000,000 thousand for the period until 25 February 2023 and a guarantee to Altel JSC under the credit facility from Development Bank of Kazakhstan JSC with a credit limit of up to KZT 10,008,780 thousand for the period until 19 December 2024.

Also, according to the transaction terms, on 29 February 2016 the Company and Mobile Telecom Service LLP agreed to extend the maturity of the Company's receivables from Mobile Telecom Service LLP until 2031. Receivables were discounted at the date of restructuring using the 10% market interest rate.

On 25 February 2016, borrowing of Altel JSC under the credit line in Development Bank of Kazakhstan JSC of KZT 26,991,220 thousand and borrowing of the credit line in SB Sberbank of Russia of KZT 3,000,000 thousand were transferred to the Company.

Results of discontinued operations are presented as follows:

In thousands of tenge	**For the period from 1 January 2016 to 29 February 2016**
Revenue	4,961,007
Cost of sales	(2,533,355)
Gross profit	**2,427,652**
General and administrative expenses	(585,577)
Selling expenses	(601,613)
Operating profit	**1,240,462**
Finance costs	(421,325)
Finance income	175,085
Other income	47,958
Profit before tax from discontinued operations	**1,042,180**
Income tax expenses	(423,337)
Profit for the year from discontinued operations	**618,843**
Gain on disposal of a subsidiary	41,579,323
Income tax expenses from disposal of a subsidiary	(1,238,357)
Total profit for the year from discontinued operations	**40,959,809**

39. DISCONTINUED OPERATIONS (continued)

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

In thousands of tenge	**For the period from 1 January 2016 to 29 February 2016**
Preliminary assessment of the fair value of investment in Khan Tengri Holding B.V. *(Note 9)*	80,700,000
Disposed net assets	(30,954,363)
Discounting of receivables from Mobile Telecom-Service LLP	(7,282,414)
Obligations under guarantees issued	(883,900)
Profit from disposal of subsidiary	**41,579,323**

The major classes of assets and liabilities of Altel JSC as at disposal were as follows:

In thousands of tenge	**29 February 2016**
Assets	
Property and equipment	28,048,578
Intangible assets	8,082,670
Deferred tax asset	911,526
Inventories	2,067,089
Trade receivables	3,889,479
Cash and cash equivalents	1,683,295
Other	2,453,617
Total assets	**47,136,254**
Liabilities	
Borrowings	–
Trade payables	(10,423,524)
Advances received	(1,389,595)
Other	(4,368,772)
Total liabilities	**(16,181,891)**
Disposed net assets	**30,954,363**

Net cash flows of Altel JSC:

In thousands of tenge	**For the period from 1 January 2016 to 29 February 2016**
Operating	(10,770,566)
Investing	(4,777,192)
Financing	8,542,902
Net cash outflows	**(7,004,856)**

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

In thousands of tenge	**For the period from 1 January 2016 to 29 February 2016**
Cash of disposed subsidiary	(1,683,295)
Net disposal of cash from subsidiary disposal	**(1,683,295)**

ACCOUNTING POLICIES AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

39. DISCONTINUED OPERATIONS (continued)

In thousands of tenge	2016
Profit per share	
Basic and diluted, from discontinued operations, tenge	3,714.21

40. NON-CASH TRANSACTIONS

The following significant non-cash transactions have been excluded from the consolidated statement of cash flows:

In 2017, the Group paid an amount of KZT 4,545,215 thousand for property and equipment purchased in prior year (2016: KZT 5,276,702 thousand). Property and equipment in the amount of KZT 4,635,227 thousand was purchased in 2017 but not paid as at 31 December 2017 (2016: KZT 4,558,941 thousand).

In 2017 in accordance with the finance lease agreements, the Group received telecommunication equipment amounting to KZT 9,019,870 thousand (2016: nil)

41. RELATED PARTY TRANSACTIONS

The category 'entities under control of the Parent' include entities controlled by the Parent Company. Transactions with such entities are mainly represented by transactions of the Group with NC Kazakhstan Temir Zholy JSC, NC KazMunayGaz JSC, KEGOC JSC, Kazpost JSC. The Group provides telecommunication services to the Parent and entities controlled by the Parent.

Related party transactions (including transactions with Khan Tengri Holdings B.V. and its subsidiary Mobile Telecom Service LLP) were made on terms, agreed to between the parties, which do not necessarily represent market terms and maybe not accessible to third parties. Outstanding balances at the end of the year are not secured, are short-term, and settlements are made in cash, except as described below.

