Kazakhtelecom JSC

Consolidated financial statements

For the year ended 31 December 2018
together with Independent auditor's report

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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 (hereinafter, the Group), which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018 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 recognition and measurement of revenue from telecommunication services as the billing systems employed by the Group are complex, and effect of accounting treatment of changing tariff structures and multi-element arrangements could be significant.	We evaluated the relevant IT systems and the design of controls, and tested the operating effectiveness of controls over capture and recording of revenue transactions; authorisation of changes in rates (tariffs) input to the billing systems; and calculation of amounts billed to customers.
For that reason and additionally, due to the risks associated with the adoption of IFRS 15 "Revenue from contracts with customers" ('IFRS 15'), we identified revenue recognition and related disclosure as a key audit matter.	We performed substantive analytical procedures, including monthly fluctuations analysis and analysis of changes in key drivers of revenue, and compared financial and non-financial data.
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 30 to the consolidated financial statements.	We analysed the accounting policy and disclosures in respect of revenue in light of the requirements of IFRS 15.
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.	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 specialist 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, evaluated 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 testing of cash-generating units (CGUs) when impairment indicators are present is complex, based on highly judgmental assumptions, such as customer base and average revenue per user (ARPU), CAPEX and EBITDA margin during the forecast period, growth rate used to extrapolate cash flows beyond the forecast period, and discount rate.

Assumptions used in the impairment testing 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 11 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

We assessed the process of 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 analyzed recognition and presentation of revenue from rent of LTE radiofrequencies in light of requirements of IFRS 15. We obtained confirmations from Mobile Telecom Services LLP on transactions and outstanding balances, compared disclosed significant terms of transactions to supporting

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

Provisional purchase price allocation assessment

In 2018, the Group acquired 75% interest in the share capital of Kcell JSC. This acquisition is disclosed in detail in Note 5. We considered assessing the provisional purchase price allocation to be one of most significance in the audit of the consolidated financial statements, due to the fact that the goodwill from this acquisition, represented by the excess of the remuneration paid over the fair value of the net assets of the acquired company in the amount of 54,656,742 thousand Tenge, significantly affected the Group assets. Determining the fair value of assets and liabilities obtained during business combination involves significant judgments and estimates by the management.	In the course of the audit procedures, we read the sale-purchase agreement between the Company and sellers of interests in Kcell JSC, and other transaction documentation necessary to record accounting entries on the business combination. We evaluated the methodology and assumptions behind the significant judgments involved in the determination of the provisional fair values of the identifiable net assets acquired. We involved our valuation specialists to assess the methodology and assumptions used by management to value certain categories of assets of the acquired subsidiary, and tested, on a sample basis, estimates of the fair values of assets and liabilities of the subsidiary acquired. We analysed management's assessment of the nature and value of separately identifiable intangible assets acquired. We assessed the presentation and disclosure of business combination in the consolidated financial statements.

Emphasis of matter

We draw attention to Note 4 to the consolidated financial statements which describes that the Group has previously issued consolidated financial statements for the year ended 31 December 2018, on which we expressed an unmodified opinion in our auditor's report dated 15 March 2019. The previously issued consolidated financial statements for the year ended 31 December 2018 authorised for issue on 15 March 2019 have been revised as disclosed in Note 4. This auditor's report on these revised consolidated financial statements supersedes our previously issued auditor's report. Our opinion is not modified in respect of this matter.

Other information included in the Group's 2018 Annual report

Other information consists of the information included in the Group's 2018 Annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2018 Annual report is expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young LLP

Paul Cohn
Audit Partner

Rustamzhan Sattarov
Auditor

Auditor qualification certificate
No. МФ - 0000060 dated 6 January 2012

Dinara Malayeva
Acting 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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19 April 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

In thousands of tenge	Note	2018 Revised*	2017**
Assets			
Non-current assets			
Property and equipment	8	**390,309,113**	259,021,612
Intangible assets	9	**176,542,542**	15,592,544
Advances paid for non-current assets		**765,088**	39,678
Investments in associates	10	**77,669,224**	69,246,140
Deferred tax assets	39	**246,884**	104,614
Costs to obtain a contract		**1,037,984**	–
Costs to fulfil a contract		**107,539**	–
Other non-current assets	14	**3,194,682**	2,453,521
Other non-current financial assets	13	**9,649,734**	9,457,306
		659,522,790	355,915,415
Current assets			
Inventories	15	**8,402,436**	3,014,872
Trade receivables	16	**52,173,348**	32,094,228
Advances paid	17	**1,416,363**	538,756
Indemnification assets	5	**10,913,899**	–
Corporate income tax prepaid		**1,849**	7,269
Costs to obtain a contract		**420,604**	–
Costs to fulfil a contract		**115,285**	–
Other current assets	19	**10,392,954**	1,624,022
Other current financial assets	18	**4,685,111**	62,133,687
Cash and cash equivalents	20	**45,350,092**	15,985,943
		133,871,941	115,398,777
Total assets		**793,394,731**	471,314,192

The accounting policies and notes on pages 8 to 85 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In thousands of tenge	Note	2018 Revised *	2017**
Equity			
Shares outstanding	21	**12,136,529**	12,136,529
Treasury shares	21	**(6,464,374)**	(6,464,374)
Foreign currency translation reserve	21	**(15,157)**	(6,354)
Other reserves	21	**1,820,479**	1,820,479
Retained earnings		**373,429,312**	351,621,657
		380,906,789	359,107,937
Non-controlling interests		**33,934,146**	–
Total equity		**414,840,935**	359,107,937
Non-current liabilities			
Borrowings: non-current portion	22	**135,838,411**	24,967,690
Finance lease liabilities	23	**15,975,306**	7,681,118
Other non-current financial liabilities	25	**993,705**	260,431
Deferred tax liabilities	39	**38,897,126**	19,040,850
Employee benefit obligations	24	**14,471,353**	11,940,014
Debt component of preferred shares	21	**874,244**	874,244
Contract liabilities	26	**5,699,301**	–
Other non-current liabilities	26	**1,444,530**	5,361,847
		214,193,976	70,126,194
Current liabilities			
Borrowings: current portion	22	**57,614,129**	2,357,864
Financial lease liabilities: current portion	23	**6,754,019**	3,920,719
Other current financial liabilities	28	**18,853,954**	13,356,061
Employee benefit obligations: current portion	24	**1,334,417**	992,170
Trade payables	27	**42,147,405**	13,506,545
Current corporate income tax payable		**3,319,656**	91,891
Contract liabilities	29	**12,667,725**	–
Advances received		**–**	3,033,151
Obligation to pay a fine for termination of the contract	5	**14,551,865**	–
Other current liabilities	29	**7,116,650**	4,821,660
		164,359,820	42,080,061
Total liabilities		**378,553,796**	112,206,255
Total equity and liabilities		**793,394,731**	471,314,192

* *Certain amounts shown here do not correspond to the consolidated financial statements for the year ended 31 December 2018 which were authorized for issue on 15 March 2019, and reflect adjustments made, refer to Note 4.*

* *The Group has initially applied IFRS 15 and IFRS 9 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 3.*

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 85 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

In thousands of tenge	Note	2018	2017*
Revenue from contracts with customer	30	**216,542,790**	203,057,540
Compensation for provision of universal services in rural areas	31	**6,183,581**	7,167,685
		222,726,371	210,225,225
Cost of sales	32	**(154,015,612)**	(151,676,716)
Gross profit		**68,710,759**	58,548,509
General and administrative expenses	33	**(23,311,666)**	(21,452,350)
Impairment losses on financial assets	42	**(3,907,083)**	–
Selling expenses	34	**(4,387,521)**	(3,802,172)
Operating profit		**37,104,489**	33,293,987
Share in profits of associates	10	**7,860,084**	1,098,368
Finance costs	36	**(7,349,641)**	(7,825,754)
Finance income	36	**3,067,029**	4,125,054
Net foreign exchange gain/(loss)	37	**10,591,474**	(633,942)
Gain on disposal of property and equipment		**321,632**	311,074
Other income	38	**4,358,724**	4,427,650
Other expenses	38	**(1,962,895)**	(1,859,771)
Profit before tax		**53,990,896**	32,936,666
Income tax expenses	39	**(11,107,580)**	(8,218,845)
Profit for the year		**42,883,316**	24,717,821
Profit attributable to:			
Equity holders of the Parent		**43,067,365**	24,717,821
Non-controlling interests		**(184,049)**	–

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

In thousands of tenge	Note	2018	2017*
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		**(8,803)**	(4,397)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		**(8,803)**	(4,397)
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 tax	24, 39	**(2,512,956)**	(5,037,715)
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		**(2,512,956)**	(5,037,715)
Other comprehensive loss for the year, net of tax		**(2,521,759)**	(5,042,112)
Total comprehensive income for the year, net of tax		**40,361,557**	19,675,709
Profit attributable to:			
Equity holders of the Parent		**40,545,606**	19,675,709
Non-controlling interests		**(184,049)**	–
		40,361,557	19,675,709
Earnings per share			
Basic and diluted, net profit for the year, tenge	21	**3,914.04**	2,250.11

* *The Group has initially applied IFRS 15 and IFRS 9 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 3.*

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 85 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	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	21	21	21	21				
At 1 January 2017	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 loss	–	–	(4,397)	–	19,680,106	19,675,709	–	19,675,709
Dividends *(Note 21)*	–	–	–	–	(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
At 1 January 2018	12,136,529	(6,464,374)	(6,354)	1,820,479	351,621,657	359,107,937	–	359,107,937
Change in accounting policy due to application of IFRS 15 and IFRS 9 *(Note 3)*	–	–	–	–	(1,244,742)	(1,244,742)	–	(1,244,742)
At 1 January 2018 (restated)	12,136,529	(6,464,374)	(6,354)	1,820,479	350,376,915	357,863,195	–	357,863,195
Net loss for the year	–	–	–	–	**43,067,365**	**43,067,365**	**(184,049)**	**42,883,316**
Other comprehensive loss	–	–	**(8,803)**	–	**(2,512,956)**	**(2,521,759)**	–	**(2,521,759)**
Total comprehensive loss	–	–	**(8,803)**	–	**40,554,409**	**40,545,606**	**(184,049)**	**40,361,557**
Dividends *(Note 21)*	–	–	–	–	**(17,502,012)**	**(17,502,012)**	–	**(17,502,012)**
Non-controlling interests *(Note 5)*	–	–	–	–	–	–	**34,118,195**	**34,118,195**
At 31 December 2018	**12,136,529**	**(6,464,374)**	**(15,157)**	**1,820,479**	**373,429,312**	**380,906,789**	**33,934,146**	**414,840,935**

* *The Group has initially applied IFRS 15 and IFRS 9 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 3.*

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 85 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

In thousands of tenge	Note	2018	2017*,**
Operating activities			
Profit before tax for the period		**53,990,896**	32,936,666
Adjustment for:			
Depreciation of property and equipment	32, 33	**35,546,828**	40,096,546
Amortisation of intangible assets	32, 33	**3,329,003**	3,054,440
Loss from impairment of property and equipment and intangible assets	38	**1,169,713**	1,246,347
Change in deferred income		**–**	2,639,160
Unrealised foreign exchange (gain) / loss, net		**(6,405,452)**	1,447,704
Changes in employee benefit obligations		**126,551**	(585,721)
Impairment losses on financial assets	33, 42	**3,907,083**	882,403
Write-down of inventories to net realizable value	33	**30,673**	13,729
Share in profits of associates	10	**(7,860,084)**	(1,098,368)
Finance costs accrued	36	**7,349,641**	7,825,754
Finance income accrued	36	**(3,067,029)**	(4,125,054)
Gain on disposal of property and equipment		**(321,632)**	(311,074)
Changes in operating assets and liabilities			
Change in trade receivables		**(5,602,091)**	(7,940,071)
Change in inventories		**262,303**	1,455,123
Change in other current assets		**(4,152,583)**	1,295,230
Change in advances paid		**888,909**	(239,724)
Change in trade payables		**(318,020)**	1,432,917
Change in costs to obtain a contract and costs to fulfil a contract		**(375,931)**	–
Change in contract liabilities		**906,894**	–
Change in advances received		**–**	198,045
Changes in other current liabilities		**283,619**	1,274,880
Cash flows from operating activities		**79,689,291**	81,498,932
Income tax paid		**(11,211,037)**	(9,129,857)
Interest paid	42	**(3,788,368)**	(7,923,012)
Interest received		**1,661,720**	1,778,771
Net cash flows received from operating activities		**66,351,606**	66,224,834
Investing activities			
Purchase of property and equipment		**(19,615,661)**	(20,330,697)
Purchase of intangible assets		**(2,875,572)**	(652,798)
Proceeds from sale of property and equipment		**1,534,246**	696,344
Acquisition of subsidiary, net of cash received	5	**(158,819,914)**	–
Placement of deposits		**(12,196,800)**	(64,648,712)
Return of cash on deposits		**74,525,196**	49,519,792
Issuance of a covered bank guarantee	18	**(7,411,000)**	–
Issue of long-term loans to employees		**(2,858,020)**	(2,146,515)
Repayment of loans to employees		**394,960**	421,838
Investments in associates	10	**(563,000)**	(986,980)
Return of funds of covered bank guarantee	18	**7,608,800**	50
Financial aid repaid		**–**	2,000
Net cash inflow from subsidiary disposal (QazCloud LLP)	6	**–**	30,170
Net cash flows used in investing activities		**(120,276,765)**	(38,095,508)

The accounting policies and notes on pages 8 to 85 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of tenge	Note	2018	2017*,**
Financing activities			
Borrowings received	42	**100,000,000**	–
Borrowings repaid	42	**(2,029,593)**	(28,009,799)
Dividends paid on common and preferred shares	21	**(16,996,235)**	(4,299,346)
Repayment of finance lease liabilities	42	**(3,697,239)**	(3,162,706)
Net cash flows received from / (used in) financing activities		**77,276,933**	(35,471,851)
Effect of exchange rate changes on cash and cash equivalents		**6,519,140**	(992,474)
Effect of changes in expected credit losses	20	**(506,765)**	–
Net change in cash and cash equivalents		**29,364,149**	(8,334,999)
Cash and cash equivalents, as at 1 January		**15,985,943**	24,320,942
Cash and cash equivalents, as at 31 December	20	**45,350,092**	15,985,943

* *The Group has initially applied IFRS 15 and IFRS 9 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 3.*

** *Some of the amounts shown in this column are not consistent with the consolidated financial statements for the year 2017, as they reflect the adjustments made, as detailed 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.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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., Nur-Sultan, 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 2018:

	At 31 December 2018	At 31 December 2017
Samruk-Kazyna	**51.0%**	51.0%
SKYLINE INVESTMENT COMPANY S.A.	**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%
SOBRIO LIMITED	**–**	24.5%
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 6* (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 18 April 2019.

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 2018. 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 IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued, but are not yet effective.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard 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.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group adopted IFRS 15 using the modified retrospective method of adoption to not completed contracts at the date of initial application in its consolidated financial statements.