As at 31 December 2017 and 2016, the Group has not recorded any impairment of accounts receivable relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Sales and purchases with related parties during the years ended 31 December 2017 and 2016 and the balances with related parties at 31 December 2017 and 2016 were as follows:

In thousands of tenge	2017	2016
Sales of goods and services		
Parent	**383,768**	204,883
Parent-controlled entities	**3,041,650**	3,954,878
Associate (Khan Tengri Holding B.V.) [1]	**22,089,462**	18,445,746
Associate (Qaz Cloud LLP)	**239**	144
Government institutions	**30,588,918**	28,657,548
Purchases of goods and services		
Parent	**–**	30,226
Parent-controlled entities	**3,189,663**	1,685,666
Associate (Khan Tengri Holding B.V.) [1]	**8,350,347**	8,052,200
Government institutions	**109,616**	557,754
Interest accrued on borrowings		
Entities under state control (Development Bank of Kazakhstan JSC)	**6,498,768**	4,199,838
Average interest rate on borrowings	**8.15%**	8.15%

41. RELATED PARTY TRANSACTIONS (continued)

In thousands of tenge	2017	2016
Cash and cash equivalents		
Entities under state control		
(Development Bank of Kazakhstan JSC)	**172**	3,240
Borrowings		
Entities under state control		
(Development Bank of Kazakhstan JSC)	**27,319,491**	55,137,133
Trade and other accounts receivable		
Parent	**56,378**	51,156
Parent-controlled entities	**797,881**	536,969
Associate (Khan Tengri Holding B.V.)	**14,949,354**	11,164,458
Associate (Qaz Cloud LLP)	**71**	2,050
Government institutions	**7,078,905**	4,411,156
Accounts payable		
Parent-controlled entities	**172,879**	335,297
Associate (Khan Tengri Holding B.V.)	**9,370,735**	8,231,494
Associate (Qaz Cloud LLP)	**-**	7,148
Government institutions	**477,877**	525,492
Other non-current assets		
Long-term loans to key management personnel	**27,294**	38,513
Long term deposits with Eximbank JSC	**3,323,300**	-

In 2017 and 2016, the Group provided communication services for the entities controlled by the Parent, and purchased goods and services to support operating activities related to provision of telecommunication services from such entities.

[1] The Group has significant volumes of transactions with Mobile Telecom Services LLP ("MTS"), subsidiary of Khan Tengri B.V., including revenue from data transmission, access to internet, rental of lines, interconnect and other revenue that in total comprise 11% from total consolidated revenue of the Group. In addition, the Group purchased from MTS services related to the usage of GSM radiofrequencies, interconnect, mobile traffic for converged services and other services that in total comprise 6% from total consolidated cost of sales of the Group.

Sales and purchases with MTS during the years ended 31 December 2017 and 2016 were as follows:

In thousands of tenge	2017	2016
Sales of goods and services		
Data transmission [A]	**12,998,033**	9,336,018
Rent of channels [B]	**5,696,007**	5,342,840
Interconnect [C]	**1,228,912**	1,005,755
Base cell stations maintenance [D]	**853,828**	903,371
Rent of sites for base stations	**672,800**	520,993
Other	**639,882**	1,336,769
	22,089,462	18,445,746
Purchases of goods and services		
Fee for usage of GSM radiofrequencies [E]	**5,446,007**	5,108,840
Mobile traffic at wholesale tariffs [F]	**1,701,897**	1,315,964
Interconnect [G]	**614,191**	466,144
Fee for usage of billing system [H]	**250,000**	234,000
Other	**338,252**	927,252
	8,350,347	8,052,200

[A] Data transmission represented revenue from provision of fixed and wireless communication channels, and access to the internet. It is calculated on the basis of provided communication channels capacity (Mb/s), as well as the number of communication channels provided.

41. RELATED PARTY TRANSACTIONS (continued)

[B] Rent of channels represents revenue from the provision to the temporary use of channels with the specified technical characteristics, organized based on LTE base cell stations (i.e. 4G license radiofrequencies). It is calculated based on the actual number of rented channels. In February 2016, the Group concluded an agreement with MTS for renting out 4G license radiofrequencies. Rental fees are payable on a monthly basis. Simultaneously upon concluding the agreement for renting out 4G license radiofrequencies the Group and MTS agreed to increase fees for use of GSM radiofrequencies and fee for usage of the billing system payable by the Group as described below.

[C] Revenue from interconnect is calculated based on the actual volumes of minutes of the connection.

[D] Revenue from base cell stations maintenance represents revenue from the provision of various services to ensure the stable and uninterrupted operation of radio access networks, and is calculated based on the actual number of base stations served.

[E] Fee for usage of GSM radiofrequencies is fixed monthly payment for the usage of the GSM radiofrequencies owned by MTS.

[F] Cost of mobile traffic at wholesale tariffs is the actual traffic used by Kazakhtelecom JSC customers in the mobile operator's network and is calculated based on the actual number of outgoing minutes, short messages (SMS), and megabytes of mobile traffic.

[G] Expenses on interconnect are calculated based on the actual volume of minutes of the connections.

[H] Fee for usage of billing system is fixed monthly payment for the usage of the MTS billing system.

The provision of these service is governed by different agreements that are not related to each other. Under each such agreement, the Group is either receiving or providing a certain type of services, for which the Group receives or pays a fee, which may differ from the terms under agreements with third parties. The difference from the terms under agreements with third parties could be explained by volume discounts and other special conditions between the Group and its associate. Volumes of services purchased from / sold to MTS exceed the volume of similar transactions with third party operators.

Compensation to key management personnel

For the years ended 31 December 2017 and 2016, the total compensation to key management personnel included in the accompanying consolidated statement of comprehensive income under general and administrative expenses was KZT 681,493 thousand and KZT 654,466 thousand, respectively. Compensation to key management personnel consists of wages fixed in the employment agreement, as well as remuneration based on the performace for the year.

As disclosed in *Note 30*, the Government of the Republic of Kazakhstan provides the Group with certain compensation for the provision of universal services in rural areas.

As disclosed in *Note 21*, as at 31 December 2017, the Group had a loan in the amount of KZT 26,991,220 thousand, under which the Parent Company acted as guarantor (as at 31 December, 2016: KZT 26,991,220 thousand).

42. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES

The Group's principal financial instruments include loans, finance lease obligations, cash and cash equivalents, bank deposits and accounts receivable and accounts payable. The main risks associated with the Group's financial instruments include interest rate risk, currency and credit risk. In addition, the Group monitors market risk and liquidity risk associated with all financial instruments.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. As at 31 December 2017, the Group had no loans or borrowings with floating interest rates and was not subjected to the risk of changes in market interest rates.

42. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES (continued)

Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

As a result of available significant accounts payable, cash and cash equivalents, bank deposits and accounts receivable denominated in the US dollars, the Group's consolidated statement of financial position can be affected significantly by movement in the US dollar / tenge exchange rates.

The following table demonstrates the sensitivity to a reasonably possible changes in the exchange rates of US dollar to tenge, with all the variables held constant, of the Group's profit before income tax (due to changes in the fair value of monetary assets and liabilities). There is no impact on the Group's equity.

	2017		2016	
In thousands of tenge	**Increase/ (decrease) in exchange rate**	**Effect on profit before tax**	Increase/ (decrease) in exchange rate	Effect on profit before tax
US dollars	**10%**	**7,005,596**	13%	4,654,329
	-10%	**(7,005,596)**	-13%	(4,654,329)

Credit risk

Credit risk is the risk that the Group will incur finance costs because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept, and by monitoring exposures in relation to such limits.

The Group trades only with recognised, creditworthy parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is equal to the carrying amount as disclosed in *Notes 12, 15* and *17*. The Group has no significant concentrations of credit risk.