The comparative information for each of the primary financial statements is presented based on the requirements of IAS 11, IAS 18 and related Interpretations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

The cumulative catch-up adjustment to the opening balance of retained earnings as at 1 January 2018 is recognised in the consolidated statement of changes in equity for the year ended 31 December 2018. The information on this adjustment is disclosed as follows:

In thousands of tenge		**Adjustments**
Non-current assets		
Costs to obtain a contract	(d)	649,182
Costs to fulfil a contract	(b)	61,515
Total non-current assets		**710,697**
Current assets		
Costs to obtain a contract	(d)	420,604
Costs to fulfil a contract	(b)	174,180
Total current assets		**594,784**
Total assets		**1,305,481**
Equity		
Retained earnings	(b), (c), (d)	731,690
Total equity		**731,690**
Non-current liabilities		
Deferred tax liabilities	(b), (d)	261,096
Other non-current liabilities	(c)	(5,215,862)
Contract liabilities	(c)	5,360,104
Total non-current liabilities		**405,338**
Current liabilities		
Other current liabilities	(c)	(1,207,937)
Advances received	(c)	(3,033,151)
Contract liabilities	(c)	4,409,541
Total current liabilities		**168,453**
Total liabilities		**573,791**

The Group's activities mainly relates to the provision of data transmission services, local, intercity and international calls, interconnect / traffic transmission of other operators and rent of channels.

(a) Rendering of services

Interconnection fees from domestic and foreign telecommunication operators are recognized when the services are rendered based on the actual minutes of traffic transferred through the network.

Revenue from international and intercity calls and calls to local operators are recognized at the time the call is made over the Group's network.

Subscription fees, consisting primarily of monthly charges for access to broadband and other internet services or voice services, are recognised as revenue over time on a straight-line basis. Revenue from dial up internet is recognized based on the actual airtime provided to the customers.

Revenue from the rental of analogue and digital channels and private circuits as well as wholesale access revenue is recognised on a straight-line basis over the period to which it relates.

Non-refundable upfront fees received for initial connection of new subscribes to fixed line and wireless networks are recognized during 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.

Application of IFRS 15 to service contracts does not affect the Group's revenue and profit and loss, except the points described in *Note (b), (c)* and *(d)* below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

(b) Costs to fulfil a contract

The Group provides internet and other data transfer services and equipment to the subscribers to use these services, such as modems, routers and others.

Based on the analysis of the current operating indicators, the Group concluded that equipment that cannot be used by the subscriber separately from the Group's services is not a separate performance obligation.

Under IFRS 15, the Group capitalized the cost of the equipment provided free of charge as costs to fulfil a contract and charged this to retained earnings. The costs to fulfil a contract amortizes over the period the services are provided to the customers.

The statement of financial position at the date of transition to IFRS 15 (1 January 2018) was restated, resulting in: increases in current and non-current portions of the costs to fulfil a contract amounting to KZT 174,180 thousand and KZT 61,515 thousand, respectively; increase in deferred tax liabilities amounting to KZT 47,139 thousand; and increase in retained earnings amounting to KZT 188,556 thousand.

(c) Advances received from customers

The Group receives mainly short-term advances from its customers. Upon the adoption of the IFRS 15, for short-term advances, the Group used the practical expedient. As such, the Group will not adjust the promised amount of the consideration for the effect of a financial component in contracts, where the Group expects, at contract inception, that the period between the time the customer pays for the service and when the Group transfers that promised service to the customer will be one year or less.

The Group also receives long-term advances for activation of connection to the international network. Prior to the adoption of IFRS 15, the Group presented these advances as deferred income in the statement of financial position. No interest was accrued on the long-term advances under the previous accounting policy. The Group concluded that there is a significant financing component for those contracts. Upon adoption of IFRS 15, the Group recognized contract liabilities for the interest on the advances received from customers with a significant financing component and charge this to retained earnings. In addition, reclassifications have been made from deferred revenue to contract liabilities for the outstanding balance of advances from customers.

The statement of financial position at the date of transition to IFRS 15 (1 January 2018) was corrected, resulting in: increase in current and non-current portion of contract liabilities amounting to KZT 4,409,541 thousand and KZT 5,360,104 thousand, respectively; decrease in other current and non-current liabilities amounting to KZT 1,207,937 thousand and KZT 5,215,862 thousand, respectively; decrease in advances received amounting to KZT 3,033,151 thousand and decrease in retained earnings to KZT 312,695 thousand.

(d) Costs to obtain a contract

The Group pays commission to sales agents for new connected subscribers in the B2C segment. According to the previous accounting policy, the commission to sales agents was recognized as expenses of the period. In accordance with IFRS 15, an entity recognizes an incremental cost of entering into a contract as an asset if it expects to recover such costs.

The commission paid to sales agents represents additional costs that would not have been incurred if contracts had not been concluded. As a result of applying IFRS 15, the Group capitalized the costs paid to sales agents.

The data of the consolidated statement of financial position as at the date of transition to IFRS 15 (1 January 2018) were restated, which resulted in the recognition of short-term and long-term costs to obtain a contract of KZT 420,604 thousand and KZT 649,182 thousand, accordingly, deferred tax liabilities were increased by KZT 213,957 thousand and retained earnings increased by KZT 855,829 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

(e) Presentation and disclosure requirements

As required for the consolidated financial statements, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Refer to *Note 30* for the disclosure on disaggregated revenue.

(f) Impact on financial statements

The following tables summarise the impact of adopting IFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018:

	Impact of changes in accounting policies		
In thousand tenge	**As reported**	**Adjustments**	**Balances without adoption of IFRS 15**
Consolidated statement of financial position as at 31 December 2018			
Non-current assets			
Costs to obtain a contract	1,037,984	(1,037,984)	–
Costs to fulfil a contract	107,539	(107,539)	–
Total non-current assets	**659,522,790**	**(1,145,523)**	**658,377,267**
Current assets			
Costs to obtain a contract	420,604	(420,604)	–
Costs to fulfil a contract	115,285	(115,285)	–
Total current assets	**133,871,941**	**(535,889)**	**133,336,052**
Total assets	**793,394,731**	**(1,681,412)**	**791,713,319**
Equity			
Retained earnings	373,429,312	(1,785,446)	371,643,866
Total equity	**414,840,935**	**(1,785,446)**	**413,055,489**
Non-current liabilities			
Deferred tax liabilities	38,897,126	(336,282)	38,560,844
Other non-current liabilities	1,444,530	5,555,059	6,999,589
Contract liabilities	5,699,301	(5,699,301)	–
Total non-current liabilities	**214,193,976**	**(480,524)**	**213,713,452**
Current liabilities			
Other current liabilities	7,116,650	1,937,069	9,053,719
Advances received	–	10,734,219	10,734,219
Contract liabilities	12,667,725	(12,086,730)	580,995
Total current liabilities	**164,359,820**	**584,558**	**164,944,378**
Total equity and liabilities	**793,394,731**	**(1,681,412)**	**791,713,319**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

(f) Impact on financial statements (continued)

	Impact of changes in accounting policies		
In thousand tenge	**As reported**	**Adjustments**	**Balances without adoption of IFRS 15**
Consolidated statement of comprehensive income for the year ended 31 December 2018			
Revenue from contracts with customer	222,726,371	(377,569)	222,348,802
Cost of sales	(154,015,612)	174,180	(153,841,432)
Selling expenses	(4,387,521)	(161,309)	(4,548,830)
Finance costs	(7,349,641)	549,585	(6,800,056)
Profit before tax for the period	**53,990,896**	**184,887**	**54,175,783**
Income tax expenses	(11,107,580)	(2,574)	(11,110,154)
Net profit for the period	**42,883,316**	**182,313**	**43,065,629**

	Impact of changes in accounting policies		
In thousand tenge	**As reported**	**Adjustments**	**Balances without adoption of IFRS 15**
Consolidated statement of cash flow for the year ended 31 December 2018			
Operating activities			
Profit before tax for the period	53,990,896	184,887	54,175,783
Adjustments for:			
Finance costs	(7,349,641)	549,585	(6,800,056)
Adjustments of working capital			
Change in costs to obtain a contract and costs to fulfil a contract	375,931	(375,931)	–
Change in contract liabilities	906,894	(906,894)	–
Change in advances received	–	7,701,068	7,701,068
Change in other current liabilities	283,619	(6,794,174)	(6,510,555)
Cash flow received from operating activities	**66,351,606**	**–**	**66,351,606**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

With the exception of hedge accounting, which the Group applied prospectively, the Group has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018. The management of the Group decided not to restate the comparative information for the period beginning 1 January 2017, hence:

- the comparative information on financial assets and liabilities is disclosed in accordance with classification and measurement requirements of IAS 39;
- the adjustment to the opening balance of retained earnings as at 1 January 2018 is recognized in the consolidated statement of changes in equity for the year ended 31 December 2018. The information on this adjustment is disclosed as follows:

In thousands of tenge		**Adjustments**
Non-current assets		
Other non-current financial assets	(b)	(311,627)
Total non-current assets		**(311,627)**
Current assets		
Trade receivables	(b)	(870,289)
Cash and cash equivalents	(b)	(20,240)
Other current financial assets	(b)	(278,727)
Total current assets		**(1,169,256)**
Total assets		**(1,480,883)**
Equity		
Retained earnings	(a), (b)	(1,976,432)
Total equity		**(1,976,432)**
Non-current liabilities		
Deferred tax liabilities	(b)	(204,630)
Other non-current financial liabilities	(a)	700,179
Total non-current liabilities		**495,549**

The impact of transition to IFRS 9 on retained earnings is as follows:

In thousands of tenge	**Retained earnings**
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	351,621,657
Recognition of expected credit losses under IFRS 9	(2,181,062)
Deferred tax in relation to the above	204,630
Restated opening balance under IFRS 9 (1 January 2018)	**349,645,225**
Total change in equity due to adopting IFRS 9	**(1,976,432)**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 9 Financial Instruments (continued)

(a) Classification and measurement

Under IFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

The new classification and measurement of the Group's debt financial assets are, as follows:

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade and other receivables, and funds in credit institutions (bank deposits, cash and cash equivalents).

The Group does not have financial assets at FVPL and FVOCI.

The Group accounts the financial guarantee contracts after initial recognition at the higher of the initially recognized amount and the amount of the estimated provision for expected credit losses. As a result, the Group has adjusted the balance of retained earnings as of 1 January 2018 and other non-current financial liabilities by KZT 700,179 thousand.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of these assets.

(b) Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For long-term bank deposits and other financial assets recorded at amortized cost, the Group adopted 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.

The Group considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 9 Financial Instruments (continued)

(b) Impairment (continued)

The adoption of the ECL requirements of IFRS 9 resulted in an increase in valuation allowances for impairment losses on financial assets. As a result of this increase, the Group adjusted the balance of retained earnings as at 1 January 2018 in this consolidated statement of changes in equity for expected credit losses on financial assets. The effect of the adjustment is as follows: decrease in trade receivables, cash and cash equivalents, other current and non-current financial assets, deferred tax liabilities and retained earnings amounting to KZT 870,289 thousand, KZT 20,240 thousand, KZT 278,727 thousand, KZT 311,627 thousand, KZT 204,630 thousand and KZT 1,276,253 thousand.

In addition, the Group presented separately the impairment losses on financial assets in its consolidated statement of comprehensive income for the year ended 31 December 2018.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

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 a date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's consolidated financial statements.

Amendments to IAS 40 Transfers of Investment Property

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. These amendments do not have any impact on the Group's consolidated financial statements.

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

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 Group's accounting policy for cash-settled share based payments is consistent with the approach clarified in the amendments. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Group's consolidated financial statements.

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

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. These amendments are not relevant to the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

Amendments to 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. If an entity that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, then it 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. These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to 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. These amendments do not have any impact on the Group's consolidated financial statements.

Standards and interpretations issued but not yet effective

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

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 – lncentives* 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 is effective for annual periods beginning on or after 1 January 2019 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards and interpretations issued but not yet effective (continued)

IFRS 16 Leases (continued)

The Group plans to adopt IFRS 16 retrospectively to each prior reporting period presented. Under this approach, financial information for previous periods is not recalculated.

Lease liabilities and right-of-use assets will be recognised at the date of transition to IFRS 16 with corresponding effect recorded in retained earnings. Modified retrospective approach assumes recognition of lease liability discounted using incremental borrowing rate at the date of transition and allows the Group to elect how to measure right-of-use assets on lease-by-lease basis:

- at amount as if IFRS 16 had been applied from lease commencement;
- at amount equal to liability (adjusted for accruals and prepayments).

The Group elects to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application and for which the underlying asset is of low value.

In 2018, the Group has performed a premilinary impact assessment of IFRS 16. In summary the impact of IFRS 16 adoption is expected to be, as follows: increase in right-of-use assets amounting to KZT 25-30 billion, increase in lease liabilities amounting to KZT 26-32 billion with the corresponding difference recognised as a decrease in equity. The quantitative information disclosed in this note may be subject to further changes in 2019.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards and interpretations issued but not yet effective (continued)

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. This standard is not applicable to the Group.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are ‘solely payments of principal and interest on the principal amount outstanding’ (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the consolidated financial statements of the Group.

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. These amendments have no impact on the consolidated financial statements of the Group.

Amendments to IAS 19 Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event;
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards and interpretations issued but not yet effective (continued)

Amendments to IAS 19 Plan Amendment, Curtailment or Settlement (continued)

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments have no impact on the consolidated financial statements of the Group.

Amendments to IAS 28 Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. These amendments are not applicable to the Group.

Annual Improvements 2015-2017 Cycle (issued in December 2017)

These improvements include:

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, with early application permitted. These amendments are not applicable to the Group.

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, with early application permitted. These amendments are not applicable to the Group.

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, with early 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.

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)

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, with early application permitted. These amendments are not applicable to the Group.

Definition of a Business - Amendments to IFRS 3

The IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. Consequently, entities do not have to revisit such transactions that occurred in prior periods. Earlier application is permitted. These amendments are not applicable to the Group.

Definition of Material - Amendments to IAS 1 and IAS 8

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition.

The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments must be applied prospectively. Early application is permitted and must be disclosed. Although the amendments to the definition of material is not expected to have a significant impact on an entity's financial statements, the introduction of the term 'obscuring information' in the definition could potentially impact how materiality judgements are made in practice, by elevating the importance of how information is communicated and organised in the financial statements.

The Conceptual Framework for Financial Reporting

The IASB issued the Conceptual Framework in March 2018. It sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards.

The Conceptual Framework for Financial Reporting is effective immediately for the IASB and the IFRS IC. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020. The changes to the Conceptual Framework may affect the application of IFRS in situations where no standard applies to a particular transaction or event.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Foreign exchange rates are presented in the following table:

	31 December 2018	31 December 2017
US dollar	**384.20**	332.33
Euro	**439.37**	398.23
Russian rouble	**5.52**	5.77

The functional currencies of foreign operations KT-IX LLC (Russian Federation) are Russian Roubles. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

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

Investments in associates

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

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

The Group's 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates (continued)

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 profits of associates' 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.

The Group classifies all other liabilities as non-current.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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.

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.

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 26)* 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

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	8-10
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

Before 1 January 2018 financial assets were 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 were recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that were attributable to the acquisition of the financial asset.

From 1 January 2018 financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

Financial assets at amortised cost (debt instruments)

Before 1 January 2018 loans issued and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. After initial measurement, such financial assets were subsequently measured at amortised cost using the EIR method, less impairment. Amortised cost was calculated by taking into account any discount or premium on acquisition and fees or costs that were an integral part of the EIR. The EIR amortisation wass included in finance income in the consolidated statement of comprehensive income. The expenses arising from impairment were 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.

From 1 January 2018 the Group measures financial assets at amortised cost if both of the following conditions are met:
• The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
• The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade and other receivables, loans to employees , bank deposits and other non-current and current financial assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized (i.e. 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 not retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

Impairment of financial assets

Before 1 January 2018 the Group assessed, at each reporting date, whether there were objective evidence that a financial asset or a group of financial assets was impaired. An impairment existed if one or more events that had occurred since the initial recognition of the asset (an incurred 'loss event'), had an impact on the estimated future cash flows of the financial asset or the group of financial assets that could be reliably estimated. Evidence of impairment may included indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they would enter bankruptcy or other financial reorganisation. Besides, such evidence included observable data indicating that there was 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 assessed whether impairment existed individually for financial assets that were individually significant, or collectively for financial assets that were not individually significant. If the Group determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it included the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that were individually assessed for impairment and for which an impairment loss was, 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 had not yet been incurred). The present value of the estimated future cash flows was discounted at the financial asset's original effective interst rate.

The carrying amount of the asset was reduced through the use of an allowance account and the loss was recognised in the consolidated statement of comprehensive income. Interest income (recorded as finance income in the consolidated statement of comprehensive income) continued to be accrued on the reduced carrying amount and was 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 were written off when there is no realistic prospect of future recovery and all collateral had been realised or had been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increased or decreased because of an event occurring after the impairment was recognised, the previously recognised impairment loss was increased or reduced by adjusting the allowance account. If a write-off was later recovered, the recovery was credited to finance costs in the consolidated statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

From 1 January 2018 the Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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 22*.

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

The Group 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 Group. 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 from Contracts with Customers

The Group's activities mainly relates to the provision of data transmission services, local, intercity and international calls, interconnect / traffic transmission of other operators and rent of channels.

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

At the beginning of the contract, the Group assesses the goods and services promised in the contract with the buyer and defines as a performance obligation each promise to transfer to the buyer a certain product or service or a set of certain goods or services.

The Group has concluded that it is acting as a principal in all of its revenue arrangements, since in all cases it is the main party that assumed obligations under the contract, controls the goods and services before transferring them to the customer.

Rendering of services

Interconnection fees from domestic and foreign telecommunication operators are recognized when the services are rendered based on the actual minutes of traffic transferred through the network.

Revenue from international and intercity calls and calls to local operators are recognized at the time the call is made over the Group's network.

Subscription fees, consisting primarily of monthly charges for access to broadband and other internet services or voice services, are recognised as revenue over time on a straight-line basis. Revenue from dial up internet is recognized based on the actual airtime provided to the customers.

Revenue from the rental of analogue and digital channels and private circuits as well as wholesale access revenue is recognised on a straight-line basis over the period to which it relates.

Non-refundable upfront fees received for initial connection of new subscribes to fixed line and wireless networks are recognized during 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.

Equipment provided to customers

The Group provides Internet and other data transmission services and equipment for the provision of these services, including modem, routers and others.

Based on the analysis of current operating indicators, the Group concluded that equipment that cannot be used by the subscriber separately from the services of the Group is not a separately identifiable performance obligation.

The Group capitalized the cost of equipment provided free of charge as costs to fulfil a contract. Costs to fulfil a contract are amortized over the period the service is provided to the customer.

Significant financing component

Generally, the Group receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

The Group also receives long-term advances from customers for the connection to international telecommunication network. The transaction price for such contracts is discounted, using the rate that would be reflected in a separate financing transaction between the Group and its customers at contract inception, to take into consideration the significant financing component.

Costs to obtain a contract

The Group pays commission to sales agents for new connected subscribers in the B2C segment. The commission to sales agents is capitalized as costs to obtain a contract in the consolidated statements of financial position. Costs to obtain a contract are amortized over the period the service is provided to the customer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contract balances

Contract assest

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in section Financial instruments – initial recognition and subsequent measurement.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Compensation for provision of universal services in rural areas

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

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

Interest income

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

Dividends

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

Expense recognition

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

Connection cost

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

Borrowing costs

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 11 and 24*.

Estimates and assumptions

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

Useful lives of property and equipment and intangible assets

The Group assesses the remaining useful lives of items of property and equipment and intangible assets at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

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 11*.

Provision for expected credit losses

The Group recognizes provision fro expected credit losses for trade and other accounts receivable and funds in credit instituions (cash and cash equivalents, bank deposits).

For trade and other receivable, the Group has applied the standard's simplified approach and has calculated expected credit losses based on lifetime of these financial instruments. The Group used a provision model that is prepared taking into account Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

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

Provision for expected credit losses (continued)

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in *Note 16*.

For funds in credit institutions (cash and cash equivalnes, bank deposits), the Group calculated expected credit losses based on the 12-month period. The 12-month expected credit losses is the portion of lifetime expected credit losses that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime expected credit losses.

The Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due. Also it is considered a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

Thus, as at 31 December 2018 provision for expected credit losses was created in the amount of KZT 7,395,913 thousand *(Notes 13, 16 and 18).* Changes in the economy, industry or specific customer conditions would have impact to these allowance recorded in the consolidated financial statements.

Significant financing component

The Group concluds that certain long-term contracts contain significant financing components due to the time interval between the provision of the Group's services to the customer and the moment the customer pays for such services.

The transaction price for such contracts is discounted, using the rate that would be reflected in a separate financing transaction between the Group and its customers at contract inception, to take into consideration the significant financing component.

Costs to obtain a contract

The Group considers commission to sales agents to be an additional cost to obtain a contract, and capitalizes such costs as an asset on expenses under contracts with customers. The Group depreciates the costs to obtain a contract with customers on a systematic basis, which corresponds to the timing of the provision of services to customers. The Group reviews depreciation periods if the expected service dates have changed.

Non-refundable upfront fees

Upfront fees received for activation and connection to the fixed line and wireless network that do not represent a separate earning process are recognized as contract liabilities 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 IFRS 15, industry practice and the Company's historical churn rate. As at 31 December 2018, 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.

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

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.

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 24*.

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 10)*.

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 2018 and 2017, the Group did not have tax losses carried forward *(Note 39)*.

As at 31 December 2018, deferred tax assets of the Group were equal to KZT 246,884 thousand (at 31 December 2017: KZT 104,614 thousand). As at 31 December 2018, the carrying amount of un-recognized tax assets was equal to nil KZT (31 December 2017: KZT 92,891 thousand). Further details are contained in *Note 39*.

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*.

Fair value of assets and liabilities acquired in a business combination

The Group must separately, at the acquisition date, recognize identifiable assets, liabilities and contingent liabilities acquired or assumed in a business combination at their fair value, which implies the use of valuations. Such estimates are based on various valuation methods, which require the use of significant judgments in predicting future cash flows and making other assumptions.

On 21 December 2018, the Group acquired 75% of voting shares in Kcell JSC, whose shares are listed on the London Stock Exchange and Kazakhstan Stock Exchange. Thus, at 31 December 2018, the Group did not complete a fair value measurement of assets and liabilities of Kcell JSC. At the acquisition date, the net assets of Kcell JSC were recognized based on a preliminary estimate of fair value *(Note 5)*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Reclassifications of comparative information

Certain amounts in the consolidated statement of cash flow for the year ended 31 December 2017 were reclassified to conform with the presentation adopted in the consolidated statement of cash flow for the year ended 31 December 2018.

In 2018 the Group elected to change the classification of dividends paid on common and preferred shares from operating activities to financing activities in its consolidated statement of cash flows as the Group believes that the classification of dividends paid as financing activities provides more relevant information to the users of the financial statements and is more aligned to practices adopted by its competitors.

In thousands of tenge	As presented earlier	Reclassifications	Notes	Corrected
Consolidated statement of cash flows for the year ended 31 December 2017				
Dividends paid on common and preferred shares	(4,299,346)	4,299,346	[1]	–
Net cash flows received from operating activities	**61,925,488**	**4,299,346**		**66,224,834**
Dividends paid on common and preferred shares	–	(4,299,346)	[1]	**(4,299,346)**
Net cash flows used in financing activities	**(31,172,505)**	**(4,299,346)**		**35,471,851**

[1] Dividends paid on common and preferred shares in the amount of 4,299,346 thousand tenge were reclassified from operating cash flows to financing cash flows.

The above reclassification had no impact on net profit, total comprehensive income or equity.

Revision of the consolidated financial statements for the year ended 31 December 2018

The Group has previously issued the consolidated financial statements for the year ended 31 December 2018, which were authorized for issue by management on 15 March 2019.

In April 2019, the Group revised previously issued consolidated financial statements for the year ended 31 December 2018, which were authorized for issue by management on 15 March 2019.

On 12 April 2019, Kcell JSC, the company purchased by Kazakhtelecom JSC in December 2018, received from Kar-Tel LLP a notice on termination of the Network Sharing Agreement (hereinafter referred to as the “Agreement”), since there was a change in Kcell JSC’s controlling shareholder in December 2018, which represents, in accordance with the Agreement, a breach of conditions of the Agreement, giving the right to the second party to terminate the Agreement and request payment of termination fine, determined in accordance with the methodology specified in the Agreement. Kcell JSC received from Kar-Tel LLP an invoice for payment of a termination fine in the amount of KZT 14,551,865 thousand. Also, under the terms of the sale-purchase agreement of 75% stake in Kcell JSC, Telia Company and Fintur Holding B.V. guaranteed to the Group repayment of their respective shares in 75% of the termination fine.

Following the exercise of the termination right by Kar-Tel LLP, the Group revised the purchase price allocation of Kcell JSC in the consolidated financial statements of Kazakhtelecom JSC for the year ended 2018.

Given that termination of the Agreement is a material adjusting subsequent event, the Group recognized a liability related to the payment of termination fine to company Kar-Tel LLP at fair value and respective an indemnification asset for reimbursement of 75% of the estimated fine by companies Telia Company and Fintur Holding B.V., effect of the above amounts on the deferred income tax liability, and the resulting effect on goodwill from the acquisition of Kcell JSC.

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

Revision of the consolidated financial statements for the year ended 31 December 2018 (continued)

The change has been corrected by revising the respective items of the consolidated financial statements for the year ended 31 December 2018 as follows:

In thousands of tenge	At 31 December 2018 before revision	Adjustments	At 31 December 2018 after revision
Current assets			
Indemnification assets	–	10,913,899	10,913,899
Total current assets	**122,958,042**	**10,913,899**	**133,871,941**
Equity			
Non-controlling interests	36,844,519	(2,910,373)	33,934,146
Total equity	**417,751,308**	**(2,910,373)**	**414,840,935**
Non-current liabilities			
Deferred tax liabilities	39,624,719	(727,593)	38,897,126
Total non-current liabilities	**214,921,569**	**(727,593)**	**214,193,976**
Current liabilities			
Liabilities on termination fine	–	14,551,865	14,551,865
Total current liabilities	**149,807,955**	**14,551,865**	**164,359,820**

The disclosures in the consolidated financial statements of the Group for the year ended 31 December 2018 have been revised accordingly.

The change did not have any effect on net profit, total comprehensive income or the Group's operating, investing and financing cash flows.

5. BUSINESS COMBINATIONS

Acquisition of Kcell JSC

On 21 December 2018, the Group acquired 75% of voting shares in Kcell JSC, whose shares are listed on London Stock Exchange and Kazakhstan Stock Exchange. Kcell JSC is registred in Republic of Kazakhstan and provides mobile services in Republic of Kazakhstan.

The Group has acquired Kcell JSC, because it allows to significantly expand its presence in the segment of Mobile telecom-munication services in GSM and LTE standards.

The Group decided to measure the non-controlling interest in the acquisition object by the proportionate share of its participation in the identifiable net assets of the acquisition.

5. BUSINESS COMBINATIONS (continued)

Acquisition of Kcell JSC (continued)

Provisional fair value amounts of identified assets, liabilities and contingent liabilities of Kcell JSC as at the date of acquisition comprised the following:

In thousands of tenge	**Provisional fair value recognized on acquisition**
Assets	
Property and equipment	120,819,693
Intangible assets	107,833,516
Advances paid for non-current assets	729,049
Cash and cash equivalents	6,922,533
Indemnification assets *(Note 4)*	10,913,899
Trade receivables	15,969,678
Inventories	5,680,540
Advances paid	975,529
Costs to obtain a contract	388,802
Other non-current assets	37,986
Other current assets	9,757,609
	280,028,834
Liabilities	
Trade payables	(14,047,602)
Borrowings	(66,316,119)
Contract liabilities	(7,297,746)
Taxes payable other than income tax	(2,694,377)
Deferred tax liabilities	(20.520.232)
Decommissioning liabilities	(1,285,482)
Obligation to pay a fine for termination of the contract	(14,551,865)
Other current liabilities	(8,111,511)
	(134.824.934)
Fair value of net assets at the date of acquisition	**145.203.900**
Non-controlling interests	(34,118,195)
Total identifiable net assets at fair value	**111.085.705**
Goodwill arising on acquisition *(Note 11)*	54,656,742
Purchase consideration transferred	**165,742,447**

Analysis of cash flows on acquisition	
Net cash acquired with the subsidiary	6,922,533
Cash paid	(165,742,447)
Net cash outflow	**(158,819,914)**

Net assets recognized in the consolidated financial statements as at 31 December 2018 are based on a preliminary assessment of their fair value, while the Group makes an independent assessment of assets owned by Kcell JSC. This estimate has not been completed at the time of issuing the consolidated financial statements for 2018.

Transaction costs in the amount of KZT 1,933,255 thousand were included in administrative expenses.

The deferred tax liability is mainly due to the tax effect of accelerated depreciation of fixed assets and intangible assets for tax purposes.

The amount of goodwill equal to KZT 54,656,742 thousand and includes the cost of the expected synergistic effect from the acquisition. The entire amount of goodwill is allocated to the mobile telecommunications segment. It is expected that recognized goodwill will not be deductible for the purposes of the taxation either in full or in part.

5. BUSINESS COMBINATIONS (continued)

Acquisition of Kcell JSC (continued)

At the acquisition date, was recognized the obligation to pay a fine for termination of the Network Sharing Agreement between Kcell JSC and Kar-Tel LLP in the amount of KZT 14,551,865 thousand and a indemnification asset for reimbursement of 75% of this penalty receivable from Telia Company and Fintur Holding B.V. in the amount of 10,913,899 thousand tenge., and the effect of the above amounts on deferred tax liabilities *(Note 4)*.

Since the acquisition date, the contribution of Kcell JSC to the Group's revenue amounted to KZT 4,257,756 thousand, and to the Group's net profit before tax – loss before tax in the amount of KZT 544,955 thousand. If the companies were consolidated at the beginning of the year, the Group’s revenues would be KZT 355,148,278 thousand, and profit before tax KZT 50,722,371 thousand.

6. CONSOLIDATION

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

		Percentage ownership	
	Country of incorporation	**31 December 2018**	31 December 2017
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%
Kcell JSC	Kazakhstan	**75.00%**	0.00%

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. The transaction value was equal to KZT 30,170 thousand and was paid on 29 March 2017.

On 21 December 2018 the Group completed the acquisition of 75% of the voting shares of Kcell JSC (24% of shares from Telia Company and 51% of shares from Fintur Holdings BV). The amount of the transaction for the purchase of 75% in Kcell amounted to KZT 165,742,447 thousand and was paid on 20 December 2018 *(Note 5)*.

7. 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. and subsidiary Kcell JSC.

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.

7. SEGMENT INFORMATION (continued)

The following tables disclose revenue and profit information for the Group's operating segments for the years ended 31 December 2018 and 2017.

For the year ended 31 December 2018

In thousands of tenge	**Fixed line**	**Mobile tele-communication services in GSM and LTE standards**	**Other**	**Elimina-tions and adjustments**	**Group**
Revenue from contracts with customer					
Sales to external customers	**217,668,184**	**4,493,142**	**565,045**	**–**	**222,726,371**
Inter-segment	**252,366**	**35,900**	**222,987**	**(511,253)**	**–**
Total revenue from contracts with customer	**217,920,550**	**4,529,042**	**788,032**	**(511,253)**	**222,726,371**
Financial results					
Depreciation and amortisation	**(37,477,326)**	**(1,288,815)**	**(109,690)**	**–**	**(38,875,831)**
Finance costs	**(6,830,492)**	**(519,149)**	**(72)**	**72**	**(7,349,641)**
Finance income	**3,030,209**	**34,703**	**2,189**	**(72)**	**3,067,029**
Share in profits of associates	**–**	**7,743,570**	**116,514**	**–**	**7,860,084**
Impairment loss	**(1,169,713)**	**–**	**–**	**–**	**(1,169,713)**
Impairment losses on financial assets	**(3,874,468)**	**(32,153)**	**(462)**	**–**	**(3,907,083)**
Income tax expenses	**(10,915,839)**	**(191,237)**	**(504)**	**–**	**(11,107,580)**
Segment profit/(loss)	**46,187,814**	**7,198,613**	**(130,593)**	**735,062**	**53,990,896**
Operating assets	**551,021,413**	**407,842,367**	**2,218,590**	**(167,687,639)**	**793,394,731**
Operating liabilities	**247,072,042**	**132,647,334**	**260,773**	**(1,426,353)**	**378,553,796**
Other disclosures					
Investments in associates	**–**	**76,070,585**	**1,598,639**	**–**	**77,669,224**
Capital expenditures	**49,676,196**	**316,434**	**90,946**	**–**	**50,083,576**

** The Mobile telecommunications in GSM and LTE standards segment includes income and expenses of Kcell JSC for the period from the acquisition date of 21 December 2018.*

For the year ended 31 December 2017

In thousands of tenge	Fixed line	Mobile tele-communication services in GSM and LTE standards	Other	Elimina-tions and adjustments	Group
Revenue from contracts with customer					
Sales to external customers	210,224,025	–	1,200	–	210,225,225
Inter-segment	–	–	210,405	(210,405)	–
Total revenue from contracts with customer	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 profit/(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

7. 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	**2018**	2017
Segment profit	**53,255,834**	33,916,238
Other	**735,062**	(979,572)
Profit of the Group	**53,990,896**	32,936,666

Reconciliation of assets

In thousands of tenge	**2018**	2017
Segment operating assets	**961,082,370**	471,803,917
Elimination of the Company's investments in subsidiaries	**(166,261,286)**	(250,965)
Elimination of intra-group receivables and payables	**(1,426,353)**	(238,760)
Total assets of the Group	**793,394,731**	471,314,192

Reconciliation of liabilities

In thousands of tenge	**2018**	2017
Segment operating liabilities	**379,980,149**	112,205,551
Deferred tax liabilities	**–**	239,464
Elimination of intra-group receivables and payables	**(1,426,353)**	(238,760)
Total liabilities of the Group	**378,553,796**	112,206,255

8. PROPERTY AND EQUIPMENT

Movements of property and equipment in 2018 and 2017 were as follows:

In thousands of tenge	Land	Buildings and cons-tructions	Equipment	Other	Construc-tion in progress	Total
Cost						
At 1 January 2017	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 9)*	–	–	–	–	(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
Additions	**451**	**101,547**	**9,502,685**	**533,433**	**36,955,437**	**47,093,553**
Acquisition of subsidiary *(Note 5)*	**2,249,378**	**4,878,774**	**92,965,754**	**2,544,564**	**18,181,223**	**120,819,693**
Transfers	**–**	**1,947,461**	**17,652,886**	**16,638**	**(19,616,985)**	**–**
Disposals	**(13,317)**	**(978,467)**	**(5,418,161)**	**(215,536)**	**(258,846)**	**(6,884,327)**
At 31 December 2018	**2,927,610**	**54,997,006**	**632,634,767**	**16,714,716**	**52,652,625**	**759,926,724**
Accumulated depreciation and impairment						
At 1 January 2017	–	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
Depreciation charge	**–**	**1,976,120**	**32,722,740**	**745,830**	**–**	**35,444,690**
Disposals	**(589)**	**(284,707)**	**(5,052,424)**	**(209,739)**	**(155,813)**	**(5,703,272)**
At 31 December 2018	**–**	**20,038,240**	**336,996,998**	**11,478,648**	**1,103,725**	**369,617,611**
Net book value						
At 31 December 2017	690,509	30,700,864	208,604,921	2,893,060	16,132,258	259,021,612
At 31 December 2018	**2,927,610**	**34,958,766**	**295,637,769**	**5,236,068**	**51,548,900**	**390,309,113**

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, 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. Their recoverable amount was determined on the basis of calculated value in use of assets at individual asset level.

At 31 December 2018, the net book value of equipment used by the Group under finance leases and included in property and equipment was equal to KZT 42,229,062 thousand (at 31 December 2017: KZT 23,365,385 thousand). Additions during the year include fixed assets in the amount of KZT 13,278,268 thousand received under finance lease agreements (2017: KZT 9,019,870 thousand). Leased assets were pledged as collateral under the respective finance lease agreements.

As at 31 December 2018, property and equipment with the cost of KZT 166,079,984 thousand were fully depreciated (at 31 December 2017: KZT 135,390,566 thousand).

For the year ended 31 December 2018, depreciation expenses included in the cost of construction in progress were equial KZT 130 thousand (for 2017: KZT 4,670 thousand).

9. INTANGIBLE ASSETS

Movements of intangible assets for 2018 and 2017 were as follows:

In thousands of tenge	Licenses and trademarks	Software	Goodwill	Other	Construction in progress	Total
Cost						
At 1 January 2017	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 8)*	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
Additions	**596,243**	**375,271**	**–**	**13**	**2,018,496**	**2,990,023**
Acquisition of subsidiary *(Note 5)*	**99,965,947**	**2,555,473**	**54,656,742**	**5,312,096**	**–**	**162,490,258**
Transfers	**55,461**	**(55,335)**	**–**	**(126)**	**–**	**–**
Disposals	**(3,870,985)**	**(144,726)**	**–**	**(1,243,671)**	**–**	**(5,259,382)**
Transfers from construction-in-progress	**152,071**	**1,866,425**	**–**	**–**	**(2,018,496)**	**–**
At 31 December 2018	**112,628,735**	**25,546,769**	**57,363,077**	**8,436,889**	**–**	**203,975,470**
Accumulated amortisation and impairment						
At 1 January 2017	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
Amortisation charges	**1,507,815**	**1,138,848**	**–**	**682,348**	**–**	**3,329,011**
Impairment	**1,169,713**	**–**	**–**	**–**	**–**	**1,169,713**
Disposals	**(3,869,426)**	**(123,726)**	**–**	**(1,234,671)**	**–**	**(5,227,823)**
At 31 December 2018	**7,389,985**	**17,539,499**	**–**	**2,503,444**	**–**	**27,432,928**
Net book value						
At 31 December 2017	7,148,115	4,425,284	2,706,335	1,312,810	–	15,592,544
At 31 December 2018	**105,238,750**	**8,007,270**	**57,363,077**	**5,933,445**	**–**	**176,542,542**

Licenses and trademarks, software and other include intangible assets acquired as a result of business combination (*Note 5*).

During 2018, the Group recognized an impairment loss in the amount of KZT 1,169,713 thousand, which was a write-off of certain licenses in the fixed telecommunications segment to the recoverable amount due to changes in the activities of subsidiaries (KT Cloud Lab LLP, Vostoktelekom LLP). The loss was recorded in the consolidated statement of comprehensive income as part of other expenses. The recoverable amount as of 31 December 2018 in the amount of nil tenge was determined based on the calculation of the value of use of assets at the level of individual assets.

As at 31 December 2018 intangible assets (mainly software) with the cost of KZT 10,408,974 thousand were fully amortized (as at 31 December 2017: KZT 8,372,440 thousand).

10. INVESTMENTS IN ASSOCIATES

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

			31 December 2018		31 December 2017	
In thousands of tenge	Primary activities	Country of incorporation	Carrying amount	Ownership share	Carrying amount	Ownership share
Khan Tengri Holding B.V.	Telecommunication services	Netherlands	**76,070,585**	**51%**	68,327,015	51%
QazCloud LLP	IT services	Kazakhstan	**1,598,639**	**49%**	919,125	49%
			77,669,224		69,246,140	

Movements in investments in associates for the years 2018 and 2017 are as follows:

In thousands of tenge	Khan Tengri Holding B.V.	QazCloud LLP	Total
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 profit/(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
Additional contribution to the charter capital of an associate	–	**563,000**	**563,000**
Share in profits of associates	**7,743,570**	**116,514**	**7,860,084**
Share in other comprehensive income of associates	**–**	**–**	**–**
Dividends declared	**–**	**–**	**–**
At 31 December 2018	**76,070,585**	**1,598,639**	**77,669,224**

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. 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.

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 2018	31 December 2017
Current assets	**23,058,916**	39,906,159
Non-current assets	**155,086,820**	153,137,417
Current liabilities	**(38,288,604)**	(46,052,692)
Non-current liabilities	**(104,123,963)**	(126,441,186)
Equity	**35,733,169**	20,549,698
Share of the Group in equity – 51%	**18,223,916**	10,480,346
Goodwill	**57,846,669**	57,846,669
Carrying amount of investment of the Group	**76,070,585**	68,327,015

10. INVESTMENTS IN ASSOCIATES (continued)

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

In thousands of tenge	**2018**	2017
Revenue from contracts with customer	**120,803,222**	104,154,218
Operating expenses	**(100,897,873)**	(100,929,964)
Non-operating expenses	**(9,514,034)**	(10,566,819)
Profit/(loss) before tax	**10,391,315**	(7,342,565)
Income tax benefit	**4,792,155**	9,629,276
Profit for the year	**15,183,470**	2,286,711
Total comprehensive income for the year	**15,183,470**	2,286,711
Impairment of investments in associate *(Note 11)*	**–**	–
Share of the Group in profit for the year	**7,743,570**	1,166,223

As at 31 December 2018, Khan Tengri Holding B.V. had obligations to make capital investments in the future in the amount of KZT 2,522,158 thousand (as at 31 December 2017: KZT 1,944,930 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 on 26 February 2016 (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 options and as at 31 December 2018 the fair value of the options is nil (2017: nil).

In connection with the closure of the transaction on the acquisition of Kazakhtelecom JSC 75% of shares in Kcell JSC Tele2 A.B. made a decision on excercise the put option, according to which Tele2 A.B. has the right to demand from Kazakhtelecom JSC to acquire at a market value all shares of Khan Tengri Holding B.V., owned by Tele2 A.B. Early execution of the put option became possible due to the violation of the non-competition clause of the Shareholders Agreement dated 29 February 2016, according to which Kazakhtelecom JSC pledged not to have a controlling portion in mobile operators. On 28 December 2018 the Group received from Tele2 A.B. notice of the option exercise. In this regard, the shareholders - Kazakhtelecom JSC and Tele2 are in the process of exercising the option, including an assessment of the fair market value of the shares of Khan Tengri Holding B.V. owned by Tele2 A.B. After the shareholders reach an agreement on the fair market value of the shares, Kazakhtelecom JSC will acquire the shares of Khan Tengri Holding B.V., owned by Tele2 A.B. According to the terms of the Shareholders Agreement dated 29 February 2016, Tele2 A.B. has the opportunity to withdraw notice of the option exercise within 10 days after agreeing on the fair value of the shares of Khan Tengri Holding B.V. Accordingly, the option is not material and the Group has no control over Khan Tengri Holding as of 31 December 2018.

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 and 27 April 2018, the Group made contributions to the charter capital of QazCloud LLP, in the amount of KZT 986,980 thousand and KZT 563,000 thousand, respectfully. The additional contributions to the charter capital of QazCloud LLP did not lead to the change in share of interest of the Group as the second participant, Samruk-Kazyna Business Service LLP, also made the contributions to the charter capital of QazCloud LLP according to its share.

10. INVESTMENTS IN ASSOCIATES (continued)

Investments in QazCloud LLP (continued)

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

In thousands of tenge	**2018**	2017
Revenue from contracts with customer	**3,767,779**	35,446
Operating expenses	**(3,521,735)**	(165,446)
Non-operating profit	**44,655**	7,822
Profit/(loss) before tax	**290,699**	(122,178)
Income tax expense	**(52,915)**	–
Profit/(loss) for the year	**237,784**	(122,178)
Total comprehensive loss for the year	**237,784**	(122,178)
Unrecognized accumulated losses	**–**	(7,988)
Share of the Group in profit/(loss) for the year	**116,514**	(67,855)

11. IMPAIRMENT TESTING

Goodwill

For the purpose of testing for impairment, goodwill acquired as a result of business combinations was divided into two cash-generating units (“CGUs”) (“IP TV” and “Mobile telecommunications”). IP TV CGU is part of the fixed telecommunications segment.

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

	IP TV		**Mobile telecommunication services**		**Total**	
	2018	2017	**2018**	2017	**2018**	2017
Goodwill	**2,706,335**	2,706,335	**54,656,742**	–	**57,363,077**	2,706,335

The Group performed testing for impairment in December 2018 and 2017.

IP TV

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 13.10% (2017: 14.86%), and cash flows beyond the five-year period are extrapolated using a 0% growth rate (2017: 0%).

As a result of this analysis as at 31 December 2018, the management have not identified any evidence of impairment of this CGU.

Mobile telecommunications

The recoverable amount of the Mobile telecommunications CGU was determined by calculating the value in use of the assets based on projected cash flows based on financial plans approved by management for an five-year period.

The after tax discount rate applied to projected cash flows was 12%, and cash flows beyond the five-year period were extrapolated taking into account a growth rate of 1.5%.

As a result of this analysis as at 31 December 2018, the management have not identified any evidence of impairment of this CGU.

11. IMPAIRMENT TESTING (continued)

Key assumptions used in value in use calculations

The calculation of value-in-use for IPTV and Mobile telecommunications CGUs 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 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.

The Group's management expects an increase in the customer base of mobile segment over the forecast period because Kcell JSC 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 in Mobile telecommunications CGU 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.

EBITDA margin

EBITDA margin reflects the rate of return included by the unit Mobile telecommunications CGU 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 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.

11. IMPAIRMENT TESTING (continued)

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 of IPTV owned by the Group will grow over the forecast period, a decrease in the customer base and average revenue per customer by 30.59% (2017: 25.01%) would result in a loss from impairment in IP TV CGU.

Although the management expects that the market share of mobile telecommunications 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 0.37%, would result in a loss from impairment in Mobile Telecommunications CGU.

Level of capital investments

Increase in capital investments by more than 11.90% will result in loss from impairment in Mobile telecommunications CGU.

EBITDA margin

Decrease in EBITDA margin by more than 1.37% will result in loss from impairment in Mobile telecommunications CGU.

Growth rates

Management recognises that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions. A reduction to 10.33% per annum in the long-term growth rate (2017: 8.31% per annum) for IP TV unit would result in impairment loss.

A reduction by 0.42% per annum and more in the long-term growth rate in Mobile telecommunications CGU would result in impairment loss.

Discount rate

An increase in after tax discount rate to 18.44% (2017: 19.32%) would result in loss from impairment in IP TV CGU.

An increase in after tax discount rate to 12.76% would result in losses from impairment in Mobile telecommunications CGU.

Investment in associate – Khan Tengri Holding B.V.

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

The carrying amount of investment was as follows:

	2018	2017
Investment in an associate	**76,070,585**	68,327,015

The Group performed testing for impairment in December 2018 and 2017.

The recoverable amount of the Khan-Tengri Holding BV CGU was determined by calculating the value in use of the assets based on projected cash flows based on financial plans approved by management for an eight-year period.

The after tax discount rate applied to projected cash flows was 13.10% (2017: 14.86%), and cash flows beyond the eight-year period were extrapolated taking into account a growth rate of 1.5% (2017: 1.5 %).

As a result of this analysis as at 31 December 2018, the management have not identified any evidence of impairment of this CGU.

11. IMPAIRMENT TESTING (continued)

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.

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 0.3%, would result in a loss from impairment in CGU (2017: a slowdown in growth rate by 2.7% will result to an increase in impairment loss).

Level of capital investments

Increase in capital investments by more than 13.7% will result in loss from impairment in this unit (2017: an increase in capital investments by more than 5.87% will result to an increase in impairment loss).

11. IMPAIRMENT TESTING (continued)

EBITDA margin

Decrease in EBITDA margin by more than 1.4% will result in loss from impairment in this unit (2017: a decrease in EBITDA margin of more than 2.79% 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 more than 0.28% per annum in the long-term growth rate in this unit would result in impairment loss (2017: reduction in the long-term growth rate lower than (1)% will result to an increase in impairment loss).

Discount rate

An increase in after tax discount rate to 13.94% would result in impairment losses in CGU (2017: an increase in after tax discount rate to 16.52% will result to an increase in impairment losses).

12. INVESTMENT PROPERTY

Movements in investment property for the years ended 31 December 2018 and 2017 were as follows:

In thousands of tenge	**2018**	2017
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 2018 and 2017, 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.

13. OTHER NON-CURRENT FINANCIAL ASSETS

As at 31 December 2018 and 2017 other non-current financial assets comprised:

In thousands of tenge	**2018**	2017
Long-term accounts receivable	**6,669,328**	3,326,666
Loans to employees	**2,760,145**	2,603,464
Long-term bank deposits	**–**	3,323,300
Other	**220,396**	203,876
	9,649,869	9,457,306
Less: provision for expected credit losses	**(135)**	–
	9,649,734	9,457,306

As at 31 December 2018 and 2017 the Group's other non-current financial assers were denominated in the following currencies:

In thousands of tenge	**2018**	2017
Tenge	**9,649,734**	6,134,006
US dollars	**–**	3,323,300
	9,649,734	9,457,306

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. As at 31 December 2018, this deposit was reclassified to other current financial assets.

As at 31 December 2018, the long-term receivables represent amounts due from Mobile Telecom Service LLP. On 29 February 2016 the Company and Mobile Telecom Service LLP agreed to extend the maturity of the Company's receivables from Mobile Telecom Service LLP until 2031. These receivables were discounted at the date of restructuring using 10% rate.

Loans to employees are interest free loans provided for the period from 1 to 15 years. These loans were discounted as at the issue date using market interest rates of 12.2% per annum to 22% (2017: 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.

14. OTHER NON-CURRENT ASSETS

As at 31 December 2018 and 2017 other non-current assets comprised:

In thousands of tenge	**2018**	2017
Long-term VAT receivable	**1,711,640**	822,977
Deferred connection cost on subscribers	**692,795**	1,034,865
Deferred cost on operators	**671,168**	522,337
Other	**119,079**	73,342
	3,194,682	2,453,521

15. INVENTORIES

As at 31 December 2018 and 2017, inventories comprised:

In thousands of tenge	**2018**	2017
Goods for resale at net realisable value	**4,580,048**	220,171
Cable materials at cost	**1,657,088**	1,425,726
Raw and other materials at cost	**1,076,600**	556,203
Spare parts at cost	**636,318**	409,529
Fuel at cost	**452,382**	403,243
	8,402,436	3,014,872

During 2018, an amount of KZT 30,673 thousand (2017: KZT 13,729 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".

16. TRADE RECEIVABLES

As at 31 December 2018 and 2017, trade receivables comprised:

In thousands of tenge	**2018**	2017
Trade receivables	**55,348,456**	34,370,423
	55,348,456	34,370,423
Less: provision for expected credit losses	**(3,175,108)**	–
Less: allowance for doubtful receivables	**–**	(2,276,195)
	52,173,348	32,094,228

Movements in the allowance for doubtful receivables / provision for expected credit losses were as follows for the years ended 31 December:

In thousands of tenge	**2018**	2017
Allowance for doubtful receivables at the beginning of the year	**(2,276,195)**	(2,224,485)
Change in accounting policy due to application of IFRS 9	**(870,289)**	–
Provision for expected credit losses/ allowance for doubtful receivables at the beginning of the year (restated)	**(3,146,484)**	(2,224,485)
Charge for the year	**(622,360)**	(838,049)
Write-off for the year	**593,736**	786,339
Provision for expected credit losses / provision for doubtful receivables at the end of the year	**(3,175,108)**	(2,276,195)

Below is information as of December 31, 2018 on the Group's exposure to trade receivables using a matrix of reserves:

		Past due but not impaired						
In thousands of tenge	**Neither past due**	**1 to 30 days**	**31 to 60 days**	**61 to 90 days**	**91 to 120 days**	**121 to 360 days**	**Over 360 days**	**Total**
Estimated credit loss rate	**0.49%**	**4.52%**	**9.12%**	**9.33%**	**15.11%**	**23.98%**	**100%**	
Estimated total gross carrying amount at default	**38,033,653**	**4,302,479**	**2,970,636**	**2,381,772**	**1,772,938**	**5,069,507**	**817,471**	**55,348,456**
Provision for expected credit losses	**(186,502)**	**(194,524)**	**(270,799)**	**(222,139)**	**(267,811)**	**(1,215,862)**	**(817,471)**	**(3,175,108)**

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

			Past due but not impaired				
In thousands of tenge	**Total**	**Neither past due- nor impaired**	**Less than 30 days**	**30 to 90 days**	**90 to 120 days**	**120 to 360 days**	**Over 360 days**
31 December 2017	32,094,228	28,853,169	1,712,306	1,103,628	200,939	224,186	–

As at 31 December 2018 and 2017 the Group's trade receivables were denominated in the following currencies:

In thousands of tenge	**2018**	2017
Tenge	**48,905,384**	31,030,653
US dollars	**3,098,781**	1,060,084
Other currencies	**169,183**	3,491
	52,173,348	32,094,228

As at 31 December 2018 the Group's trade receivables include amounts due from Mobile Telecom Service LLP of KZT 12,400,895 thousand (31 December 2017: KZT 11,397,300 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 28)*.

17. ADVANCES PAID

As at 31 December 2018 and 2017, advances paid comprised:

In thousands of tenge	**2018**	2017
Advances paid	**1,419,500**	609,409
	1,419,500	609,409
Less: allowance for doubtful amounts	**(3,137)**	(70,653)
	1,416,363	538,756

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

In thousands of tenge	**2018**	2017
Allowance at the beginning of the year	**(70,653)**	(72,405)
Reversal for the year	**67,516**	1,752
Allowance at the end of the year	**(3,137)**	(70,653)

For 31 December 2018 and 2017, advances paid for short term assets were given to contractors for services and delivery of inventories for operational activities of the Group.

18. OTHER CURRENT FINANCIAL ASSETS

As at 31 December 2018 and 2017 other current financial assets comprised:

In thousands of tenge	**2018**	2017
Bank deposits	**3,576,340**	58,493,090
Loans to employees	**2,132,007**	2,060,217
Restricted cash	**438,812**	446,198
Due from employees	**228,993**	114,825
Interest receivable	**108,103**	371,432
Reimbursement of fee for using radio frequencies	**–**	205,709
Other accounts receivable	**2,421,526**	1,129,742
Other	**–**	4,065
	8,905,781	62,825,278
Less: provision for expected credit losses	**(4,220,670)**	–
Less: allowance for doubtful amounts	–	(691,591)
	4,685,111	62,133,687

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 1.25% to 10.5% per annum (2017: 1% to 13% per annum).

On 12 December 2018 Halyk Bank of Kazakhstan JSC, in accordance with the terms of the contract of sale and purchase of a 75% shares in Kcell JSC, issued two covered counter-guarantees, the main guarantees were issued by the guarantor bank of Commerzbank AG, the beneficiaries of guarantees are the sellers Fintur Holdings B.V. and TeliaSonera Kazakhstan Holding B.V. Counter-guarantee to Fintur Holdings B.V. and counter-guarantee to TeliaSonera Kazakhstan Holding B.V. amounted to KZT 5,039,480 thousand and KZT 2,371,520 thousand, respectively.

Upon completion of the transaction, on 29 December 2018 Halyk Bank Kazakhstan JSC made a full refund of the covered bank guarantee to the Group.

As at 31 December 2018, the provision for expected credit losses includes a provision in the amount of KZT 3,399,500 thousand accrued on a deposit placed in Eximbank Kazakhstan JSC due to the liquidation of the bank.

18. OTHER CURRENT FINANCIAL ASSETS (continued)

Below is information as of 31 December 2018 on the Group's exposure to loans to employees and other receivables using the reserve matrix:

		Past due but not impaired						
In thousands of tenge	**Neither past due**	**1 to 30 days**	**31 to 60 days**	**61 to 90 days**	**91 to 120 days**	**121 to 360 days**	**Over 360 days**	**Total**
Estimated credit loss rate	**1.02%**	**5.01%**	**9.99%**	**10.00%**	**25.01%**	**70.01%**	**100.00%**	
Estimated total gross carrying amount at default	**4,419,090**	**12,522**	**5,305**	**3,211**	**5,709**	**13,406**	**762,095**	**5,221,338**
Provision for expected credit losses	**(44,921)**	**(627)**	**(530)**	**(321)**	**(1.428)**	**(9,385)**	**(762,095)**	**(819,307)**

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

			Past due but not impaired				
In thousands of tenge	Total	Neither past due-nor impaired	Less than 30 days	30 to 90 days	90 to 120 days	120 to 360 days	Over 360 days
31 December 2017	3,636,532	3,603,623	10,846	7,061	6,053	8,949	–

As at 31 December 2018 and 2017 other financial assets were denominated in the following currencies:

In thousands of tenge	**2018**	2017
KZT	**4,552,766**	4,357,248
US dollars	**124,948**	57,772,374
Other	**7,397**	4,065
	4,685,111	62,133,687

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.

Changes in provision for expected credit losses/ the allowance for doubtful receivables were as follows for the years ended 31 December:

In thousands of tenge	**2018**	2017
Allowance for doubtful receivables at the beginning of the year	**(691,591)**	(660,721)
Change in accounting policy due to application of IFRS 9	**(590,354)**	–
Provision for expected credit losses/ provision for doubtful receivables at the beginning of the year (restated)	**(1,281,945)**	(660,721)
Charge for the year	**(2,966,001)**	(46,106)
Write-off for the year	**27,276**	15,236
Provision for expected credit losses/ provision for doubtful receivables at the end of the year	**(4,220,670)**	(691,591)

19. OTHER CURRENT ASSETS

As at 31 December 2018 and 2017 other current assets comprised:

In thousands of tenge	**2018**	2017
VAT receivable	**7,572,175**	495,503
Taxes prepaid other than corporate income tax	**1,345,611**	161,181
Deferred connection cost on subscribers	**799,362**	820,026
Deferred costs on operators for telecommunication services	**143,086**	86,027
Other	**532,720**	61,285
	10,392,954	1,624,022

As of 31 December 2018 VAT recoverable amounted to KZT 7,572,175 thousand.

20. CASH AND CASH EQUIVALENTS

As at 31 December 2018 and 2017 cash and cash equivalents comprised:

In thousands of tenge	**2018**	2017
Cash on current bank accounts	**45,763,434**	14,909,487
Deposits with less than 90 days' maturity from the date of opening	**72,802**	1,071,989
Cash on hand	**20,621**	4,467
Less: provision for expected credit losses	**(506,765)**	–
	45,350,092	15,985,943

Cash on current bank accounts earn interest at the rates ranging from 0.1% to 8.5% per annum (2017: from 0.1% to 10% per annum). As at 31 December 2018 cash on current bank accounts included an amount of KZT 72,802 thousand placed on overnight deposits with a rate of up to 7% (as at 31 December 2017: an amount of KZT 74,999 thousand with a rate of up to 7%). Short-term deposits are made for varying periods between one day and three months, depending on the immediate cash requirements of the Group as at 31 December 2018 were not placed (2017: from 0.15 to 1.5% per annum).

As at 31 December 2018 and 2017 cash and cash equivalents were denominated in the following currencies:

In thousands of tenge	**2018**	2017
US dollars	**29,886,154**	8,654,970
Tenge	**15,314,144**	7,200,660
Russian roubles	**128,024**	98,540
Other	**21,770**	31,773
	45,350,092	15,985,943

Movements in the provision for expected credit losses were as follows for the years ended 31 December 2018:

In thousands of tenge	**2018**	2017
Provision for expected credit losses at the beginning of the year	**–**	–
Change in accounting policy due to application of IFRS 9	**(20,240)**	–
Provision for expected credit losses at the beginning of the year (restated)	**(20,240)**	–
Charge for the year	**(486,525)**	–
Provision for expected credit losses at the end of the year	**(506,765)**	–

21. 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 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
At 31 December 2018	**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 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
Treasury shares reacquired	**–**	**–**	**–**	**–**	**–**
Sale of treasury shares	**–**	**–**	**–**	**–**	**–**
At 31 December 2018	**215,553**	**893,097**	**2,966,250**	**3,498,124**	**6,464,374**

21. EQUITY (continued)

Shares issued less reacquired shares

As at 31 December 2018, number of common and preferred shares issued net of reacquired shares was 10,707,323 and 320,556 shares, respectively (31 December 2017: 10,707,323 and 320,556 shares, respectively).

In the period from 13 December 2018 to 8 January 2019, the Group received applications from minority shareholders demanding the Group to repurchase their shares in connection with their disagreement with the decision of the Board of Directors of the Group, adopted on December 12, 2018, to conclude a major transaction on acquisition of 75% of shares of Kcell JSC. In total, 34,911 common and 21,962 preference shares were presented for repurchase (taking into account the withdrawal of a number of applications). The decision on the repurchase of shares and the price of their repurchase will be taken by the Board of Directors of Kazakhtelecom JSC in the prescribed manner based on the results of procedural decisions taken by the authorized bodies. The expected range of obligations for the repurchase of shares is estimated from KZT 256 to 660 million.

According to the methodology in force as of 31 December 2018, the value of Kazakhtelecom JSC shares is calculated as a product of the current price of Kazakhtelecom JSC shares on Kazakhstan Stock Exchange (KASE) and the ratio of the forecast net income of Kazakhtelecom JSC for the current year to the actual net income of Kazakhtelecom JSC for the previous year.

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 2018 in the amount of KZT 874,244 thousand (31 December 2017: 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.

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 2018 (at 31 December 2017: KZT 96,167 thousand) and are recorded as interest expenses in the consolidated statement of comprehensive income *(Note 36)*.

On the basis of the decision made at the annual shareholders general meeting of Kazakhtelecom JSC on 30 May 2018, the Company declared dividends on preferred shares based on 2017 results in the amount of KZT 415,373 thousand and dividends on common shares in the amount of KZT 17,086,639 thousand (2017: KZT 33,520 thousand and KZT 4,331,862 thousand, respectively). The dividends accrued on common shares during 2018. Dividends per share (common and preferred) as at 31 December 2018 were equal to KZT 1,595.79 (as at 31 December 2017: KZT 404.57 per common share).

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

In thousands of tenge	**2018**	2017
Dividends payable at the beginning of the year	**1,628,625**	1,547,439
Dividends declared on common shares	**17,086,639**	4,331,862
Dividends declared on preferred shares in excess of the obligatory amount	**415,373**	33,520
Interest on debt component of preferred shares *(Note 36)*	**96,167**	96,167
Withholding tax	**(197,074)**	(81,017)
Dividends paid on common and preferred shares	**(16,996,235)**	(4,299,346)
Dividends payable at the end of the year *(Note 28)*	**2,033,495**	1,628,625

21. EQUITY (continued)

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 2018 and 2017.

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	**2018**	2017
Net profit	**43,067,365**	24,717,821
Interest on preferred shares	**96,167**	96,167
Net profit for calculating of basic and diluted earnings per share	**43,163,532**	24,813,988
Weighted average number of common and preferred shares for calculation of basic and diluted earnings per share	**11,027,879**	11,027,879
Basic and diluted earnings per share, tenge	**3,914.04**	2,250.11

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.

Additional information disclosed in accordance with Kazakhstan Stock Exchange (KASE) requirements

The cost of common shares, calculated in accordance with the requirements of the KASE

Below is the cost of one ordinary share, calculated in accordance with the requirements of the KASE:

In thousands of tenge	**2018**	2017
Total assets	**793,394,731**	471,314,192
Less: intangible assets *(Note 9)*	**176,542,542**	15,592,544
Less: total liabilities	**378,553,796**	112,206,255
Less: preferred shares issued net of reacquired shares	**320,556**	320,556
Net assets for calculation of cost of ordinary share in accordance with listing requirements of KASE	**237,977,837**	343,194,837
Number of ordinary shares	**10,707,323**	10,707,323
Cost of ordinary share, calculated in accordance with listing requirements of KASE (in tenge)	**22,226**	32,052

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. At the same time, according to the methodology, the KASE the dividend payable on preferred shares does not taken into account, which are not paid due to the lack of up-to-date information about the shareholders, their payment details. As at 31 December 2018, this indicator amounted to 3,727 tenge (as at 31 December 2017: 3,727 tenge).

22. BORROWINGS

As at 31 December 2018 and 2017, borrowings comprised:

In thousands of tenge	**Weighted average interest rate**	**2018**	Weighted average interest rate	2017
Borrowings with a fixed interest rate of 7% to 12% per annum	**10.61%**	**86,791,306**	7.64%	27,319,491
Bonds with a fixed interest rate of 7.5% to 11.5% per annum	**11.50%**	**106,661,234**	7.50%	6,063
		193,452,540		27,325,554

On 6 November and 12 December 2018, the Group made a listing of coupon bonds on the stock exchange of the International Financial Center Astana (AIX) for amount of KZT 100,000,000 thousand at a rate of 11.5% and maturity in November 2024. The nominal value of one bond is one thousand tenge. Bonds on these issues were purchased by the Parent company *(Note 41).*

In accordance with the terms of the sale and purchase agreements on coupon bonds concluded with the Parent, the Group undertakes to provide collateral sufficient to cover the total amount of the agreements before 31 December 2019 or the primary / secondary public offering of shares of Company on the stock market, depending on what comes last. Assets to be transferred as collateral are not determined at the reporting date.

As at 31 December 2018 and 2017, borrowings were denominated in tenge.

Borrowings are repayable as follows:

In thousands of tenge	**2018**	2017
Current portion of borrowings	**57,614,129**	2,357,864
Maturity between 1 and 2 years	**7,392,518**	4,065,248
Maturity between 2 and 5 years	**23,780,192**	12,177,556
Maturity over 5 years	**104,665,701**	8,724,886
Total non-current portion of borrowings	**135,838,411**	24,967,690
Total borrowings	**193,452,540**	27,325,554

As of 31 December 2018 and December 2017, debt securities issued and loans amounted to:

	Maturity date	**Nominal interest rate**	**2018**	2017
Local bonds of Kazakhtelecom JSC (KTCB.1024 и KTCB2.1024)	01.11.2024	11.50%	**101,461,458**	–
Local bonds of Kcell JSC (KCELb1)	16.01.2021	11.50%	**5,193,713**	–
Local bonds of Kazakhtelecom JSC (KZTKb3)	26.12.2019	7.50%	**6,063**	6,063
Total			**106,661,234**	6,063

22. BORROWINGS (continued)

Borrowings	Maturity date	Nominal interest rate	2018	2017
Development Bank of Kazakhstan JSC	19.12.2024	7.00%	**17,113,449**	18,539,569
Development Bank of Kazakhstan JSC	19.12.2024	9.00%	**8,152,784**	8,779,922
Eurasian Bank JSC	20.12.2019	12.00%	**29,749,590**	–
Halyk Bank Kazakhstan JSC	02.12.2019	11.50%	**7,818,525**	–
Halyk Bank Kazakhstan JSC	20.09.2019	11.50%	**3,893,578**	–
Halyk Bank Kazakhstan JSC	16.07.2021	11.50%	**9,976,714**	–
Alfa Bank JSC	07.06.2019	12.00%	**5,036,666**	–
Alfa Bank JSC	07.06.2019	12.00%	**5,050,000**	–
Total			**86,791,306**	27,319,491

As at 31 December 2018, the Parent is a guarantor of the Group's credit facility in the amount of KZT 24,961,627 thousand received from Development Bank of Kazakhstan JSC (as at 31 December 2017: KZT 26,991,220 thousand). As at 31 December 2018 and 2017, the Group's borrowings are not collateralized by any property other than the above-mentioned guarantee.

23. 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:

	2018		2017	
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	**9,437,411**	**6,754,019**	5,305,919	3,920,719
After one year but not more than five years	**18,889,078**	**15,975,306**	9,331,352	7,681,118
Less: amounts representing future finance costs	**(5,597,164)**	**–**	(3,035,434)	–
Discounted value of minimum lease payments	**22,729,325**	**22,729,325**	11,601,837	11,601,837
Less: amounts due for settlement within 12 months		**6,754,019**		3,920,719
Amounts due for settlement after 12 months		**15,975,306**		7,681,118

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

24. 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 2018 and 2017 the total employee benefit obligations of the Group comprised the following:

In thousands of tenge	**2018**	2017
Present value of defined benefit pension plan obligation	**15,225,384**	12,474,055
Present value of obligations for other long-term payments	**580,386**	458,129
	15,805,770	12,932,184

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 2018 and 2017:

In thousands of tenge	**2018**	2017
Total liability at the beginning of the year	**12,474,055**	7,831,035
Current service cost	**366,783**	334,343
Interest expenses	**923,080**	747,081
Benefits paid during the year	**(1,285,569)**	(1,736,771)
Actuarial losses recognized during the period within other comprehensive income	**2,747,035**	5,298,367
Total liability at the end of the year	**15,225,384**	12,474,055
Liability payable within one year	**(1,255,222)**	(909,227)
Liability payable after one year	**13,970,162**	11,564,828

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 2018 and 2017:

In thousands of tenge	**2018**	2017
Total liability at the beginning of the year	**458,129**	388,503
Current service cost	**46,548**	34,668
Past service cost	**212,923**	–
Interest expenses	**33,902**	37,063
Benefits paid during the year	**(73,532)**	(79,858)
Actuarial losses recognized during the period within expenses	**(97,584)**	77,753
Total liability at the end of the year	**580,386**	458,129
Liability payable within one year	**(79,195)**	(82,943)
Liability payable after one year	**501,191**	375,186

Actuarial losses recognised in 2018 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 1,485,652 thousand were recorded in cost of sales and general and administrative expenses within personnel costs (2017: KZT 1,230,908 thousand) *(Note 35).*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. EMPLOYEE BENEFIT OBLIGATIONS (continued)

Employee benefit obligations (continued)

Actuarial losses recognized in 2018 within other comprehensive income, net of income tax, were equal to KZT 2,512,956 thousand (2017: KZT 5,037,715 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:

	2018	2017
Discount rate	**8.39%**	7.40%
The expected rate of future annual minimum salary increases	**8.66%**	8.70%

A quantitative sensitivity analysis for significant assumptions as at 31 December 2018, 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	**(886,813)**	**1,175,846**	**1,218,675**	**(1,156,773)**

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)

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.

25. OTHER NON-CURRENT FINANCIAL LIABILITIES

As at 31 December 2018 and 2017 other non-current financial liabilities comprised :

In thousands of tenge	**2018**	2017
Guarantee issued	**915,558**	258,551
Non-current accounts payable	**78,147**	1,880
	993,705	260,431

Guarantee issued

On 25 February 2016, the Company provided a guarantee to associate organization Khan Tengri Holding B.V. 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. 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 2018. The actual balance of the debt on the used loan amount under the credit line in Development Bank of Kazakhstan JSC was KZT 9,271,248 thousand as of 31 December 2018. As at 31 December 2018 guarantee issued represents an estimated reserve for expected credit losses on liabilities of Khan Tengri Holding B.V.

26. OTHER NON-CURRENT LIABILITIES

As at 31 December 2018 and 2017 other non-current liabilities comprised:

In thousands of tenge	**2018**	2017
Decommissioning liabilities	**1,444,530**	145,985
Deferred income from operators	**–**	2,758,768
Deferred connection income on subscribers	**–**	1,444,644
Other	**–**	1,012,450
	1,444,530	5,361,847

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 2018 were as follows:

In thousands of tenge	**2018**	2017
Provision for decommissioning liabilities as at 1 January	**145,985**	141,564
Additional provisions	**12,375**	1,114
Amortization of discount *(Note 36)*	**688**	3,307
Business combination *(Note 5)*	**1,285,482**	–
Provision for decommissioning liabilities as at 31 December	**1,444,530**	145,985

Contract liabilities

As at 31 December 2018 and 2017 current contract liabilities comprised:

In thousands of tenge	**2018**	2017
Contract liabilities from operators	**3,425,567**	–
Contract liabilities for connection of subscribers	**1,163,051**	–
Other contract liabilities	**1,110,683**	–
	5,699,301	–

Movements in liabilities for the years ended 31 December 2018 were as follows:

In thousands of tenge	**2018**	2017
Contract liabilities as at 1 January	**9,456,950**	–
Deferred during the year	**15,801,393**	–
Recognised as revenue during the year	**(7,440,902)**	–
Amortization of discount	**549,585**	–
Total contract liabilities as at 31 December	**18,367,026**	–
Current *(Note 29)*	12,667,725	–
Non-current	5,699,301	–

27. TRADE PAYABLES

As at 31 December 2018 and 2017 trade payables comprised:

In thousands of tenge	**2018**	2017
Trade payables for services rendered	**23,512,079**	8,546,021
Trade payables for supply of property and equipment	**17,445,106**	4,635,227
Trade payables for inventory received	**1,190,220**	325,297
	42,147,405	13,506,545

27. TRADE PAYABLES (continued)

As at 31 December 2018 and 2017 trade payables were interest-free.

As at 31 December 2018 and 2017 trade payables were mainly denominated in the following currencies:

In thousands of tenge	**2018**	2017
Tenge	**30,835,928**	12,146,351
US dollars	**10,879,035**	994,400
Other	**432,442**	365,794
	42,147,405	13,506,545

28. OTHER CURRENT FINANCIAL LIABILITIES

As at 31 December 2018 and 2017 other current financial liabilities comprised:

In thousands of tenge	**2018**	2017
Payables to employees	**11,100,616**	6,239,349
Payable to Khan Tengri Holding B.V.	**4,842,282**	4,842,282
Dividends payable *(Note 21)*	**2,033,495**	1,628,625
Guarantees issued	**43,174**	82,150
Other	**834,387**	563,655
	18,853,954	13,356,061

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 10)*.

As at 31 December 2018 and 2017, other current financial liabilities was not interest bearing and the balances were mainly denominated in tenge.

29. OTHER CURRENT LIABILITIES

As at 31 December 2018 and 2017 other current liabilities comprised:

In thousands of tenge	**2018**	2017
Taxes payable other than income tax	**6,305,705**	2,600,717
Payable to pension funds	**561,920**	718,267
Deferred connection income on subscribers	**–**	586,369
Deferred income from operators	**–**	412,170
Other	**249,025**	504,137
	7,116,650	4,821,660

Contract liabilities

As at 31 December 2018 and 2017 current contract liabilities comprised:

In thousands of tenge	**2018**	2017
Advances received	**10,734,219**	–
Contract liabilities from operators	**902,722**	–
Contract liabilities for connection of subscribers	**471,924**	–
Other contract liabilities	**14,673**	–
Other	**544,187**	–
	12,667,725	–

Advances received represents the prepayment for the services of the Group like telecommunications services, internet services, IP-TV by customers. The customers can be divided to three major groups: individuals, private firms and legal firms under government sector.

30. REVENUE FROM CONTRACTS WITH CUSTOMER

Revenue from contracts with customer for the years ended 31 December comprised:

	For the year ended 31 December 2018			
In thousands of tenge	**Fixed line**	**Mobile connection**	**Other**	**Total**
Data transfer services	**111,745,082**	**1,554,392**	**–**	**113,299,474**
Rendering of fixed line and wireless phone services	**44,991,160**	**1,557,710**	**–**	**46,548,870**
Rent of channels	**18,542,643**	**–**	**–**	**18,542,643**
Interconnect	**14,353,098**	**595,431**	**–**	**14,948,529**
Other	**21,917,114**	**785,609**	**500,551**	**23,203,274**
	211,549,097	**4,493,142**	**500,551**	**216,542,790**
B2C*	**104,849,713**	**3,132,867**	**–**	**107,982,580**
B2B**	**31,853,238**	**764,822**	**500,551**	**33,118,611**
B2O***	**42,539,481**	**595,431**	**–**	**43,134,912**
B2G****	**32,306,665**	**22**	**–**	**32,306,687**
	211,549,097	**4,493,142**	**500,551**	**216,542,790**

	For the year ended 31 December 2017		
In thousands of tenge	Fixed line	Other	Total
Data transfer services	106,291,761	–	106,291,761
Rendering of fixed line and wireless phone services	48,325,566	–	48,325,566
Rent of channels	18,419,971	–	18,419,971
Interconnect	15,876,122	–	15,876,122
Other	14,144,120	–	14,144,120
	203,057,540	–	203,057,540
B2C*	101,339,429	–	101,339,429
B2B**	30,604,494	–	30,604,494
B2O***	41,374,997	–	41,374,997
B2G****	29,738,620	–	29,738,620
	203,057,540	–	203,057,540

* *B2C (Business-to-Consumer) – services rendered to private end consumers (individuals).*

** *B2B (Business to Business) – services rendered to the corporate sector, including large enterprises and SMEs.*

*** *B2O (Business-to-Operator) – services rendered to communication operators.*

**** *B2G (Business-to-Government) – services rendered to the state sector.*

Generally, revenue of the Group is recognized over time given that the customers simultaneously receive and consume the benefits provided by the Group.

31. 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 2018 was equal to KZT 6,183,581 thousand (2017: KZT 7,167,685 thousand).

32. COST OF SALES

Cost of sales for the years ended 31 December comprised:

In thousands of tenge	**2018**	2017
Personnel costs *(Note 35)*	**53,723,725**	51,977,009
Depreciation and amortization	**38,587,880**	42,929,496
Rental of channels	**9,346,137**	7,569,127
Interconnect	**7,685,137**	7,068,297
Repair and maintenance	**7,532,292**	7,981,590
Inventories	**6,213,926**	7,301,851
Content	**5,379,248**	4,995,547
Fees for usage of GSM radiofrequencies of Mobile Telecom Services LLP	**5,263,310**	5,446,007
Fee to provide telecom services	**2,940,937**	2,831,806
Electricity	**2,901,765**	2,763,385
Security and safety	**2,190,836**	2,488,223
Utilities	**1,881,526**	1,709,762
Rental of property and equipment	**1,754,904**	960,294
Fees for radiofrequencies use	**1,269,941**	202,632
Business trip expenses	**780,069**	737,406
Rent of transponders related to satelite communications	**765,528**	698,782
Insurance	**397,980**	524,521
Fees for usage of billing system of Mobile Telecom Services LLP	**219,305**	250,000
Other	**5,181,166**	3,240,981
	154,015,612	151,676,716

33. GENERAL AND ADMINISTRATIVE EXPENSES

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

In thousands of tenge	**2018**	2017
Personnel costs *(Note 35)*	**13,075,235**	12,385,800
Consulting services	**3,138,478**	1,169,063
Taxes other than corporate income tax	**3,104,911**	3,083,629
Social activities	**715,633**	731,491
Business trips	**589,980**	458,529
Depreciation and amortization	**287,951**	221,490
Inventories	**234,471**	247,306
Trainings	**223,382**	126,362
Repair and maintenance expenses	**216,900**	253,984
Rental of equipment	**162,519**	33,319
Insurance	**162,063**	258,001
Security and safety	**94,278**	69,767
Bank fees	**54,262**	101,379
Write-down of inventories to net realizable value *(Note 15)*	**30,673**	13,729
Allowance for doubtful receivables *(Notes 16, 17,18)*	**–**	882,403
Other	**1,220,930**	1,416,098
	23,311,666	21,452,350

* In 2018, in accordance with the requirements of IFRS 9, the Group disclosed impairment losses on financial assets as a separate line in the consolidated statement of comprehensive income (*Note 42*).

34. SELLING EXPENSES

Selling expenses for the years ended 31 December comprised:

In thousands of tenge	**2018**	2017
Marketing and advertising	**2,499,979**	2,109,757
Amortization of cost to obtain a contract	**1,511,909**	1,289,929
Other	**375,633**	402,486
	4,387,521	3,802,172

35. PERSONNEL EXPENSES

Personnel expenses for the years ended 31 December comprised:

In thousands of tenge	**2018**	2017
Payroll	**59,778,384**	57,235,422
Payroll related taxes	**5,534,924**	5,896,479
Employee benefits *(Note 24)*	**1,485,652**	1,230,908
	66,798,960	64,362,809

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

In thousands of tenge	**2018**	2017
Cost of sales *(Note 32)*	**53,723,725**	51,977,009
General and administrative expenses *(Note 33)*	**13,075,235**	12,385,800
	66,798,960	64,362,809

36. (FINANCE COSTS) / FINANCE INCOME

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

In thousands of tenge	**2018**	2017
Finance costs		
Interest expense on loans *(Note 42)*	**(4,016,403)**	(6,535,447)
Interest payable under finance leases *(Note 42)*	**(1,565,491)**	(578,249)
Discounting of long-term loans to employees	**(1,054,793)**	(601,926)
Unwinding of discount on long-term accounts payable	**(549,789)**	(3,665)
Interest on debt component of preferred shares *(Note 21)*	**(96,167)**	(96,167)
Discounting of other non-current financial assets	**(66,310)**	(6,993)
Unwinding of discount (provision for decommissioning liability) *(Note 26)*	**(688)**	(3,307)
	(7,349,641)	(7,825,754)
Finance income		
Interest income on cash balances	**994,635**	799,590
Unwinding of discount on long-term loans to employees	**981,797**	1,019,945
Interest income on deposits	**653,487**	1,403,158
Unwinding of discount on long-term accounts receivable	**337,264**	364,402
Interest income on guarantees issued *(Note 25)*	**82,148**	537,959
Other income	**17,698**	–
	3,067,029	4,125,054

37. NET FOREIGN EXCHANGE GAIN 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 2018 the Group had a balanced foreign exchange position, and therefore, for the year ended 31 December 2018, the Group recognized a net foreign exchange income in the amount of KZT 10,591,474 thousand (in 2017: net foreign exchange loss in the amount of KZT 633,942 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. OTHER INCOME/(EXPENSES)

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

In thousands of tenge	2018	2017
Other income		
Rental income	**3,229,876**	3,247,383
Non-core operations	**421,558**	459,366
Other	**707,290**	720,901
	4,358,724	4,427,650
Other expenses		
Impairment loss of property and equipment and intangible assets *(Notes 8, 9)*	**(1,169,713)**	(1,246,347)
Non-core operations	**(396,991)**	(403,235)
Rental expenses	**(14,292)**	(11,916)
Other	**(381,899)**	(198,273)
	(1,962,895)	(1,859,771)

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

39. INCOME TAX EXPENSES

Income tax expenses for the years ended 31 December comprised:

In thousands of tenge	2018	2017
Current corporate income tax expenses	**11,736,193**	8,646,038
Deferred income tax benefit	**(628,613)**	(427,193)
	11,107,580	8,218,845

The Group and its subsidiaries except for KT-IX 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 2018 and 2017.

A reconciliation of income tax expenses applicable to profit before taxation at the statutory rate of 20% (2017: 20%), with the current corporate income tax expenses for the years ended 31 December is out below:

In thousands of tenge	2018	2017
Profit before taxation	**53,990,896**	32,936,666
Income tax at statutory income tax rate of 20%	**10,798,179**	6,587,333
Inventories write-offs	**22,358**	29,800
Changes in unrecognised deferred tax assets	**7,777**	(44,455)
Share in profit of associates non-assessable for tax purposes	**(1,572,017)**	(219,673)
Employee benefits obligations	**210,031**	834,592
The effect of the application of new standards	**778,198**	–
Non-deductible expenses	**863,054**	1,031,248
Total income tax expenses	**11,107,580**	8,218,845

39. INCOME TAX EXPENSES (continued)

	Consolidated statement of financial position		**Consolidated statement of comprehensive income**		**The effect of the application of new standards**	**Acquisition of a subsidiary**	**As part of other comprehensive loss**	
In thousands of tenge	**31 December 2018**	31 December 2017	**2018**	2017	**2018**	**2018**	**2018**	2017
Deferred tax assets								
Tax losses carry-forward	–	–	–	(17,384)	–	–	–	–
Employee benefit obligations	**1,104,258**	935,383	**(65,204)**	(969,177)	–	–	**234,079**	260,652
Discount on current assets	**917,356**	936,763	**(19,407)**	(100,295)	–	–	–	–
Accrued provisions for unused vacations	**338,438**	257,068	**81,370**	705	–	–	–	–
Allowance for doubtful receivables	**1,956,416**	454,985	**(39,222)**	(52,346)	**204,630**	**1,336,023**	–	–
Interest payable on borrowings	**468,247**	–	–	(272,588)	–	**468,247**	–	–
Intangible assets	**210,672**	165,350	**45,322**	36,741	–	–	–	–
Deferred income	**28,610**	35,224	**(6,614)**	17,364	–	–	–	–
Obligation to pay a fine for termination of the contract *(Note 4)*	**2,910,373**	–	–	–	–	**2,910,373**	–	–
Other	**1,839,330**	934,596	**283,981**	280,310	–	**620,753**	–	–
Less: unrecognised tax assets	–	(92,891)	**92,891**	44,455	–	–	–	–
Less: deferred tax assets less deferred tax liabilities	**(9,526,816)**	(3,521,864)	**(464,926)**	876,177	**(204,630)**	**(5,335,396)**	–	–
Deferred tax assets	**246,884**	104,614	**(91,809)**	(156,038)	–	–	**234,079**	260,652
Deferred tax liabilities								
Property and equipment	**32,314,502**	22,323,250	**(13,458)**	(1,433,387)		**10,004,710**	–	–
Intangible assets	**13,541,800**	239,464	**(239,464)**	(26,021)		**13,541,800**	–	–
Indemnification assets	**2,182,780**	–	–	–	–	**2,182,780**	–	–
Other	**384,860**	–	**(2,574)**	–	**261,096**	**126,338**	–	–
Less: deferred tax assets less deferred tax liabilities	**(9,526,816)**	(3,521,864)	**(464,926)**	876,177	**(204,630)**	**(5,335,396)**	–	–
Deferred tax liabilities	**38,897,126**	19,040,850	**(720,422)**	(583,231)	**56,466**	**20,520,232**	–	–
Deferred income tax (expense)/benefit			**628,613**	427,193		**(20,520,232)**	**234,079**	260,652

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

In thousands of tenge	**2018**	2017
Deferred tax assets	**246,884**	104,614
Deferred tax liabilities	**(38,897,126)**	(19,040,850)
Net deferred tax liabilities	**(38,650,242)**	(18,936,236)

In thousands of tenge	**2018**	2017
Reconciliation of deferred tax liabilities, net		
Balance at 1 January	**(18,936,236)**	(19,624,081)
Income tax benefit for the reporting period – origination and recovery of temporary differences	**628,613**	427,193
Less: deferred tax recognised within other comprehensive loss	**234,079**	260,652
The effect of the application of new standards	**(56,466)**	–
Deferred taxes acquired in business combinations	**(20,520,232)**	–
Balance at 31 December	**(38,650,242)**	(18,936,236)

39. INCOME TAX EXPENSES (continued)

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.

As at 31 December 2018, the Group has not recognised deferred tax assets in relation to the temporary difference in the amount of KZT 13,908,799 thousand (as at 31 December 2017: KZT 20,554,741 thousand) 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.

40. NON-CASH TRANSACTIONS

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

In 2018, the Group paid an amount of KZT 4,635,188 thousand for property and equipment purchased in prior year (2017: KZT 4,545,215 thousand). Property and equipment in the amount of KZT 17,445,106 thousand was purchased in 2018 but not paid as at 31 December 2018 (2017: KZT 4,635,227 thousand).

In 2018 in accordance with the finance lease agreements, the Group received telecommunication equipment amounting to KZT 14,871,625 thousand (2017: KZT 9,019,870 thousand).

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.

At 31 December 2018, the Group recognized a provision for expected credit losses in the amount of KZT 29,208 thousand in respect of receivables from related parties.

Sales and purchases with related parties during the years ended 31 December 2018 and 2017 and the balances with related parties at 31 December 2018 and 2017 were as follows:

In thousands of tenge	**2018**	2017
Sales of goods and services		
Parent	**359,794**	383,768
Parent-controlled entities	**2,519,743**	3,041,650
Associate (Khan Tengri Holding B.V.) [1]	**23,907,818**	22,089,462
Associate (Qaz Cloud LLP)	**913,141**	239
Government institutions	**32,306,666**	30,588,918
Purchases of goods and services		
Parent	**779**	–
Parent-controlled entities	**3,267,303**	3,189,663
Associate (Khan Tengri Holding B.V.) [1]	**11,042,238**	8,350,347
Associate (Qaz Cloud LLP)	**279,525**	–
Government institutions	**9,328**	109,616
Interest accrued on borrowings		
Entities under state control		
(Development Bank of Kazakhstan JSC)	**2,035,544**	6,498,768
Average interest rate on borrowings	**8.00%**	8.15%
Parent	**1,461,458**	–
Average interest rate on borrowings	**11.50%**	–

41. RELATED PARTY TRANSACTIONS (continued)

In thousands of tenge	**2018**	2017
Cash and cash equivalents		
Entities under state control		
(Development Bank of Kazakhstan JSC)	**103**	172
Borrowings		
Entities under state control		
(Development Bank of Kazakhstan JSC)	**25,266,233**	27,319,491
Parent	**101,461,458**	–
Trade and other accounts receivable		
Parent	**130,725**	56,378
Parent-controlled entities	**613,921**	797,881
Associate (Khan Tengri Holding B.V.)	**16,248,774**	14,949,354
Associate (Qaz Cloud LLP)	**105,827**	71
Government institutions	**11,431,512**	7,078,905
Accounts payable		
Parent	**39**	–
Parent-controlled entities	**469,260**	172,879
Associate (Khan Tengri Holding B.V.)	**11,014,949**	9,370,735
Government institutions	**735,815**	477,877
Other non-current assets		
Long-term loans to key management personnel	**35,914**	27,294
Long term deposits with Eximbank JSC	**–**	3,323,300

In 2018 and 2017, 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 for 2018. 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 for 2018.

Sales and purchases with MTS during the years ended 31 December 2018 and 2017 were as follows:

In thousands of tenge	**2018**	2017
Sales		
Data transmission [A]	**13,911,058**	12,998,033
Rent of channels [B]	**5,482,615**	5,696,007
Interconnect [C]	**1,590,226**	1,228,912
Base cell stations maintenance [D]	**659,989**	853,828
Rent of sites for base stations	**624,182**	672,800
Other	**1,639,748**	639,882
	23,907,818	22,089,462
Purchases		
Fee for usage of GSM radiofrequencies [E]	**5,263,310**	5,446,007
Mobile traffic at wholesale tariffs [F]	**3,621,460**	1,701,897
Interconnect [G]	**845,920**	614,191
Fee for usage of billing system [H]	**219,305**	250,000
Other	**1,092,243**	338,252
	11,042,238	8,350,347

41. RELATED PARTY TRANSACTIONS (continued)

[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.

[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. For the year ended 31 December 2018 revenue from rent of channels amounted to KZT 5,482,615 thousands (for the year ended 31 December 2017 KZT 5,696,007 thousand).

[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. For the year ended 31 December 2018 fee for usage of GSM radiofrequencies amounted to KZT 5,263,310 thousands (for the year ended 31 December 2017 KZT 5,446,007 thousand).

[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. For the year ended 31 December 2018 fee for usage of billing system amounted to KZT 219,305 thousands (for the year ended 31 December 2017: KZT 250,000 thousand).

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 2018 and 2017, the total compensation to key management personnel included in the accompanying consolidated statement of comprehensive income under general and administrative expenses was KZT 637,785 thousand and KZT 681,493 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 31*, 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 22*, as at 31 December 2018, the Group had a loan in the amount of KZT 24,961,627 thousand, under which the Parent acted as guarantor (as at 31 December 2017: KZT 26,991,220 thousand).

42. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES

Impairment losses on financial assets

Impairment losses on financial assets for the year ended 31 December 2018, comprise accruing reserve for other non-current financial assets in amount of KZT 135 thousand *(Note 13)*, trade receivables in amount of KZT 622,360 thousand *(Note 16)*, other current financial assets in amount of KZT 2,966,001 thousand *(Note 18)*, cash and cash equivalents in amount of KZT 486,525 thousand *(Note 20)*.

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 2018, the Group had no loans or borrowings with floating interest rates and was not subjected to the risk of changes in market interest rates.

Foreign currency risk

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

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

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

	2018		2017	
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	**14%**	**3,141,003**	10%	7,005,596
	-10%	**(2,243,573)**	-10%	(7,005,596)

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 is exposed to credit risk associated with its operating activities (primarily with respect to trade receivables) and financial activities, including bank deposits and financial organizations, foreign exchange transactions and other financial instruments.

Trade receivables and contract assets

Financial instruments in which the Group's credit risk is concentrated are primarily trade and other receivables. The credit risk associated with these assets is limited due to the large number of the Group's customers and the continuous monitoring procedures for customers and other debtors.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in *Notes 16 and 18.*

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

Credit risk (continued)

Financial instruments and cash deposits

In accordance with the financial policy, the Group places free cash in several of the largest Kazakhstani banks (with the highest credit ratings). To manage the credit risk associated with the placement of free cash in banks, the Group's management periodically conducts procedures for assessing the solvency of banks. To facilitate such an assessment, deposits are primarily placed in banks, where the Group already has comparable credit obligations, a current checking account and can easily monitor the activities of such banks.

In thousands of tenge	**Rating 2018**	Rating 2017	**Cash balance 2018**	Cash balance 2017	**Balance on deposit accounts 2018**	Balance on deposit accounts 2017
Kazkommertsbank JSC	**–**	B+/negative/B	**–**	5,868,048	**–**	–
Bank CenterCredit JSC	**B/stable/B, kzBBB-**	B/stable/B	**4,621**	4,098,977	**76,329**	–
Tsesnabank JSC	**B-/negative/B, kzBB-**	B+/negative/B, kzBBB-	**2,846**	2,458,522	**–**	4,984,950
ATF Bank JSC	**B/negative/B, kzBB+**	B/negative/B	**5,761,522**	2,275,670	**98,648**	1,000,000
Halyk Bank Kazakhstan JSC	**BB/stable/B, kzA+**	BB/negative/B, kzA	**34,424,030**	456,903	**–**	42,538,240
Eximbank Kazakhstan JSC	**CCC+/C/negative**	CCC+/C/negative	**–**	454,889	**–**	–
Forte Bank JSC	**B/positive/B kzBBB-**	B/positive/B	**170,705**	187,349	**–**	–
SB Sberbank JSC	**Ba2**	Ba2	**123,935**	82,922	**–**	–
Altyn Bank JSC (SB Halyk Bank Kazakhstan JSC)	**Ba2/stable/NP**	Ba2/stable/NP	**3,293,559**	80,231	**–**	6,646,600
Committee of the Treasury of the Ministry of the RK	**–**	–	**128**	16,728	**–**	–
Kaspi Bank JSC	**BB-/stable/B, kzA**	BB-/negative/B, kzBBB+	**700,494**	977	**–**	3,323,300
Development Bank of Kazakhstan JSC	**BB+/stable/B, kzAA+**	BB+/ stable	**103**	172	**–**	–
Sberbank JSC	**BB +/positive**	BB +/positive	**45,695**	52	**–**	–
Citibank Kazakhstan JSC	**A+/stable**	A+/stable	**764,800**	36	**–**	–
Eurasian Bank JSC	**B/negative/B, kzBB+**	B/negative/B, kzBB+	**36,930**	–	**–**	–
Alfa Bank JSC	**BB-/stable/B, kzA**	BB-/stable	**103**	–	**–**	–
Total			**45,329,471**	15,981,476	**174,977**	58,493,090

In thousands of tenge	**Rating 2018**	Rating 2017	**Balance on long term deposit accounts 2018**	Balance on long term deposit accounts 2017
Eximbank Kazakhstan JSC	**CCC+/C/negative**	CCC+/C/negative	**–**	3,323,300

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 30% of the Group's debt will mature in less than one year at 31 December 2018 (31 December 2017: 16%) based on the carrying amount of borrowings reflected in the consolidated financial statements.

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

Liquidity risk (continued)

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

In thousands of tenge	On demand	1 to 3 months	3 months to 1 year	From 1 to 5 years	More than 5 years	Total
At 31 December 2018						
Borrowings	**768,936**	**9,264,447**	**63,780,975**	**83,391,057**	**118,387,210**	**275,592,625**
Finance lease liabilities	**179,634**	**2,319,854**	**6,937,923**	**18,889,078**	**–**	**28,326,489**
Trade payables	**32,134,910**	**4,170,384**	**5,842,111**	**–**	**–**	**42,147,405**
Financial guarantees issued*	**–**	**1,130,379**	**1,098,286**	**7,630,950**	**2,322,269**	**12,181,884**
Other financial liabilities	**–**	**18,810,780**	**–**	**78,147**	**–**	**18,888,927**
	33,083,480	**35,695,844**	**77,659,295**	**109,989,232**	**120,709,479**	**377,137,330**
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 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

* *Based on the maximum amount that can be called for under the financial guarantees contracts (Notes 25, 28).*

Cash flow risk

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

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

Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to the holders of common shares, return equity to shareholders or issue new shares. No changes were made by the Group in the capital management objectives, policies or processes in 2018 and 2017.

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.

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

Capital management (continued)

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

In thousands of tenge	**31 December 2018**	31 December 2017
Interest-bearing loans and borrowings	**193,452,540**	27,325,554
Trade payables	**42,147,405**	13,506,545
Finance lease liabilities	**22,729,325**	11,601,837
Other non-current financial liabilities	**993,705**	260,431
Other current financial liabilities	**18,853,954**	13,356,061
Net debt	**278,176,929**	66,050,428
Equity	**414,840,935**	359,107,937
Debt-equity ratio	**0.67**	0.18

Fair value

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

The table below presents fair value hierarchy of assets and liabilities of the Group. Disclosure of quantitative information of fair value hierarchy of financial instruments as at 31 December 2018 was as follows:

		Fair value measurement using			
In thousands of tenge	**Date of valuation**	**Price quotations on active markets (Level 1)**	**Significant observable in-puts (Level 2)**	**Significant unobservable in-puts (Level 3)**	**Total**
Assets for which fair values are disclosed					
Other non-current financial assets	31 December 2018	**–**	**–**	**7,040,366**	**7,040,366**
Other current financial assets	31 December 2018	**–**	**–**	**4,685,111**	**4,685,111**
Indemnification assets	31 December 2018	**–**	**–**	**10,913,899**	**10,913,899**
Trade receivables	31 December 2018	**–**	**–**	**52,173,348**	**52,173,348**
Liabilities for which fair values are disclosed					
Borrowings	31 December 2018	**–**	**–**	**194,104,469**	**194,104,469**
Finance lease liabilities	31 December 2018	**–**	**–**	**22,729,325**	**22,729,325**
Other non-current financial liabilities	31 December 2018	**–**	**–**	**144,085**	**144,085**
Other current financial liabilities	31 December 2018	**–**	**–**	**18,878,261**	**18,878,261**
Obligation to pay a fine for termination of the contract	31 December 2018	**–**	**–**	**14,551,865**	**14,551,865**
Trade payables	31 December 2018	**–**	**–**	**42,147,405**	**42,147,405**

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:

		Fair value measurement using			
In thousands of tenge	**Date of valuation**	**Price quotations on active markets (Level 1)**	**Significant observable in-puts (Level 2)**	**Significant unobservable in-puts (Level 3)**	**Date of valuation**
Assets for which fair values are disclosed					
Other non-current financial assets	31 December 2017	–	–	6,835,991	6,835,991
Other current 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	–	–	172,590	172,590
Other current financial liabilities	31 December 2017	–	–	13,341,392	13,341,392
Trade payables	31 December 2017	–	–	13,506,545	13,506,545

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

Fair value (continued)

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 2018**	**Fair value 2018**	**Unrecog-nised gain/ (loss) 2018**	Carrying amount 2017	Fair value 2017	Unrecog-nised gain/ (loss) 2017
Financial assets						
Cash and cash equivalents	**45,350,092**	**45,350,092**	**–**	15,985,943	15,985,943	–
Other non-current financial assets	**9,649,734**	**7,040,366**	**(2,609,368)**	9,457,306	6,835,991	(2,621,315)
Other current financial assets	**4,685,111**	**4,685,111**	**–**	62,133,687	62,133,687	–
Indemnification assets	**10,913,899**	**10,913,899**	–	–	–	–
Trade receivables	**52,173,348**	**52,173,348**	**–**	32,094,228	32,094,228	–
Financial liabilities						
Borrowings	**193,452,540**	**194,104,469**	**(651,929)**	27,325,554	21,995,442	5,330,112
Finance lease liabilities	**22,729,325**	**22,729,325**	**–**	11,601,837	11,601,837	–
Other non-current financial liabilities	**993,705**	**144,085**	**849,620**	260,431	172,590	87,841
Other current financial liabilities	**18,853,954**	**18,878,261**	**(24,307)**	13,356,061	13,341,392	14,669
Obligation to pay a fine for termination of the contract	**14,551,865**	**14,551,865**	**–**	–	–	–
Trade payables	**42,147,405**	**42,147,405**	**–**	13,506,545	13,506,545	–
Total unrecognised change in unrealised fair value			**(2,435,984)**			2,811,307

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.

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

Changes in liabilities arising from financial activities

Changes in liabilities arising from financial activities for 2018 were as follows:

In thousand tenge	1 January 2018	New lease agreements	Business combination	Reclassified to current	Repayment of principal in cash	Interest paid	Interest expense	31 December 2018
Borrowings: non-current portion	24,967,690	**100,000,000**	**14,935,969**	**(4,065,248)**	**–**	**–**	**–**	**135,838,411**
Borrowings: current portion	2,357,864	**–**	**51,380,150**	**4,065,248**	**(2,029,593)**	**(2,175,943)**	**4,016,403**	**57,614,129**
Non-current portion of finance lease liabilities	7,681,118	**14,871,661**	**–**	**(6,577,473)**	**–**	**–**	**–**	**15,975,306**
Current portion of finance lease liabilities	3,920,719	**–**	**–**	**6,577,473**	**(3,697,239)**	**(1,612,425)**	**1,565,491**	**6,754,019**
Total	38,927,391	**114,871,661**	**66,316,119**	**–**	**(5,726,832)**	**(3,788,368)**	**5,581,894**	**216,181,865**

Changes in liabilities due to financial activities for 2017 were as follows:

In thousand tenge	1 January 2017	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	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
Non-current portion of finance lease liabilities	1,273,015	10,102,254	(3,694,151)	–	–	–	–	7,681,118
Current portion of finance lease liabilities	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

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 2018, the Group had contractual obligations in the total amount of KZT 6,238,697 thousand (31 December 2017: KZT 3,582,193 thousand) mainly related to purchase of telecommunication equipment and construction of telecommunication network.

43. COMMITMENTS AND CONTINGENCIES (continued)

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.

The future minimum lease payments payable on non-explosive operating lease agreements are as follows:

In thousand tenge	**2018**	2017
Within one year	**7,874,102**	776,505
After one year but not more than five years	**54,116**	–
	7,928,218	776,505

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 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 options and as at 31 December 2018 the fair value of the options is nil (2017: nil).

In connection with the closure of the transaction on the acquisition of Kazakhtelecom JSC 75% of shares in Kcell JSC Tele2 A.B. made a decision on excercise the put option, according to which Tele2 A.B. has the right to demand from Kazakhtelecom JSC to acquire at a market value all shares of Khan Tengri Holding B.V., owned by Tele2 A.B. Early execution of the put option became possible due to the violation of the non-competition clause of the Shareholders Agreement dated 29 February 2016, according to which Kazakhtelecom JSC pledged not to have a controlling portion in mobile operators. On 28 December 2018 the Group received from Tele2 A.B. notice of the option exercise. In this regard, the shareholders - Kazakhtelecom JSC and Tele2 are in the process of exercising the option, including an assessment of the fair market value of the shares of Khan Tengri Holding B.V. owned by Tele2 A.B. After the shareholders reach an agreement on the fair market value of the shares, Kazakhtelecom JSC will acquire the shares of Khan Tengri Holding B.V., owned by Tele2 A.B. According to the terms of the Shareholders Agreement dated 29 February 2016, Tele2 A.B. has the opportunity to withdraw notice of the option exercise within 10 days after agreeing on the fair value of the shares of Khan Tengri Holding B.V. Accordingly, the option is not material and the Group has no control over Khan Tengri Holding as of 31 December 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

43. COMMITMENTS AND CONTINGENCIES (continued)

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% - 80% 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 2018. Management believes that as at 31 December 2018 its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained.

44. SUBSEQUENT EVENTS

The Group fully repaid its loan obligations to Alfa-bank JSC in the amount of KZT 10,093,600 thousand and opened a credit line in the SB bank VTB bank (Kazakhstan) JSC in the amount of KZT 5,000,000 thousand for a period of one year and an annual interest rate of 10.9% on February 2019.

On 28 February 2019, the Group placed bonds on the Kazakhstan stock exchange in the amount of KZT 16,804,000 thousand, with a yield of 11.5% and a maturity date of 16 January 2021.

Based on the decision of the board of directors of Kazakhtelecom JSC "On the voluntary liquidation of a subsidiary of Nursat JSC" (dated 31 March 2017), the final liquidation balance sheet of Nursat JSC as of 31 December 2018 was approved on 6 February 2019. The certificate of the National Bank on cancellation of the issue of announced shares of Nursat JSC was received on 22 February 2019.