	Rating	Rating	**Cash balance**		**Balance on deposit accounts**	
In thousands of tenge	**2017**	2016	**2017**	2016	**2017**	2016
Kazkommertsbank JSC	**B+/negative/B**	B-/negative/C	**5,868,048**	4,814,671	**–**	13,594,766
Bank CenterCredit JSC	**B/stable/B**	B/stable/B, kzBB+	**4,098,977**	6,568	**–**	5,265,995
Tsesnabank JSC	**B+/negative/B, kzBBB-**	B+/negative/B, kzBBB-	**2,458,522**	1,662,330	**4,984,950**	3,364,909
ATF Bank JSC	**B/negative/B**	B/negative/B	**2,275,670**	5,075,125	**1,000,000**	–
Halyk Bank Kazakhstan JSC	**BB/negative/B, kzA**	BB/negative/B, kzA	**456,903**	3,848,216	**42,538,240**	16,997,790
Eximbank Kazakhstan JSC	**CCC+/C/negative**	B-/stable/C, kzBB-	**454,889**	580,601	**–**	–
Forte Bank JSC	**B/positive/B**	B/stable/B, kzBB	**187,349**	2,667,505	**–**	–
SB Sberbank JSC	**Ba2**		**82,922**	–	**–**	–
Altyn Bank JSC (SB Halyk Bank Kazakhstan JSC)	**Ba2/stable/NP**	BB stable	**80,231**	597,988	**6,646,600**	6,665,800
Committee of the Treasury of the Ministry of the RK			**16,728**	–	**–**	–
Kaspi Bank JSC	**BB-/negative/B, kzBBB+**	BB-/negative/B, kzBBB+	**977**	3,455,999	**3,323,300**	–
Development Bank of Kazakhstan JSC	**BB+/ stable**	BBB-/negative/A-3	**172**	3,240	**–**	–
Sberbank JSC	**BB + positive**	BBB-/negative/AA-	**52**	1,186,179	**–**	–
Citibank Kazakhstan JSC	**A+ stable**	A positive	**36**	400,051	**–**	–
Alfa Bank JSC	**BB-/stable**	BB-/ stable /B, kzA-	**–**	10,626	**–**	–
Uralsib JSC	**B/CCC+**	B/CCC+	**–**	41	**–**	–
Bank of Astana JSC	**B-/stable**	B/ stable /B	**–**	5	**–**	–
KazInvest Bank JSC	**D/D/-**	D/D/-	**–**	2	**–**	–
Total			**15,981,476**	24,309,147	**58,493,090**	45,889,260

42. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES (continued)

Credit risk (continued)

In thousands of tenge	Rating 2017	Rating 2016	Balance on long term deposit accounts 2017	2016
Eximbank Kazakhstan JSC	CCC+/C/negative	B-/stable/C, kzBB-	3,323,300	–
Sberbank JSC	BB + positive	BBB-/negative/AA-	–	50

With respect to credit risk arising from other financial assets of the Group, comprising cash and cash equivalents and other financial assets, the Group's exposure to credit risk arises from default of counterparty, with a maximum exposure equal to the carrying amount of these financial instruments.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances.

The Group monitors its risk of a shortage of funds using a liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivables, other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and finance leases. The Group's policy is that not more than 30% of loans and borrowings should mature in the next 12 month period. Approximately 16% of the Group's debt will mature in less than one year at 31 December 2017 (31 December 2016: 9%) based on the carrying amount of borrowings reflected in the consolidated financial statements.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

In thousands of tenge	On demand	1 to 3 months	3 months to 1 year	From 1 to 5 years	More than 5 years	Total
At 31 December 2017						
Borrowings	–	382,105	3,707,152	21,704,466	9,624,022	35,417,745
Finance lease liabilities	–	1,412,533	3,893,386	9,331,352	–	14,637,271
Trade payables	10,296,822	1,337,562	1,872,161	–	–	13,506,545
Financial guarantees issued*	–	436,003	1,309,772	9,814,952	2,312,966	13,873,693
Other current financial liabilities	–	13,273,911	–	1,880	–	13,275,791
	10,296,822	16,842,114	10,782,471	40,852,650	11,936,988	90,711,045
At 31 December 2016						
Borrowings	–	1,126,587	3,334,270	52,825,639	14,585,904	71,872,400
Finance lease liabilities	–	1,076,402	2,437,985	1,333,351	–	4,847,738
Trade payables	9,146,269	1,188,105	1,662,968	–	–	11,997,342
Financial guarantees issued*	–	38,739	4,971,673	2,535,971	985,973	8,532,356
Other current financial liabilities	–	11,658,833	–	2,174	–	11,661,007
	9,146,269	15,088,666	12,406,896	56,697,135	15,571,877	108,910,843

* *Based on the maximum amount that can be called for under the financial guarantees contracts (Notes 24, 27).*

Cash flow risk

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount.

Cash flows requirements are monitored on a regular basis and management provides for availability of sufficient funds required to fulfil any liabilities when they arise. The management of the Group believes that any possible fluctuations of future cash flows associated with a monetary financial instrument will not have material impact on the Group's operations.

42. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES (continued)

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to the holders of common shares, return equity to shareholders or issue new shares. No changes were made by the Group in the capital management objectives, policies or processes in 2017 and 2016.

The Group monitors capital using a debt-to-equity ratio, which is net debt divided by total equity. The Group's policy is to keep the ratio not greater than 1.0. The Group includes within net debt interest bearing loans and borrowings, trade payables and finance lease liabilities. Equity includes equity attributable to the equity holders of the Group.

The Group's debt-to-equity ratio at the period end was as follows:

In thousands of tenge	**31 December 2017**	31 December 2016
Interest-bearing loans and borrowings	**27,325,554**	56,268,176
Trade payables	**13,506,545**	11,997,342
Finance lease liabilities	**11,601,837**	4,435,721
Other non-current financial liabilities	**260,431**	728,982
Other current financial liabilities	**13,356,061**	11,810,685
Net debt	**66,050,428**	85,240,906
Equity	**359,107,937**	343,797,610
Debt-equity ratio	**0.18**	0.25

Fair value

For the purpose of disclosing the fair value, the Group determined classes of assets and liabilities based on characteristics and risks of assets or liabilities and fair value hierarchy level as described above.

42. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES (continued)

Fair value (continued)

The table below presents fair value hierarchy of assets and liabilities of the Group. Disclosure of quantitative information of fair value hierarchy of financial instruments as at 31 December 2017 was as follows:

In thousands of tenge	Date of valuation	Fair value measurement using: Price quotations on active markets (Level 1)	Significant observable in-puts (Level 2)	Significant unobservable in-puts (Level 3)	Total
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2017	**15,985,943**	–	–	**15,985,943**
Other non-current financial assets	31 December 2017	–	–	**6,835,991**	**6,835,991**
Other financial assets	31 December 2017	–	–	**62,133,687**	**62,133,687**
Trade receivables	31 December 2017	–	–	**32,094,228**	**32,094,228**
Liabilities for which fair values are disclosed					
Borrowings	31 December 2017	–	–	**21,995,442**	**21,995,442**
Finance lease liabilities	31 December 2017	–	–	**11,601,837**	**11,601,837**
Other non-current financial liabilities	31 December 2017	–	–	**260,431**	**260,431**
Other current financial liabilities	31 December 2017	–	–	**13,356,061**	**13,356,061**
Trade payables	31 December 2017	–	–	**13,506,545**	**13,506,545**

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial assets and liabilities that are not carried at fair value in the consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

In thousands of tenge	**Carrying amount 2017**	**Fair value 2017**	**Unrecognised gain/ (loss) 2017**	Carrying amount 2016	Fair value 2016	Unrecognised gain in 2016
Financial assets						
Cash and cash equivalents	**15,985,943**	**15,985,943**	–	24,320,942	24,320,942	–
Other non-current financial assets	**9,457,306**	**6,835,991**	**(2,621,315)**	5,983,097	4,850,133	(1,132,964)
Other current financial assets	**62,133,687**	**62,133,687**	–	49,166,028	49,166,028	–
Trade receivables	**32,094,228**	**32,094,228**	–	24,992,206	24,992,206	–
Financial liabilities						
Borrowings	**27,325,554**	**21,995,442**	**5,330,112**	56,268,176	52,567,792	3,700,384
Finance lease liabilities	**11,601,837**	**11,601,837**	–	4,435,721	4,435,721	–
Other non-current financial liabilities	**260,431**	**172,590**	**87,841**	728,982	627,788	101,194
Other current financial liabilities	**13,356,061**	**13,341,392**	**14,669**	11,810,685	11,794,489	16,196
Trade payables	**13,506,545**	**13,506,545**	–	11,997,342	11,997,342	–
Total unrecognised change in unrealised fair value			**2,811,307**			2,684,810

ACCOUNTING POLICIES AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

42. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES (continued)

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that their fair value approximates to the carrying amount. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Financial liabilities carried at amortised cost

The fair value of loans obtained is measured by discounting future cash flows using rates currently existing for outstanding amounts with similar terms, credit risk and maturity.

Changes in liabilities arising from financial activities

Changes in liabilities arising from financial activities for 2017 were as follows:

In thousand tenge	1 January 2017	New lease agreements	Reclassified to current	Repayment of principal in cash	Interest paid	Interest expense	Change in exchange rates	31 December 2017
Borrowings: non-current portion	53,794,669	–	(29,501,388)	–	–	–	674,409	24,967,690
Borrowings: current portion	2,473,507	–	29,501,388	(28,009,799)	(7,571,331)	6,535,447	(571,348)	2,357,864
Finance lease liabilities: : non-current portion	1,273,015	10,102,254	(3,694,151)	–	–	–	–	7,681,118
Financial lease liabilities: current portion	3,162,706	–	3,694,151	(3,162,706)	(351,681)	578,249	–	3,920,719
Total	60,703,897	10,102,254	–	(31,172,505)	(7,923,012)	7,113,696	103,061	38,927,391

Changes in liabilities due to financial activities for 2016 were as follows:

In thousand tenge	1 January 2016	Reclassified from disposal group	Reclassified to current	Repayment of principal in cash	Interest paid	Interest expense	Change in exchange rates	31 December 2017
Borrowings: non-current portion	27,299,921	27,491,220	(500,000)	–	–	–	(496,472)	53,794,669
Non-current portion of loans, classified as part of a disposal group	31,649,079	(27,491,220)	(4,252,273)	–	–	–	94,414	–
Borrowings: current portion	4,138,393	2,500,000	500,000	(4,799,665)	(4,456,881)	4,591,568	92	2,473,507
Current portion of loans, classified as part of a disposal group	2,187,485	(2,500,000)	4,252,273	(3,825,000)	(515,438)	400,680	–	–
Finance lease liabilities: : non-current portion	4,435,721	–	(3,162,706)	–	–	–	–	1,273,015
Financial lease liabilities: current portion	4,707,462	–	3,162,706	(4,707,462)	(872,127)	872,127	–	3,162,706
Total	74,418,061	–	–	(13,332,127)	(5,844,446)	5,864,375	(401,966)	60,703,897

Interest expense for 2016 year includes an amount of KZT 400,860 thousand, is related to discontinued operations.

43. COMMITMENTS AND CONTINGENCIES

Operating environment

In Kazakhstan, economic reforms and the development of the legal, tax and administrative infrastructure that meets the developed markets are still in process. The future stability of the Kazakhstan economy will largely depend on these reforms, as well as on the effectiveness of the Government's actions in the area of economy, financial and monetary policy.

Capital commitments

The Group generally enters into contracts for the completion of construction projects and purchase of telecommunication equipment. As at 31 December 2017, the Group had contractual obligations in the total amount of KZT 3,582,193 thousand (31 December 2016: KZT 11,107,684 thousand) mainly related to purchase of telecommunication equipment and construction of telecommunication network.

Operating lease commitments – Group as lessee

The Group entered into agreements for the lease of office buildings and premises in various regions of Kazakhstan. Agreements for the lease of office buildings and premises are based on the lease term of 1 year as an average. There are no restrictions placed upon the Group by entering into these lease agreements.

Future minimum rental payments under the non-cancellable operating lease agreements are presented as follows:

In thousands of tenge	**2017**	2016
Within one year	–	8,624
More than 1 year but less than 5 years	–	–
	–	8,624

License commitments

Under the terms of certain licenses on the provision of wireless telecom services, the Group has certain obligations in terms of coverage area of its network. The Group is obliged to expand the cellular telecommunication coverage to the regions along the major highways and small-sized towns and urban-type communities of the Republic of Kazakhstan. The Group's management believes that the Group is in compliance with the terms of the licenses.

Options to acquire a interest in an associate

According to the agreement between the Group and Tele2, the Group has an unconditional right to require Tele2 to sell its 49% of the interest in Khan Tengri Holding B.V. at any time during three years after the closing date of the transaction (call option). Tele2 has a similar unconditional right to require the Group to acquire a 49% interest in Khan Tengri Holding B.V. (put option).

The price of an option is expressed in US dollars and should be equal to fair market value of the shares transferred as of the day of its determination.

The Group estimated the fair value of the option. As of 31 December 2017, the fair value of the option equals zero.

Taxation

Tax legislation and regulatory framework of the Republic of Kazakhstan are subject to constant changes and allow for different interpretations. In addition, management believes that international agreements, under which the Group works with non-residents residing in International Telecommunication Union, and which provide for certain tax exemptions, have a priority over national tax legislation. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of the Republic of Kazakhstan multiplied by 1.25. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2017. Management believes that as at 31 December 2017 its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained.