



KCELL JSC

**Consolidated Financial Statements
for the year ended 31 December 2017
and Independent Auditor's Report**

KCELL JSC

CONTENTS

	Page
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017	1
INDEPENDENT AUDITOR'S REPORT	2-8
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Statement of Financial Position	9
Consolidated statement of comprehensive income	10
Consolidated statement of changes in equity	11
Consolidated statement of cash flows	12
Notes to the consolidated financial statements	13-45

KCELL JSC

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Kcell JSC ("the Company") and its subsidiaries (together referred to as "the Group") as at 31 December 2017, the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

In preparing the consolidated financial statements, management is responsible for:

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

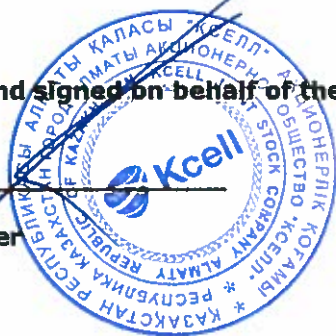
Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2017 were approved by management on 15 February 2018.

Approved for issue and signed on behalf of the Management

Arti Ots
Chief Executive Officer



Andis Locmelis
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Kcell JSC

Opinion

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

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

Basis for Opinion

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

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.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit and the outcome of the procedures
<p>Provisions and contingent liabilities</p> <p>In July 2017, the Kazakhstan tax authority completed its comprehensive tax audit for the period 2012 to 2015. Upon finalisation of the tax audit, the total claim by the tax authority amounted to 9 billion Tenge.</p> <p>Currently, the Group is in the process of disputing the claim. Refer to Note 19 – Contingencies, Commitments and Operating Risks. As a result of this dispute and the ongoing discussions and negotiations, there is a high level of judgement required in estimating the level of provisioning required as of 31 December 2017.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> - enquiring of management and independently analysing the Group’s correspondence with tax authorities; - analysing the opinions of external tax consultants obtained by management in respect of the tax audit and claims made; - enquiring of the Group legal team about the actions planned upon receipt of the tax audit conclusion; - assessing and challenging management’s conclusions through understanding precedents set in similar cases with the assistance of our internal experts in order to come up with an independent estimate of the level of provisioning required. <p>We also validated the completeness and appropriateness of the related disclosures in Note 19 of the consolidated financial statements.</p> <p>Based on the evidence obtained, whilst noting the inherent uncertainty with such in process legal, regulatory and tax matters, we concluded that the level of provisioning as at 31 December 2017 is appropriate.</p>

Impairment of assets (Assets under construction and Plant and machinery)

In prior years, based on management estimates of usage, the Group has written off a significant amount of Plant and machinery and Assets under construction. Given the pace of technological advancements in the sector, we consider asset impairment to continue to be a significant area of judgement for 2017.

We tested the operating effectiveness of controls over the impairment assessment process.

Our procedures included reviewing plant and machinery for the existence of impairment indicators, as well as auditing the impairment model used for purposes of the value in use calculation, including reviewing the future cash flow projections and assessing the methodology used in the determination of related input assumptions, such as the growth rate and discount rate applied in the model; no significant issues were noted.

In addition, we have reviewed the ageing of the Assets under construction balance for indicators of impairment and the timeliness of the transfer from assets under construction.

Based on our procedures, we noted no significant issues and consider management's key assumptions applied in the impairment test to be within a reasonable range.

Capital expenditure (Assets under construction)

As discussed in Note 9 to the consolidated financial statements, there is a material amount of assets in the course of construction and advances given pertaining to such assets, which are transferred to other groups of property, plant and equipment as such assets start being used.

There is a number of areas where management judgements impact the carrying value of Assets under construction. These include:

- identifying whether costs qualify for recognitions as an asset; and
- the timeliness of the transfer from assets in the course of construction to the appropriate classes of property.

We tested the operating effectiveness of controls in place over the fixed asset cycle, evaluated the appropriateness of the Group's capitalisation policies, performed tests of details on costs capitalised, and assessed the nature of costs incurred in capital expenditure through testing the amounts recorded and assessing whether the expenditure met the capitalisation criteria.

In performing these procedures, we challenged the judgements made by management including the nature of underlying costs capitalised as part of the cost of the network roll-out through reviewing third party supporting documentation in relation to the costs incurred.

Further, we substantively tested the transfer of assets in the course of construction to the appropriate property class through reviewing, on a sample basis, supporting documentation detailing the type of asset being constructed and the related asset class in which it had been transferred to on completion, along with the timeliness of the transfer. No significant issues were noted from our testing.

<p>Revenue recognition</p> <p>There is an inherent risk around the accuracy and cut-off of revenue recorded given the complexity of systems and the impact of multiple-element arrangements to revenue recognition (tariff structures, the appropriateness of the allocation of the total transaction value between multiple elements in a bundled transaction, etc.).</p> <p>The application of revenue recognition accounting standards is complex and involves a number of key judgements and estimates.</p>	<p>We involved our IT specialists to test the operating effectiveness of controls over the customer billing systems. Our tests assessed the controls in place to ensure all services supplied to customers are input into and processed through the billing systems, allowing us to rely on the controls in place within the billing system.</p> <p>We applied a combination of substantive analytical procedures and tests of detail to obtain assurance over the validity and completeness of the reported output of these systems.</p> <p>We tested the basis of allocation of total transaction value between multiple elements in bundled transactions.</p> <p>We also considered the application of the Group's accounting policies to amounts billed and the accounting implications of allocation of the total transaction value between multiple elements in a bundled transaction to ensure that the Group accounting policies were determined appropriately and applied consistently.</p> <p>Based on our work, we noted no significant issues related to the accuracy and cut-off of revenue recorded in the year.</p>
--	--

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

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

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

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance 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 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.

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

We also provide those charged with governance 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 those charged with governance, 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.

MSH

Mark Smith
Engagement Partner
Chartered Accountant
Institute of Chartered Accountant of Scotland
License № M21857
Glasgow, Scotland



Ivan Mudrichenko
Auditor-performer
Qualification certificate
No. MF-0000415
dated 13 January 2017

Deloitte, LLP

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



Jurlan Bekenov
General Director
Deloitte, LLP

15 February 2018

Almaty, the Republic of Kazakhstan

KCELL JSC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousand of Kazakhstani Tenge)

	Note	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	9	93,680,082	95,321,606
Intangible assets	10	43,060,675	42,842,480
Long-term trade receivables	11	1,437,480	1,162,961
Restricted cash		38,733	86,419
Total non-current assets		138,216,970	139,413,466
Current assets			
Inventories		3,424,664	3,587,082
Trade and other receivables	11	19,672,722	18,238,920
Prepaid current income tax		5,064,001	10,575,846
Due from related parties	8	810,492	738,983
Cash and cash equivalents		12,659,844	8,476,653
Total current assets		41,631,723	41,617,484
TOTAL ASSETS		179,848,693	181,030,950
EQUITY			
Share capital	12	33,800,000	33,800,000
Retained earnings		40,636,532	38,880,286
TOTAL EQUITY		74,436,532	72,680,286
LIABILITIES			
Non-current liabilities			
Deferred income tax liability	18	4,817,503	6,012,214
Other non-current liabilities		1,354,594	1,285,482
Borrowings	14	12,000,000	8,000,000
Total non-current liabilities		18,172,097	15,297,696
Current liabilities			
Borrowings	14	58,417,722	57,414,639
Trade and other payables	13	21,228,218	26,952,614
Due to related parties	8	1,177,333	1,525,559
Deferred revenue		6,007,580	6,759,535
Taxes payable		409,211	400,621
Total current liabilities		87,240,064	93,052,968
TOTAL LIABILITIES		105,412,161	108,350,664
TOTAL EQUITY AND LIABILITIES		179,848,693	181,030,950

Approved for issue and signed on behalf of the Management on 15 February 2018

Arti Ots
Chief Executive Officer

Andis Locmells
Chief Financial Officer

The accompanying notes on pages 13 to 45 are an integral part of these consolidated financial statements

KCELL JSC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in thousand of Kazakhstani Tenge, unless otherwise stated)

	Note	2017	2016
Revenues	15	147,228,988	147,037,004
Cost of sales	16	(90,107,393)	(91,865,727)
Gross profit		57,121,595	55,171,277
Selling and marketing expenses	16	(10,505,832)	(10,988,346)
General and administrative expenses	16	(15,523,936)	(14,149,534)
Other operating income		1,027,660	2,871,658
Other operating expenses	16	(618,051)	(1,863,772)
Operating profit		31,501,436	31,041,283
Finance income	17	957,314	2,650,545
Finance costs	17	(10,376,680)	(10,935,593)
Profit before income tax		22,082,070	22,756,235
Income tax expense	18	(8,647,824)	(6,072,619)
Profit and total comprehensive income for the year		13,434,246	16,683,616
Earnings per share (Kazakhstani Tenge), basic and diluted	12	67.17	83.42

Profit and total comprehensive income for both periods are fully attributable to the Group's shareholders.

Approved for issue and signed on behalf of the Management on 15 February 2018

Arti Ots
Chief Executive Officer



Andis Lomelis
Chief Financial Officer

The accompanying notes on pages 13 to 45 are an integral part of these consolidated financial statements

KCELL JSC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousand of Kazakhstani Tenge)

	<u>Share capital</u>	<u>Retained earnings</u>	<u>Total equity</u>
Balance at 1 January 2016	33,800,000	46,646,103	80,446,103
Profit and total comprehensive income for the year	-	16,683,616	16,683,616
Business combination under common control (Note 3)	-	(1,133,433)	(1,133,433)
Dividends declared (Note 12)	-	(23,316,000)	(23,316,000)
Balance at 31 December 2016	33,800,000	38,880,286	72,680,286
Profit and total comprehensive income for the year	-	13,434,246	13,434,246
Dividends declared (Note 12)	-	(11,678,000)	(11,678,000)
Balance at 31 December 2017	33,800,000	40,636,532	74,436,532

Approved for issue and signed on behalf of the Management on 15 February 2018

Arti Ots
Chief Executive Officer

Andis Locmelis
Chief Financial Officer

The accompanying notes on pages 13 to 45 are an integral part of these consolidated financial statements



KCELL JSC

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousand of Kazakhstani Tenge)

	Note	2017	2016
Cash flows from operating activities			
Profit for the year		13,434,246	16,683,616
Adjustments for:			
Depreciation of property, plant and equipment	9	17,384,246	17,192,050
Amortisation of intangible assets	10	5,762,324	7,036,978
Income tax		4,317,134	(4,474,443)
Net foreign exchange loss/(gain)		108,305	(1,206,903)
Interest income		(722,764)	(1,316,560)
Interest expense		10,104,293	10,283,135
Impairment of trade receivables		966,405	1,090,968
Impairment and loss on disposal of property, plant and equipment	9	-	9,666
Operating cash flows before working capital changes		51,354,189	45,298,507
Change in working capital and other balances:			
Trade and other receivables		(4,303,005)	(4,679,352)
Long-term trade receivables		(274,519)	(765,850)
Due from related parties		(71,509)	41,071
Inventories		162,418	(528,205)
Taxes payable		8,590	(533,544)
Trade and other payables		(2,593,947)	2,030,961
Due to related parties		(348,226)	310,021
Deferred revenue		(751,955)	(1,637,693)
Other		47,686	59,413
Cash generated from operations		43,229,722	39,595,329
Interest paid		(10,469,528)	(10,364,306)
Interest received		722,764	1,316,475
Net cash generated from operating activities		33,482,958	30,547,498
Cash flows from investing activities			
Purchase of property, plant and equipment		(18,951,198)	(15,091,050)
Purchase of intangible assets		(3,632,732)	(28,857,944)
Cash inflow as a result of acquisition of a subsidiary		-	108,615
Net cash used in investing activities		(22,583,930)	(43,840,379)
Cash flows from financing activities			
Proceeds from bank borrowings	14	48,000,000	33,000,000
Repayment of borrowings	14	(43,000,000)	(18,000,000)
Dividends paid	12	(11,678,000)	(23,316,000)
Purchase of investments in subsidiaries	3	-	(2,185,000)
Net cash used in financing activities		(6,678,000)	(10,501,000)
Net increase/(decrease) in cash and cash equivalents		4,221,028	(23,793,881)
Effects of exchange rate changes on the balance of cash held in foreign currencies		(37,837)	681,527
Cash and cash equivalents at the beginning of the year		8,476,653	31,589,007
Cash and cash equivalents at the end of the year		12,659,844	8,476,653

Approved for issue and signed on behalf of the Management on 15 February 2018

Arti Ots
Chief Executive Officer

Andis Locmelis
Chief Financial Officer

The accompanying notes on pages 13 to 45 are an integral part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*(in thousand of Kazakhstani Tenge, unless otherwise stated)***1. THE GROUP AND ITS OPERATIONS**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board for the year ended 31 December 2017 for Kcell JSC ("the Company") and its subsidiaries (together referred to as "the Group").

The Company was established as a limited liability partnership (GSM Kazakhstan OAO Kazakhtelecom LLP) on 1 June 1998 to design, construct and operate a cellular telecommunications network in the Republic of Kazakhstan, using the GSM (Global System for Mobile Communications) standard.

The Company began its commercial operations in 1999 through direct sales and a network of distributors. Prior to 2 February 2012, the Company was owned 51 percent by Fintur Holdings B.V. ("Fintur" or "Parent company") and 49 percent by Kazakhtelecom JSC ("Kazakhtelecom"). Fintur itself is owned jointly by Sonera Holding B.V. ("Sonera") and Turkcell Iletisim Hizmetleri A.S., with holdings of 58.55 percent and 41.45 percent, respectively.

On 2 February 2012, the 49 percent stake in the Company owned by Kazakhtelecom was sold directly to Sonera, a subsidiary of Telia Company.

On 1 July 2012, the General Meeting of the participants of GSM Kazakhstan approved a conversion of the Company from Limited Liability Partnership to Joint Stock Company ("the Conversion"), with 200,000,000 common shares to be transferred to Fintur and Sonera in proportion to their ownership percentage. The General Meeting also approved the Company's change of name to Kcell JSC.

On 27 August 2012, the Ministry of Justice registered the Company as a Joint Stock Company. Under Kazakhstani law, upon the Conversion, retained earnings as of the date of the Conversion became share capital of the Company and ceased to be available for distribution to shareholders.

On 13 December 2012, the Company successfully completed its offering of Global Depositary Receipts on the London Stock Exchange and common shares on the Kazakhstan Stock Exchange. The offering consisted of a sale by Sonera of 50 million shares, which represented 25 percent of the Company's share capital (Note 12).

On 4 May 2016, the 24 percent stake in the Company owned by Sonera was sold directly to TeliaSonera Kazakhstan Holding B.V. ("TeliaSonera Kazakhstan"), a subsidiary of Telia Company. The Company's ultimate parent and controlling party is Telia Company.

The Company owns the following subsidiaries:

	Ownership interest		Voting power	
	2017	2016	2017	2016
KazNet Media LLP (Note 3)	100%	100%	100%	100%
KT-Telecom LLP	100%	100%	100%	100%
AR-Telecom LLP	100%	100%	100%	100%

Operations

On 25 December 2010, the competent authority signed an addendum to the existing GSM license, which provided the Company with a right to operate a 3G network. In December 2010, the Company launched 3G services in Astana and Almaty. As of 1 January 2015, the Group provided all locations with a population of over 10,000 people with mobile services using UMTS/WCDMA based on the terms of the addendum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

In January 2016, the Group paid 14 billion Tenge as the first tranche for LTE radio frequencies. In accordance with the decision made by Kazakhstan's Ministry of Investments and Development ("the MID") in January 2016, the Group had to pay a one-time fee of 4 billion Tenge by 1 February 2016 for 10/10 MHz radio frequency within the 1700/1800 MHz band, and the first tranche of 10 billion Tenge by 1 March 2016 to gain access to 10/10 MHz radio frequency within the 700/800 MHz band. The second tranche for 10/10 MHz radio frequencies within the 700/800 MHz band in the amount of 12 billion Tenge is to be paid by 1 December 2016. The Group paid the second tranche on 30 November 2016. On 1 March 2016, the Group launched LTE in its network on the previously granted frequencies.

The Company's registered address is 100, Samal-2, Almaty, the Republic of Kazakhstan.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES**Basis of preparation**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB") on the historical cost basis.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the financial statements is determined on such a basis, except for leasing transactions that are within the scope of International Accounting Standard ("IAS") 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into levels based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement:

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

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These consolidated financial statements have been prepared in accordance with IFRSs and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued and effective.

The preparation of consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4. Actual results could differ from those estimates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

Foreign currency translation

(i) Functional and presentation currency

All amounts in these consolidated financial statements are presented in thousands of Kazakhstani Tenge ("Tenge"), unless otherwise stated. The functional currency of the Group entities is also Tenge, the currency of the primary economic environment in which they operate.

(ii) Transactions and balances

Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction established by the National Bank of the Republic of Kazakhstan. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the profit or loss for the year.

As at 31 December 2017, the principal rate of exchange used for translating foreign currency balances was US Dollar ("USD") 1 = Tenge 332.33 (31 December 2016: USD 1 = Tenge 333.29). Exchange restrictions and currency controls exist relating to converting Tenge into other currencies. At present, the Tenge is not a freely convertible currency in most countries outside of the Republic of Kazakhstan.

Consolidated financial statements

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses 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 listed above.

Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Property, plant and equipment

(i) Recognition and subsequent measurement

Property, plant and equipment are stated at cost, less accumulated depreciation and provision for impairment. Cost comprises construction cost or purchase price, including import duties and non-refundable taxes, and any directly attributable costs of bringing the asset to working condition for its intended use. Any trade discounts and rebates are deducted in arriving at the construction cost or purchase price.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired. Construction in progress is carried at cost. Upon completion, assets are transferred to plant and machinery at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

Advances for property, plant and equipment are presented within property, plant and equipment financial statement line.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)*(in thousand of Kazakhstani Tenge, unless otherwise stated)**(ii) Depreciation*

Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Property	10 to 50
Plant and machinery	3 to 10
Equipment tools and installations	2 to 8

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset, less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in the profit or loss for the year when the asset is retired.

(iii) Impairment

At each reporting date, management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount of the asset to determine the extent, if any, of the impairment loss. The recoverable amount is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Intangible assets

The Group's operating licenses (GSM-900, GSM-1800 and 3G), as disclosed in Notes 1 and 10, are recorded at cost and are amortised on a straight-line basis over the estimated economic useful life of the license/right. The economic useful life of the original GSM license and 3G license is estimated by management at 15 years based on their terms. The useful life of the initial license term is in line with management's assessment of the development of communication technology. The economic useful life of the right for the radiofrequencies (GSM-1800) was estimated by management to expire in line with the GSM-900 license. On 1 March 2016, the Group launched LTE in its network on the previously granted frequencies. The economic useful life of the 4G license is also estimated by management at 15 years based on its terms. The useful life of the initial license term is in line with management's assessment of the development of communication technology. The economic useful life of the right for the radiofrequencies (GSM-1700/1800) was estimated by management to expire in line with the GSM-700/800 license.

Other intangible assets are amortised over their estimated useful lives as follows:

	Useful lives in years
Computer software and software license rights	3 to 8
Other telecom licenses	10
Other	8 to 10

If impaired, the carrying amount of intangible assets is written down to the higher of value in use or fair value less costs to sell.

Advances for intangible assets are presented within intangible assets financial statement line.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Inventories

Inventories primarily include handsets and other goods for resale. Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

An allowance for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. When a trade receivable is deemed to be uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited to the profit or loss for the year. The primary factors that the Group considers whether a receivable is impaired is its overdue status and collection history.

Prepaid taxes, deferred expenses and advances to suppliers are stated at actual amounts paid less allowance for impairment.

Prepayments

Prepayments are carried at cost less any allowance for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held at call with banks with original maturities of three months or less and are subject to insignificant risk of change in value. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date are included in restricted cash.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are expensed to the consolidated statement of comprehensive income. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

Dividends

Dividends are recorded as a liability and deducted from equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the consolidated financial statements are authorised for issue are disclosed in the subsequent events note.

Value added tax

Value added tax ("VAT") related to sales is payable to the government when goods are shipped or services are rendered. Input VAT is reclaimable against output VAT upon receipt of a tax invoice from a supplier. The tax legislation permits the settlement of VAT on a net basis. Accordingly, VAT related to sales and purchases unsettled at the reporting date is stated in the statements of financial position on a net basis.

Trade and other payables

Trade and other payables are accrued when the counterparty performed its obligations under the contract. The Group recognises trade payables initially at fair value. Subsequently, trade payables are carried at amortised cost using the effective interest method.

Provisions for liabilities and charges

Provisions for liabilities and charges are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. In such circumstances, a provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Revenue recognition

Revenue is recorded on an accruals basis measured at the fair value of the consideration received or receivable, being the sales value, net of discounts granted and VAT.

Revenue is categorised as follows: voice services, data services, value added services, and sale of handsets.

Voice service includes call out revenue, interconnect fees, roaming revenues charged to the Group's subscribers for roaming in other wireless operators' network, and roaming revenues charged to other wireless operators for non-Group subscribers using the Group's network.

Data services include revenues from GPRS, WAP services and other data services.

Value added services consists of SMS, MMS, info services and providing content of third parties, fax and voice mail services.

The Group may bundle services and products into one customer offering. Offerings may involve the delivery or performance of multiple products, services, or rights to use assets (multiple deliverables). In some cases, the arrangements include initial installation, initiation, or activation services and involve consideration in the form of a fixed fee or a fixed fee coupled with a continuing payment stream. Telecom equipment is accounted for separately from service where a market for each deliverable exist and if title to the equipment passes to the end-customer. Costs associated with the equipment are recognised at the time of revenue recognised. The revenue is allocated to equipment and services in proportion to the fair value of the individual items. Services invoiced based on usage are not included in the allocation. Customised equipment that can be used only in connection with services or products provided by the Group is not accounted for separately and revenue is deferred over the total service arrangement period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

In revenue arrangements where more than one good or service is provided to the customer, customer consideration is allocated between the goods and services using relative fair value principles. Determining the fair value of each deliverable can require complex estimates. The Group generally determines the fair value of individual elements based on prices at which the deliverable is regularly sold on a stand-alone basis after considering volume discounts where appropriate.

(i) Call out revenue

Call out revenue is recognised based on the actual airtime used by the subscribers. Prepayments received for call out revenue are not recognised as revenue until the related service has been provided to the subscriber. Revenue is recognised based on the actual traffic time elapsed, at the customer selected calling plan rates.

(ii) Interconnect revenues and costs

The Group charges interconnect per minute fees and fixed monthly payments to other local wireless and fixed line operators for calls originated outside and terminated within the Group's network. The Group recognises such revenues when the services are provided. The Group is charged interconnect fees per minute and fixed monthly payments by other local wireless and fixed line operators for calls originated within the Group's network and terminated outside of the network. The Company recognises such costs when the services are provided.

(iii) Data revenue

The data service is recognised when a service is used by a subscriber based on actual data volume traffic or over the contract term, as applicable.

(iv) Roaming revenues charged to the Group's subscribers

Roaming revenue from the Group's subscribers for roaming in other operators' network is charged based on information provided by other operators to the Group.

(v) Roaming fees charged to other wireless operators

The Group charges roaming per minute fees to other wireless operators for non-Group subscribers utilising the Group's network. The Group recognises such revenues when the services are provided.

(vi) Value added services

Value added services mainly consists of content provided by third parties, different info services, fax and voice mail. When invoicing the end-customer for third party content service, amounts collected on behalf of the principal are excluded from revenue.

(vii) Deferred revenue

Prepayments received for communication services are recorded as deferred revenue. The Group recognises revenue when the related service has been provided to the subscriber.

Roaming discounts

The Group enters into roaming discount agreements with a number of wireless operators. According to the terms of the agreements the Group is obliged to provide and entitled to receive a discount that is generally dependent on the volume of inter operator roaming traffic. The Group uses various estimates and assumptions, based on historical data and adjusted for known changes, to determine the amount of discount to be received or granted. Such estimates are adjusted monthly to reflect newly-available information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

The Group accounts for discounts received as a reduction of roaming expenses and discounts granted as reduction of roaming revenue. The Group considers terms of the various roaming discount agreements in order to determine the appropriate presentation of the amounts receivable from and payable to its roaming partners in its consolidated statements of financial position.

Sales commission to dealers

The Company sells part of payment scratch cards, sim cards, and handsets using dealers. The Company pays a certain commission to dealers depending on the number of payment scratch cards, sim cards or handset sold. The commission is recognised when the item is sold to the subscriber.

Payroll expenses and related contributions

Wages, salaries, contributions to pension funds, paid annual leave and sick leave, bonuses, and other benefits are accrued in the period in which the associated services are rendered by the employees of the Group.

Pension payments

The Group does not incur any expenses in relation to provision of pensions or other post-employment benefits to its employees. In accordance with the legal requirements of the Republic of Kazakhstan, the Group withholds pension contributions from employee salaries and transfers them into state or private pension funds on behalf of its employees. Pension contributions are the responsibility of employees, and the Group has no current or future obligations to make payments to employees following their retirement. Upon retirement of employees, all pension payments are administered by the pension funds directly.

Income taxes

Income taxes have been provided for in these consolidated financial statements in accordance with Kazakhstani legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the period.

Current tax is the amount expected to be paid to or recovered in respect of taxable profits or losses for the current and prior periods. Taxable income or losses are based on estimates where the consolidated financial statements are authorised prior to the filling of the relevant tax return. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences are recorded only to the extent that it is probable that future taxable profit, including deferred tax liabilities, will be available against which the deductions can be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Earnings per share

Earnings per share are determined by dividing the profit or loss attributable to owners of the Group by the weighted average number of participating shares outstanding during the reporting year. The Group has no dilutive or potentially dilutive securities outstanding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

Segment reporting

Segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately. The chief operating decision-maker has been identified as the Group's Chief Executive Officer. The Group determined the Group's operations as a single reporting segment.

Financial instruments*(i) Key measurement terms*

Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and the current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure at fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

(ii) Classification of financial assets

Financial assets of the Group include loans and receivables. The management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise trade receivables (Note 11), due from related parties (Note 8) in the consolidated statements of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

(iii) Classification of financial liabilities

Financial liabilities of the Group include financial liabilities carried at amortised cost. The Group's financial liabilities comprise trade and other payables (Note 13) and due to related parties (Note 8).

(iv) Initial recognition of financial instruments

Derivatives are initially recorded at fair value. All other financial assets and liabilities are initially recorded at fair value plus transaction costs. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

(v) Derecognition of financial assets

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

3. BUSINESS COMBINATION UNDER COMMON CONTROL

On 26 August 2012, Sonera and the Company entered into a memorandum of understanding ("the MoU"), under which the Company had the right to require Sonera to sell to it, and Sonera had the right to require the Company to acquire from it:

- all participatory interests owned by Sonera in KazNet Media LLP ("KazNet") together with all rights and obligations of Sonera under a framework agreement to buy all the participatory interests in the charter capital of KazNet; and
- and all the participatory interests owned by Sonera in Rodnik Inc LLP ("Rodnik") together with all rights and obligations of Sonera under the agreements to buy participatory interests in the charter capital of Rodnik (refer to "Investment in Rodnik by Sonera" in Note 19).

On 20 October 2015, the Company and KT-Telecom (100 percent subsidiary of the Company) signed an agreement ("the Agreement") for the purchase of 100 percent of the participatory interest in KazNet where Sonera is the seller. KazNet holds 100 percent of the participatory interest in Kcell Solutions (formerly Aksoran LLP) and 100 percent of the participatory interest in Instaphone – companies holding frequencies that are capable of being deployed for 4G/LTE. On 31 March 2017, Aksoran LLP was re-registered as Kcell Solutions LLP (further – "Kcell Solutions").

In accordance with the Agreement, the amount of the transaction is divided into two tranches. The first tranche comprises a nominal price of 5 million US Dollars; the second tranche is equal to the fair market value of the frequencies. If the parties of the Agreement cannot agree on the fair value of the frequencies, then the fair value shall be determined by independent appraiser appointed by the parties. The total amount of the transaction shall not exceed 70 million US Dollars.

In accordance with the Agreement, the second tranche shall be paid by the Company within 60 calendar days from the date at which the frequencies are permitted to be used by the Company for 4G/LTE services in Kazakhstan. The Company shall receive the relevant authorisation for the use of the frequencies by 31 December 2025. The second tranche shall not be due and payable if the Company is not authorised to provide 4G/LTE services in Kazakhstan by 31 December 2025. As at 31 December 2017, the Company did not apply for permission to use the frequencies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)*(in thousand of Kazakhstani Tenge, unless otherwise stated)*

In accordance with the Agreement, the completion of the deal is subject to the satisfaction of a list of conditions, including but not limited to, signing of waiver-letters and execution of an amendment to the MoU.

On 15 January 2016, all parties of the Agreement signed waiver-letters according to which all parties confirmed no need for execution of the amendment to the MoU and corresponding satisfaction of all the conditions precedent set forth in the Agreement.

On 4 May 2016, the Company and KT-Telecom signed an amendment to the Agreement for the purchase of a 100 percent participatory interest in KazNet from Telia Company for 1 US Dollar (the revised first tranche following the amendment). The parties agreed that the control over KazNet is transferred to the Group and thereafter the Group would consolidate KazNet, including its subsidiaries Kcell Solutions and Instaphone, starting from the month after Kcell Solutions repays the 5 million US Dollars of loan principal plus 369 thousand US Dollars of accrued interest on that loan to Sonera.

On 5 May 2016, KazNet repaid a loan due to Sonera in full, thus the Group obtained control over the activity of KazNet, including Kcell Solutions and Instaphone, and consolidated its financial information since June 2016. Since the transfer of ownership in KazNet represents a business combination under common control (with Telia Company being the ultimate parent), the assets and liabilities of the transferred subsidiary were recognised at their historical carrying values per the predecessor owner's financial statements. The financial statements of these companies are not significant for understanding of the consolidated financial statements; as such, the Group consolidated them from the date of control transfer.

The following statement of financial position of KazNet was presented in these consolidated financial statements at the date of receipt of control:

	Combination of the financial statements of KazNet as of consoli- dation date
Property, plant and equipment	184,562
Intangible assets	61
Total non-current assets	184,623
Inventories	257,275
Trade and other receivables	755,076
Prepaid income tax	11,522
Cash and cash equivalents	108,615
Total current assets	1,132,488
Total assets	1,317,111
Accumulated loss	(1,133,433)
Additional paid-in capital*	946,823
Net loss for the period	(204,032)
Total equity	(390,642)
Borrowings*	1,538,177
Trade and other payables	169,576
Total liabilities	1,707,753
Total liabilities and equity	1,317,111

*Borrowings comprise interest free financial aid received from the Company in the nominal amount of 2,485,000 thousand Tenge. 300,000 thousand Tenge were issued in 2015 and 2,185,000 thousand Tenge were issued during the year ended 31 December 2016. The difference between the nominal amount and fair value was recognised as additional paid-in capital in KazNet separate financial statements. These transactions were eliminated in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial period. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in these consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial period include:

Useful lives of property, plant and equipment and intangible assets

Management determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and intangible assets. This estimate is based on projected period over which the Group expects to consume economic benefits from the asset. It could change significantly as a result of technical innovations and competitor actions in a high-tech and competitive mobile industry. The carrying amount of assets most affected by judgements (switches and transmission devices) amounted to 53,685,373 thousand Tenge (Note 9) as of 31 December 2017 (2016: 56,402,691 thousand Tenge). Management will increase the depreciation charge where useful lives are less than previously assessed estimated lives, or it will write down technically obsolete assets that have been abandoned.

Management assesses the useful life of telecommunication licenses based on technological development and the legal terms of the license agreements. The useful life of each of GSM, the 3G license and the 4G license is assessed as estimated by the management as 15 years. The useful lives are reviewed at least at each reporting date.

Provisions and contingencies, including tax contingencies

For each event management makes separate assessment of probable outcome and its effect on the Group's operations. Provisions are recognised when negative outcome is anticipated to be probable. For those events, with possible negative outcome on the Group's operations related contingency is disclosed.

In July 2017, the Kazakhstan tax authority completed its comprehensive tax audit for the period 2012 to 2015. Upon finalisation of the tax audit, the total claim by the tax authority amounted to 9 billion Tenge. Currently, the Group is in the process of disputing the claim (Note 19). As a result of this dispute and the ongoing discussions and negotiations, there is a high level of judgement required in estimating the level of provisioning required.

Deferred tax assets and liabilities

As at each reporting date, management determines the amount of deferred income tax by comparing the carrying amounts of assets and liabilities and the corresponding tax bases. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the date of the corresponding consolidated statements of financial position. Management makes certain assumptions in determining future taxable income sufficient for compensation of deferred tax assets reflected in the consolidated statement of financial position. The carrying amount of net deferred tax liability as at 31 December 2017 amounted to 4,817,503 thousand Tenge (as at 31 December 2016: 6,012,214 thousand Tenge) (Note 18).

Going concern

These consolidated financial statements have been prepared in accordance with IFRSs on a going concern basis, which assumes the realisation of assets and discharge of liabilities in the normal course of business within the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

As at 31 December 2017, the Group's net current liabilities are 45,608,341 thousand Tenge. On 14 December 2017, the Group announced a programme to place bonds in the amount of 30,000,000 thousand Tenge on the Kazakhstan Stock Exchange (Note 22). Management has considered the Group's future plans, and in light of these plans and the current and expected profitability of the Group, positive cash flows from operations, available financing, management believes that the Group will continue to operate as a going concern for the foreseeable future.

Business combinations under common control

Also, as described in Note 3, during the year ended 31 December 2016, the Group carried out a business combination under common control. Business combinations involving entities under common control are outside of the scope of IFRS 3, *Business Combinations*, and there is no other specific IFRS guidance. Accordingly, management has to apply significant judgement to develop an accounting policy that is relevant and reliable in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. The Group accounted for this business combination on a carryover basis, which results in the historical carrying value of assets and liabilities of the acquired entities being combined with that of the Group. The Group consolidates the financial statements of the companies under common control from the date of obtaining control, if the financial statements of these companies do not have a significant impact on the consolidated financial statements, and, respectively, do not affect the users of the consolidated financial statements, otherwise the consolidated financial statements of the Group reflect the effect of the combination, as if it occurred, at the beginning of the earliest period presented. Any difference between the amount recorded as share capital issued and the amount recorded for the share capital acquired is adjusted against retained earnings in the consolidated statement of changes in equity.

5. AMENDMENTS TO IFRS AND THE NEW INTERPRETATION THAT ARE MANDATORILY EFFECTIVE FOR THE CURRENT YEAR

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these consolidated financial statements:

- Amendments to IAS 7 *Disclosure Initiative*;
- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*;
- Annual Improvements to IFRSs 2014-2016 Cycle – amendments to IFRS 12.

The adoption of the above mentioned Standards and Interpretations has not led to any changes in the Group's accounting policies. The amendments did not materially affect the consolidated financial statements of the Group, except Amendments to IAS 7 Disclosure Initiative as follows.

Amendments to IAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Group's liabilities arising from financing activities consist of borrowings, and a reconciliation between the opening and closing balances of these items is provided in Note 14. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in Note 14, the application of these amendments has had no other impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)*(in thousand of Kazakhstani Tenge, unless otherwise stated)***6. NEW AND REVISED IFRS IN ISSUE BUT NOT YET EFFECTIVE**

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

	Effective for annual periods beginning on or after
<i>IFRS 16 Leases</i>	1 January 2019*
<i>IFRS 15 Revenue from Contracts with Customers</i>	1 January 2018*
<i>IFRS 9 Financial Instruments</i>	1 January 2018*
<i>IFRS 17 Insurance Contracts</i>	1 January 2021*
<i>IFRIC 22 Foreign Currency Transactions and Advance Consideration</i>	1 January 2018*
<i>IFRIC 23 Uncertainty Over Income Tax Treatments</i>	1 January 2019*
<i>Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions</i>	1 January 2018*
<i>Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	a date to be determined*
<i>Amendments to IAS 40 – Transfers of Investment Property</i>	1 January 2018*
<i>Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i>	1 January 2018*
<i>Amendments to IFRS 9 – Prepayment Features With Negative Compensation</i>	1 January 2019*
<i>Amendments to IAS 28 – Long-Term Interests in Associates and Joint Ventures</i>	1 January 2019*
<i>Annual Improvements to IFRSs 2014-2016 Cycle</i>	1 January 2018*
<i>Annual Improvements to IFRSs 2015-2017 Cycle</i>	1 January 2019*

*with earlier application permitted

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)*(in thousand of Kazakhstani Tenge, unless otherwise stated)*

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets.** All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- **Classification and measurement of financial liabilities.** With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- **Impairment.** In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- **Hedge accounting.** The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Overall, the Group expects no significant impact on its balance sheet and equity, except for the effect of applying the impairment requirements of IFRS 9. The Group expects changes in the loss allowance methodology and is in the process of performing a detailed assessment to determine the extent. The Group is reviewing their debt and equity arrangements, processes for calculating impairment of receivables and cash and cash equivalents and evaluating the disclosure requirements of the new guidance, and will design and implement any identified necessary controls.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

The management of the Group anticipates that the application of this standard may have an impact on the Group's consolidated financial statements. The Group is currently assessing an impact of the new standard on the financial results. The Group is reviewing their agreements that may contain lease and evaluating the disclosure requirements of the new guidance, and will design and implement any identified necessary controls.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

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

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

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

The management of the Group has performed an assessment of the impact of the adoption of IFRS 15. The management of the Group does not anticipate that the application of IFRS 15 will have a significant impact on the financial position and financial performance of the Group, but it anticipates extended disclosures required by IFRS 15.

Management anticipates that the adoption of other standards will not have a material impact on the consolidated financial statements of the Group in the period of initial application.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(in thousand of Kazakhstani Tenge, unless otherwise stated)

7. SEGMENT INFORMATION

The Group's operations are a single reportable segment.

The Group provides mobile communication services in the Republic of Kazakhstan. The Group identifies the segment in accordance with the criteria set in IFRS 8, *Operating Segments*, and based on the way the operations of the Group are regularly reviewed by the chief operating decision maker to analyse performance and allocate resources among business units of the Group.

The chief operating decision-maker ("CODM") has been determined as the Group's Chief Executive Officer. The CODM reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined a single operating segment being mobile communication services based on these internal reports.

8. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Group's ultimate controlling party is Telia Company. Telia Company group includes entities under common control and associates of Telia Company. Immediate shareholders are disclosed in the Note 12.

The Group's primary transactions with related parties are consulting services, technical assistance and operational support, roaming and interconnect. The Group's transactions with its related parties during the years ended 31 December and related amounts due as of the year-end were as follows:

		<u>2017</u>	<u>2016</u>
Due from related parties	Entities of Telia Company group	810,492	738,983
Due to related parties	Entities of Telia Company group	135,926	522,766
Due to related parties	Immediate and ultimate parent	1,041,407	1,002,793
Revenue	Entities of Telia Company group	897,529	1,415,936
Expense	Entities of Telia Company group	3,807,743	5,253,027
Expense	Immediate and ultimate parent	103,977	39,095

Amounts due from related parties are neither past due nor impaired. They represent receivables from related parties for roaming services. These entities do not have credit ratings assigned but their reliability is determined by the Group on the basis of long-term cooperation and which have a good credit history. The Group's management believes that amounts due from related parties will be fully repaid within one year.

Memorandum of Understanding ("MoU")

On 26 August 2012, Sonera and the Company entered into a memorandum of understanding, details of which are disclosed further in Note 19.

Compensation of key management personnel

Compensation paid to key management personnel for their services in full time executive management positions and to the members of the board of directors consists of a contractual salary, performance bonus depending on financial performance of the Group, and other compensation in the form of reimbursement of apartment rent expenses from the Group. Total compensation included in staff costs in the statement of comprehensive income is equal to 236,408 thousand Tenge for the year ended 31 December 2017 (2016: 245,522 thousand Tenge). The compensation scheme does not include share-based payments, post-employment or other long-term benefits, which were nil for all years presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

9. PROPERTY, PLANT AND EQUIPMENT

	<u>Property</u>	<u>Plant and machinery</u>	<u>Equipment tools and installations</u>	<u>Assets under construction and advances given</u>	<u>Total</u>
As at 1 January 2016					
Cost	21,048,276	183,391,835	25,182,608	10,676,412	240,299,131
Accumulated depreciation and impairment losses	<u>(4,627,370)</u>	<u>(122,654,933)</u>	<u>(18,515,383)</u>	-	<u>(145,797,686)</u>
Carrying amount as at 1 January 2016	<u>16,420,906</u>	<u>60,736,902</u>	<u>6,667,225</u>	<u>10,676,412</u>	<u>94,501,445</u>
Additions	168,635	-	1,014,372	16,654,308	17,837,315
Business combination (Note 3)	-	-	184,562	-	184,562
Transfers	-	10,361,061	257,975	(10,619,036)	-
Disposals (net)	-	-	(9,666)	-	(9,666)
Depreciation charge	<u>(686,233)</u>	<u>(14,695,272)</u>	<u>(1,810,545)</u>	-	<u>(17,192,050)</u>
As at 31 December 2016					
Cost	21,216,911	193,752,896	26,553,990	16,711,684	258,235,481
Accumulated depreciation and impairment losses	<u>(5,313,603)</u>	<u>(137,350,205)</u>	<u>(20,250,067)</u>	-	<u>(162,913,875)</u>
Carrying amount as at 31 December 2016	<u>15,903,308</u>	<u>56,402,691</u>	<u>6,303,923</u>	<u>16,711,684</u>	<u>95,321,606</u>
Additions	59,459	-	1,480,694	14,202,569	15,742,722
Transfers	-	11,887,139	2,062,191	(13,949,330)	-
Depreciation charge	<u>(579,066)</u>	<u>(14,604,457)</u>	<u>(2,200,723)</u>	-	<u>(17,384,246)</u>
As at 31 December 2017					
Cost	21,276,370	205,640,035	30,096,875	16,964,923	273,978,203
Accumulated depreciation and impairment losses	<u>(5,892,669)</u>	<u>(151,954,662)</u>	<u>(22,450,790)</u>	-	<u>(180,298,121)</u>
Carrying amount as at 31 December 2017	<u>15,383,701</u>	<u>53,685,373</u>	<u>7,646,085</u>	<u>16,964,923</u>	<u>93,680,082</u>

As at 31 December 2017, the gross carrying value of property, plant and equipment, which had been fully depreciated and were still in use, was 105,879,825 thousand Tenge (31 December 2016: 95,704,126 thousand Tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

10. INTANGIBLE ASSETS

	Software and licenses	Intangible assets in progress	Advances given	Total
As at 1 January 2016				
Cost	41,605,939	3,886,778	382,504	45,875,221
Accumulated amortisation	(28,919,033)	-	-	(28,919,033)
Carrying amount as at 1 January 2016	12,686,906	3,886,778	382,504	16,956,188
Additions	15,762,033	3,161,176	14,000,000	32,923,209
Business combination (Note 3)	61	-	-	61
Transfers	15,783,873	(1,409,591)	(14,374,282)	-
Amortisation charge	(7,036,978)	-	-	(7,036,978)
As at 31 December 2016				
Cost	73,151,906	5,638,363	8,222	78,798,491
Accumulated amortisation	(35,956,011)	-	-	(35,956,011)
Carrying amount as at 31 December 2016	37,195,895	5,638,363	8,222	42,842,480
Additions	4,480,056	456,750	1,043,713	5,980,519
Transfers	6,133,204	(5,638,363)	(494,841)	-
Amortisation charge	(5,762,324)	-	-	(5,762,324)
As at 31 December 2017				
Cost	83,765,166	456,750	557,094	84,779,010
Accumulated amortisation	(41,718,335)	-	-	(41,718,335)
Carrying amount as at 31 December 2017	42,046,831	456,750	557,094	43,060,675

Initially, a new billing system, Amdocs, was classified as intangible assets in progress. As of 31 December 2017, Amdocs was transferred to software and licenses.

As at 31 December 2017, the carrying amount of the 3G license was 2,666,667 thousand Tenge (31 December 2016: 3,000,000 thousand Tenge) and its remaining amortisation period was 8 years. As at 31 December 2017, the carrying amount of the 4G license was 22,677,777 thousand Tenge (31 December 2016: 24,411,111 thousand Tenge) and its remaining amortisation period was 13 years. As at 31 December 2017, the gross carrying value of intangible assets, which had been fully amortised and were still in use, was 19,275,605 thousand Tenge (31 December 2016: 16,668,784 thousand Tenge).

11. TRADE AND OTHER RECEIVABLES

	31 December 2017	31 December 2016
Trade receivables from subscribers	15,422,256	12,955,810
Trade receivables for interconnect services	900,299	452,276
Trade and other receivables from dealers and distributors	326,613	1,280,359
Trade receivables from roaming operators	259,550	1,895,114
Less: allowance for impairment of trade receivables	(5,494,150)	(2,839,931)
Total financial assets	11,414,568	13,743,628
Less: long term trade receivables from subscribers	(1,437,480)	(1,162,961)
Total current financial assets	9,977,088	12,580,667
VAT recoverable	5,516,033	2,330,281
Advances to suppliers	2,556,276	1,456,953
Prepaid other taxes	497,818	454,778
Deferred expenses	446,512	544,379
Other receivables	678,995	871,862
Total trade and other receivables	19,672,722	18,238,920

KCELL JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

Total financial assets are denominated in currencies as follows:

	31 December 2017	31 December 2016
Tenge	11,155,018	11,848,514
US dollar	259,550	1,895,114
Total financial assets	11,414,568	13,743,628

The allowance for impairment of trade receivables relates to trade receivables from subscribers, dealers and distributors. The ageing analysis of trade receivables is as follows:

	31 December 2017	31 December 2016
<i>Total neither past due nor impaired</i>	8,509,690	11,978,871
<i>Past due but not impaired</i>		
due for 1 month	110,333	77,591
due for 2 months	822,516	61,162
due for 3 months	538,588	213,468
due for 4 to 6 months	649,269	941,068
due for more than 6 months	784,172	471,468
<i>Total past due but not impaired</i>	2,904,878	1,764,757
<i>Impaired</i>		
30 to 60 days	71,049	56,860
60 to 90 days	22,154	69,496
90 to 120 days	107,377	82,514
120 to 200 days	166,578	232,627
over 200 days	5,126,992	2,398,434
<i>Total impaired</i>	5,494,150	2,839,931
<i>Allowance for impairment of trade receivables</i>	<i>(5,494,150)</i>	<i>(2,839,931)</i>
Total financial assets	11,414,568	13,743,628

The main factors, which the Group takes into account when considering whether receivables are impaired, are their past due status and historical experience of collectability. Impairment of receivables was assessed based on the past due status of such receivables.

There are no customers who represent more than 10 percent of the total balance of receivables. The concentration of credit risk is limited due to the customer base being large and unrelated.

Neither past due nor impaired receivables represent receivables from companies and subscribers with no credit ratings assigned but their reliability is determined by the Group on the basis of long-term cooperation representing those companies which have a good credit history. The Group's management believes that neither past due nor impaired receivables in the amount of 8,509,690 thousand Tenge will be fully repaid in 2018.

A reconciliation of movements in the financial assets impairment allowance is as follows:

	2017	2016
As at 1 January	2,839,931	2,467,799
Charge for the year	2,716,419	1,090,968
Receivables written off during the year as uncollectible	(62,200)	(718,836)
As at 31 December	5,494,150	2,839,931

The Group considers that the carrying amount of receivables is approximately equal to their fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(in thousand of Kazakhstani Tenge, unless otherwise stated)

12. SHARE CAPITAL AND EARNINGS PER SHARE

Share capital of the Group at 31 December is as follows:

	31 December 2017		31 December 2016	
	Share	Number of shares	Share	Number of shares
Fintur	51.00 percent	102,000,000	51.00 percent	102,000,000
TellaSonera Kazakhstan	24.00 percent	48,000,000	24.00 percent	48,000,000
JSC Central Securities Depository	13.24 percent	26,472,717	23.32 percent	46,636,793
JSC Freedom Finance	9.08 percent	18,153,541	-	-
Single Accumulative Pension Fund	1.14 percent	2,270,950	1.14 percent	2,270,950
Other	1.54 percent	3,102,792	0.54 percent	1,092,257

The total authorised number of ordinary shares is 200,000,000 shares with a par value of 169 Tenge per share, all of which are issued and fully paid.

The calculation of basic and diluted earnings per share is based on the following data:

	2017	2016
Profit for the period attributable to equity shareholders	13,434,246	16,683,616
Weighted average number of common shares	200,000,000	200,000,000
Earnings per share (Kazakhstani Tenge), basic and diluted	67.17	83.42

The Group has no dilutive or potentially dilutive securities outstanding.

According to the requirements of the Kazakhstan Stock Exchange ("KASE"), the Group has calculated its book value per share, which was calculated based on the number of common shares outstanding as at the reporting date. The book value per share as at 31 December 2017 and 31 December 2016 is presented below.

	31 December 2017	31 December 2016
Net assets, excluding intangible assets	31,375,857	29,837,806
Number of common shares in issue	200,000,000	200,000,000
Book value per share (Kazakhstani Tenge)	156.88	149.19

Dividends declared and paid during the years ended 31 December were as follows:

	2017	2016
Dividends payable as at 1 January	-	-
Dividends declared during the year	11,678,000	23,316,000
Dividends paid during the year	(11,678,000)	(23,316,000)
Dividends payable as at 31 December	-	-

KCELL JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

13. TRADE AND OTHER PAYABLES

	31 December 2017	31 December 2016
Trade payables	15,099,016	21,605,956
Total financial liabilities	15,099,016	21,605,956
Accrued salaries and bonuses to employees	1,334,003	1,276,596
Other payables	4,795,199	4,070,062
Total trade and other payables	21,228,218	26,952,614

Trade and other payables are denominated in currencies as follows:

	31 December 2017	31 December 2016
Tenge	10,997,974	9,512,408
US dollar	4,099,843	11,624,078
Euro	-	433,373
Other	1,199	36,097
Total financial liabilities	15,099,016	21,605,956

14. BORROWINGS

	31 December 2017	31 December 2016
Halyk Bank of Kazakhstan JSC	34,209,722	42,221,389
Eurasian Development Bank	26,103,278	-
Alfabank JSC	10,104,722	10,124,500
Kazkommertsbank JSC	-	10,035,000
Altyn Bank JSC (previously – SB HSBC Kazakhstan JSC)	-	3,033,750
Total borrowings	70,417,722	65,414,639
<i>Including</i>		
Long-term loans	12,000,000	8,000,000
Short-term loans – principal amount	58,000,000	57,000,000
Short-term loans – accrued interest	417,722	414,639

The Group's borrowings are denominated in Kazakhstani Tenge. The Group has not entered into any hedging arrangements in respect of its interest rate exposures.

The carrying amount of the Group's borrowings approximates their fair value.

The details of the Group's borrowings as at 31 December 2017 are as follows:

Bank name	Date of issue	Maturity date	Nominal interest rate	Principal amount	Outstanding balance
Eurasian Development Bank	10/02/2017	20/06/2018	13.00%	26,000,000	26,103,278
Halyk Bank of Kazakhstan JSC	05/06/2017	04/12/2018	12.50%	22,000,000	22,198,611
Halyk Bank of Kazakhstan JSC	23/09/2016	20/09/2019	12.50%	4,000,000	4,002,778
Halyk Bank of Kazakhstan JSC	28/11/2016	02/12/2019	12.50%	8,000,000	8,008,333
Alfabank JSC	01/06/2017	08/06/2018	14.50%	6,000,000	6,062,833
Alfabank JSC	01/06/2017	10/07/2018	14.50%	4,000,000	4,041,889
Total				70,000,000	70,417,722

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)*(in thousand of Kazakhstani Tenge, unless otherwise stated)*

As at 31 December 2017 and 2016, no assets were pledged under borrowing agreements.

As at 31 December 2017 and 2016, the Group was in compliance with its financial covenants.

The table below details changes in the Group's liabilities arising from financing activities. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	<u>1 January 2017</u>	<u>Financing cash flows</u>	<u>31 December 2017</u>
Borrowings, principal amount	65,000,000	5,000,000	70,000,000

The cash flows from borrowings make up the net amount of proceeds from borrowings and repayments of borrowings in the consolidated statement of cash flows.

15. REVENUES

	<u>2017</u>	<u>2016</u>
Voice service	80,400,456	86,443,705
Data service	46,358,118	41,529,225
Sale of handsets	10,633,243	9,713,475
Value added services	9,837,171	9,350,599
Total revenues	<u>147,228,988</u>	<u>147,037,004</u>

16. EXPENSES BY NATURE

Operating expenses are presented on the face of the statement of comprehensive income using a classification based on the functions "Cost of sales", "Selling and marketing expenses" and "General and administrative expenses". Total expenses by function were distributed by nature as follows:

	<u>2017</u>	<u>2016</u>
Interconnect fees and expenses	23,803,220	25,663,407
Depreciation and amortisation	23,146,570	24,229,028
Network maintenance expenses	16,126,531	15,315,438
Frequency usage charges and taxes other than on income	11,388,790	10,614,327
Cost of SIM card, scratch card, start package sales and handsets	11,004,649	10,118,847
Staff costs	10,949,404	11,148,947
Transmission rent	9,803,504	9,909,019
Sales commissions to dealers and advertising expenses	2,723,711	3,274,185
Other	7,190,782	6,730,409
Total expenses	<u>116,137,161</u>	<u>117,003,607</u>

Amortisation and depreciation by function were as follows:

	<u>2017</u>	<u>2016</u>
Cost of sales	20,361,235	21,826,610
General and administrative expenses	2,785,335	2,402,418
Total depreciation of property, plant and equipment and amortisation of intangible assets	<u>23,146,570</u>	<u>24,229,028</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)*(in thousand of Kazakhstani Tenge, unless otherwise stated)*

Other operating expense for the year ended 31 December comprised the following:

	<u>2017</u>	<u>2016</u>
Operational foreign exchange loss	415,968	1,349,460
Property, plant and equipment write-off	-	29,310
Other	<u>202,083</u>	<u>485,002</u>
Total other operating expenses	<u>618,051</u>	<u>1,863,772</u>

17. FINANCE INCOME AND FINANCE EXPENSE

Finance income for the year ended 31 December comprised the following:

	<u>2017</u>	<u>2016</u>
Interest income	722,764	1,316,560
Foreign exchange gains	<u>234,550</u>	<u>1,333,985</u>
Total finance income	<u>957,314</u>	<u>2,650,545</u>

Finance expense for the year ended 31 December comprised the following:

	<u>2017</u>	<u>2016</u>
Interest expense	10,104,293	10,283,135
Foreign exchange losses	<u>272,387</u>	<u>652,458</u>
Total finance expense	<u>10,376,680</u>	<u>10,935,593</u>

18. TAXES

Income tax expense comprised the following:

	<u>2017</u>	<u>2016</u>
Current income tax	7,267,496	4,352,334
Deferred income tax	(1,194,711)	975,193
Current income tax in respect of prior years	<u>2,575,039</u>	<u>745,092</u>
Total income tax expense	<u>8,647,824</u>	<u>6,072,619</u>

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense reported in the consolidated financial statements was as follows:

	<u>2017</u>	<u>2016</u>
Profit before income tax	<u>22,082,070</u>	<u>22,756,235</u>
Theoretical tax charge at the statutory rate of 20 percent	4,416,414	4,551,247
Non-deductible expenses	<u>1,656,371</u>	<u>776,280</u>
	6,072,785	5,327,527
Adjustments recognised in the current year in relation to the current tax of prior years	<u>2,575,039</u>	<u>745,092</u>
Income tax expense	<u>8,647,824</u>	<u>6,072,619</u>

The Group paid income tax in the amount of 5,012,000 thousand Tenge for the year ended 31 December 2017 (2016: 10,505,520 thousand Tenge).

Differences between IFRS and Kazakhstani statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rates which are expected to be applied to the periods when the temporary difference will reverse.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

	<u>31 December 2016</u>	<u>Credited to profit or loss</u>	<u>31 December 2017</u>
Tax effects of deductible temporary differences			
Other	<u>1,158,353</u>	<u>1,170,773</u>	<u>2,329,126</u>
Gross deferred tax asset	<u>1,158,353</u>	<u>1,170,773</u>	<u>2,329,126</u>
Tax effect of taxable temporary differences			
Property, plant and equipment and Intangible assets	<u>7,170,567</u>	<u>(23,938)</u>	<u>7,146,629</u>
Gross deferred tax liability	<u>7,170,567</u>	<u>(23,938)</u>	<u>7,146,629</u>
Less offsetting with deferred tax assets	<u>(1,158,353)</u>	<u>(1,170,773)</u>	<u>(2,329,126)</u>
Recognised deferred tax liability, net	<u>6,012,214</u>	<u>(1,194,711)</u>	<u>4,817,503</u>

Comparative movements for year ended 31 December 2016 is detailed below:

	<u>1 January 2016</u>	<u>Debited/ credited to profit or loss</u>	<u>31 December 2016</u>
Tax effects of deductible temporary differences			
Other	<u>889,811</u>	<u>268,542</u>	<u>1,158,353</u>
Gross deferred tax asset	<u>889,811</u>	<u>268,542</u>	<u>1,158,353</u>
Tax effect of taxable temporary differences			
Property, plant and equipment and Intangible assets	<u>5,926,832</u>	<u>1,243,735</u>	<u>7,170,567</u>
Gross deferred tax liability	<u>5,926,832</u>	<u>1,243,735</u>	<u>7,170,567</u>
Less offsetting with deferred tax assets	<u>(889,811)</u>	<u>(268,542)</u>	<u>(1,158,353)</u>
Recognised deferred tax liability, net	<u>5,037,021</u>	<u>975,193</u>	<u>6,012,214</u>

19. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS**Political and economic conditions in the Republic of Kazakhstan**

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

Because the Republic of Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014-2016, the oil price decreased significantly, which led to a significant decrease in the national export revenue. On 20 August 2015, the Government and the National Bank of the Republic of Kazakhstan announced a transition to a new monetary policy based on a free floating Tenge exchange rate, and cancelled the currency corridor. In 2015 and in the first quarter of 2016, the Tenge depreciated significantly against major foreign currencies.

Management of the Group is monitoring developments in the current environment and taking measures it considered necessary in order to support the sustainability and development of the Group's business in the foreseeable future. However, the impact of further economic developments on future operations and financial position of the Group might be significant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

Taxation

Kazakhstani tax legislation and practice is in a state of continuous development and therefore is subject to varying interpretations and frequent changes, which may be retroactive. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Group may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Group may be assessed additional taxes, penalties and interest. Tax periods remain open to retroactive review by the tax authorities for five years.

In July 2017, the Kazakhstan tax authority completed its comprehensive tax audit for the period 2012 to 2015. Following the completion of the tax audit, the tax authority made a total claim of 9 billion Tenge, of which 5.8 billion Tenge is for unpaid taxes and 3.2 billion Tenge represents fines and penalties for the late payment of unpaid taxes. Currently, the Group disputes certain elements of this claim with respect to those issues on which the Group does not agree. Such dispute is ongoing through the available mechanisms, which include court litigation. The Group considers it unlikely that the full amount of the claim will become payable following the appeal process.

The Kazakhstan tax authority's claim relates to various issues including VAT, corporate income tax and other taxes. The Group disputes several of the individual findings, including a claim that withholding tax should have been paid in relation to the IPO in 2012, when retained earnings were reinvested in the newly formed Joint Stock Company.

The Group has recorded the reserves and contingent liabilities for the tax audit, but does not disclose the amount pertaining to each claim, because it believes that disclosure of this information may adversely affect the outcome of tax audit results disputes.

Capital expenditure commitments

As at 31 December 2017, the Group has contractual capital expenditure commitments in respect of property, plant and equipment and intangible assets totaling 6,873,547 thousand Tenge (31 December 2016: 4,514,284 thousand Tenge).

Acquisitions and investments*(i) Memorandum of understanding with Sonera*

On 26 August 2012, Sonera and the Company entered into a memorandum of understanding ("the Buy and Sell MoU"), under which the Company had the right to require Sonera to sell to it, and Sonera had the right to require the Company to acquire from it, all participatory interests owned by Sonera in KazNet Media LLP ("KazNet") together with all rights and obligations of Sonera under a framework agreement to buy all the participatory interests in the charter capital of KazNet and all the participatory interests owned by Sonera in Rodnik Inc LLP ("Rodnik") together with all rights and obligations of Sonera under the agreements to buy participatory interests in the charter capital of Rodnik (refer to "Investment in Rodnik by Sonera").

Subject to satisfaction of the applicable conditions, each of Sonera and the Company was entitled to exercise its option at any time starting from nine months after the date of the offering of global depositary receipts and listing on local stock exchange, which took place on 13 December 2012. The purchase price that the Company was supposed to pay to Sonera for the acquisition resulting from the exercise of the option would be the amount of net cost incurred by Sonera in connection with the corresponding investments and acquisition transactions plus interest accrued on such amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

The contractual right of Sonera to sell the underlying assets (debt and equity interests and related rights and obligations) to the Company is a financial instrument (derivative) within the scope of IAS 39, *Financial Instruments: Recognition and Measurement*. The derivative instrument should be measured at fair value, with the changes in fair value recognised in the statement of comprehensive income. The Group did not have an unconditional right to avoid the settlement.

Sonera had the right to terminate the Buy and Sell MoU at any time by serving a written notice to the Company.

The exercise of these options was conditional upon Fintur having consented to, authorised or voted in favour of the acquisition to be made by the Company as a result of the exercise of such right. In addition, completion of the acquisition contemplated by the exercise of options is subject to law, regulation and any requisite approvals. Sonera had the option to sell ("the Put Option") and the Company had the option to buy ("the Call Option") the participatory interest. The strike price of the both options equals the net costs incurred by Sonera, annually compounded using the interest rate (interest accruals begins when the costs are incurred or the receipts are cashed and ends when the participatory interest are transferred).

Neither the Put Option nor the Call Option could be exercised without the authorisation of Fintur. In addition there is uncertainty in the timing of required changes in 4G/LTE regulation. Accordingly, there is an uncertainty regarding whether the option will be exercised. On this basis, the Company measured the derivative at the original cost of zero.

On 4 May 2016, the Company obtained control over the activity of KazNet (Note 3).

(ii) Investment in Rodnik by Sonera

Sonera negotiated an agreement with a third party to acquire 25 percent of the participatory interests in the charter capital of Rodnik. Rodnik owns 79.92 percent of the total share capital of KazTransCom JSC ("KTC").

The purchase price for acquisition is 20 million US Dollars, subject to adjustments to be made based on the amount of net debt of Rodnik and KTC at the time the acquisition is completed.

On 13 August 2012, Sonera entered into a call option agreement with a third party, under which Sonera has a call option to acquire another 75 percent participatory interest in Rodnik. Pursuant to the terms of that call option agreement, the call option exercise price will be calculated based on fair market value of the participatory interest in Rodnik.

The acquisition of 25 percent of the participatory interests in the charter capital of Rodnik was completed on 14 January 2013.

Execution of the KazNet option had no effect on the option related to Rodnik.

The standby letter of credit

The standby letter of credit for 10 million US Dollars, within the framework of the general agreement between the Group and Citibank Kazakhstan JSC, was issued on 23 September 2015. As at 31 December 2017, the credit limit has been decreased to 5.5 million US Dollars. This instrument has been issued in favour of Apple Distribution International (Ireland) to allow the Group to extend the term of payment for goods purchased from the company, and will have a positive impact on the Group's working capital. As at 31 December 2017, the instrument has been used, the outstanding balance is 542 thousand Tenge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

The “Daytime Unlimited” and failure to disconnect calls on Kcell network

During 2013, an investigation was initiated by the Agency for Competition Protection of the Republic of Kazakhstan (“the ACP”), in relation to the “Daytime Unlimited” service under the Activ brand and non-interruption of services when a customer’s balance reaches zero under the Kcell brand. On conclusion of the initial investigations, the Antimonopoly Inspectorate issued an administrative offence report with a potential fine on the Company of 16 billion Tenge. During the following court process the Company was able to reduce the penalty to 325 million Tenge and subsequently made payment in full in May 2014.

The ACP ordered that the Company should comply with the following on or before 21 April 2014:

1. to stop collection of the subscription fees under the tariff plan “Daytime Unlimited” in case of insufficiency of funds on a subscriber’s account;
2. to ensure interruption of connection (voice or Internet access) when a subscriber’s balance reaches zero; and
3. to ensure a refund to subscribers, any fees received as a result of failure to interrupt the connection when a subscriber’s balance reaches zero (“the Order”).

The Company complied with point 1, however, due to technical limitations of the billing system, the Company is currently unable to implement point 2. However, the Company is in the process of introducing a new billing system that will enable the interruption of the connection.

The Company has challenged the ACP findings and decision through the courts system in the Republic of Kazakhstan, culminating in an appeal to the Supreme Court. On 30 June 2015, the Supreme Court of the Republic of Kazakhstan dismissed the Company’s supervisory appeal. On 15 June 2015, the ACP filed a claim in court seeking for enforcement of the order. On 9 July 2015, the court issued a resolution on satisfying the ACP claim to enforce the order, and as a result the Company must now enforce points 2 and 3 in the above ACP order.

As at 31 December 2017, the total amount returned to subscribers is 2,618,045 thousand Tenge. As at 31 December 2017, the Company accrued a provision in the amount of 116,640 thousand Tenge (31 December 2016: 116,640 thousand Tenge). The Company expects further refunding the subscription of fees until point 2 above is enforced.

20. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Group’s activities expose it to a variety of financial risks: market risk (including foreign exchange risk), liquidity risk and credit risk. The Group’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group’s financial performance. The Group does not use derivative financial instruments to hedge risk exposures.

Credit risk

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group’s sales on credit terms and other transactions with counterparties giving rise to financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)*(in thousand of Kazakhstani Tenge, unless otherwise stated)*

The Group's maximum exposure to credit risk by class of assets is as follows:

	Note	31 December 2017	31 December 2016
Cash and cash equivalents		12,659,844	8,476,653
Trade receivables	11	9,977,088	12,580,667
Long-term trade receivables		1,437,480	1,162,961
Due from related parties	8	810,492	738,983
Restricted cash		38,733	86,419
Total maximum exposure to credit risk		24,923,637	23,045,683

Credit risk from balances with cash and cash equivalents is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved financial institutions and within credit limits assigned to each bank or financial institution. Financial institutions' credit limits are reviewed by the Group's Treasury Department on a monthly basis. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through a financial institution's potential failure to make payments.

The Group has policies in place to ensure that sales of products and services are made to customers and distributors with an appropriate credit history. If corporate customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer taking into account its financial position, past experience and other factors. The Group's management reviews ageing analysis of outstanding trade receivables and follows up on past due balances. Customers that fail to settle their liabilities for mobile services provided are disconnected until the debt is paid. Management provides ageing and other information about credit risk (Note 11). The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount of trade receivables exposed to credit risk. The Group has no significant concentrations of credit risk since the customers portfolio is diversified among a large number of customers, both individuals and companies. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provisions already recorded.

Foreign exchange risk

The majority of the Group's purchases of property, plant and equipment and inventories, as well as certain services such as roaming are denominated in US Dollars. Hence, the major concentration of foreign exchange risk arises from the movement of the US Dollar against the Tenge. Due to the undeveloped market for financial instruments in Kazakhstan, the management does not hedge the Group's foreign exchange risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows.

	Liabilities		Assets	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
US Dollar	4,099,843	11,624,078	2,472,071	5,116,232
Euro	-	433,373	212,019	174,072
Others	1,199	36,097	4,280	50,033

As at 31 December 2017, if the US Dollar had weakened/strengthened by 10 percent against the Tenge with all other variables held constant, after-tax profit for year ended 31 December 2017 would have been 113,014 thousand Tenge lower/higher (2016: 540,257 thousand Tenge lower/higher), mainly as a result of foreign exchange gains/losses on translation of US Dollar denominated bank balances, receivables and payables. Profit is less sensitive to movement in Tenge/US Dollar exchange rates at 31 December 2017 than at 31 December 2016 because of the increased amount of US Dollar denominated cash and cash equivalents at 31 December 2017 offsets exposure to US Dollar denominated accounts payable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)*(in thousand of Kazakhstani Tenge, unless otherwise stated)***Cash flow and fair value interest rate risk**

The Group does not have floating interest bearing assets or liabilities as of 31 December 2017, and as such, management has not presented interest rate sensitivity analysis.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash. Due to the dynamic nature of the underlying businesses, the Group's treasury aims to maintain flexibility in funding by keeping sufficient cash available.

The table below shows financial liabilities as at 31 December 2017 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the reporting date.

The maturity analysis of financial liabilities as at 31 December 2017 is as follows:

	Demand and less than 3 months	From 3 to 12 months	More than 12 months	Total
Liabilities				
Borrowings	2,687,722	62,109,417	13,319,444	78,116,583
Trade payables	15,099,016	-	-	15,099,016
Due to related parties	1,177,333	-	-	1,177,333
Total future payments	18,964,071	62,109,417	13,319,444	94,392,932

The comparative maturity analysis of financial liabilities as at 31 December 2016 is detailed below:

	Demand and less than 3 months	From 3 to 12 months	More than 12 months	Total
Liabilities				
Borrowings	2,942,139	57,683,278	10,624,500	71,249,917
Trade payables	21,605,956	-	-	21,605,956
Due to related parties	1,525,559	-	-	1,525,559
Total future payments	26,073,654	57,683,278	10,624,500	94,381,432

Management believes that the payments of the borrowings and other financial liabilities will be financed by cash flows from operating activities and that the Group will be able to meet its obligations as they fall due. The Group can extend borrowings up to an additional twelve months, subject to consent of the lenders (Note 14).

Fair value of financial instruments

The Group does not carry any financial assets or liabilities at fair value. Management of the Group considers that the carrying amount of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values due to their short-term maturities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)*(in thousand of Kazakhstani Tenge, unless otherwise stated)***Capital management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for owners and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to owners, return capital to owners, issue new capital and sell assets to reduce debt.

Offsetting a financial asset and a financial liability

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows as at 31 December 2017:

	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position and net amount of exposure (c) = (a) - (b)
ASSETS			
Trade receivables from Interconnect services	3,240,121	2,625,399	614,722
Trade receivables from roaming services	<u>1,449,632</u>	<u>1,190,082</u>	<u>259,550</u>
Total assets subject to offsetting, master netting and similar arrangement	<u>4,689,753</u>	<u>3,815,481</u>	<u>874,272</u>
LIABILITIES			
Trade payables for interconnect services	3,319,596	2,625,399	694,197
Trade payables for roaming services	<u>1,190,082</u>	<u>1,190,082</u>	<u>-</u>
Total liabilities subject to offsetting, master netting and similar arrangement	<u>4,509,678</u>	<u>3,815,481</u>	<u>694,197</u>

Financial instruments represented by trade receivables from interconnect services in the amount of 285,577 thousand Tenge and corresponding trade payables in the amount of 4,944 thousand Tenge are not eligible for offsetting. Services include testing, monitoring, analysing and optimisation of international SMS traffic routes that are provided by various number of counterparties and the Group has no intention to process payables and receivables on a net basis.

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows as at 31 December 2016:

	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position and net amount of exposure (c) = (a) - (b)
ASSETS			
Trade receivables from Interconnect services	4,938,459	4,486,183	452,276
Trade receivables from roaming services	<u>4,548,493</u>	<u>2,653,379</u>	<u>1,895,114</u>
Total assets subject to offsetting, master netting and similar arrangement	<u>9,486,952</u>	<u>7,139,562</u>	<u>2,347,390</u>
LIABILITIES			
Trade payables for interconnect services	5,235,844	4,486,183	749,661
Trade payables for roaming services	<u>2,653,379</u>	<u>2,653,379</u>	<u>-</u>
Total liabilities subject to offsetting, master netting and similar arrangement	<u>7,889,223</u>	<u>7,139,562</u>	<u>749,661</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

The amount set off in the statement of financial position reported in column (b) is the lower of (i) the gross amount before offsetting reported in column (a) and (ii) the amount of the related instrument that is eligible for offsetting.

The Group has master netting arrangements with telecom operators, which are enforceable in case of default. In addition, applicable legislation allows an entity to unilaterally set off trade receivables and payables that are due for payment, denominated in the same currency and outstanding with the same counterparty. These fall in the scope of the disclosure as they were set off in the consolidated statement of financial position.

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Republic of Kazakhstan continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments. For the purpose of fair value disclosures the Group determines below described instruments' fair value hierarchy as level 2 (significant observable inputs).

Financial assets carried at amortised cost

The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of cash and cash equivalents, trade receivables and due from related parties approximate fair values due to their short-term maturities. As at 31 December 2017 and 31 December 2016, the fair value of financial assets was not significantly different from their carrying value.

Financial liabilities carried at amortised cost

The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Carrying amounts of trade payables, dividends payable and due to related parties approximate fair values due to their short term maturities. As at 31 December 2017 and 31 December 2016, the fair value of financial liabilities was not significantly different from their carrying value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)*(in thousand of Kazakhstani Tenge, unless otherwise stated)*

22. SUBSEQUENT EVENTS

Order № 403 of the Minister of Information and Communications of the Republic of Kazakhstan dated 21 November 2017 on Amendments and Additions to the Order № 171 of the Acting Minister for Investment and Development of the Republic of Kazakhstan dated 24 February 2015 "On Approval of the Rules for the Provision of Communication Services" was officially published on 16 January 2018, and came into force on 26 January 2018. Rules state that mobile operators will be obliged:

- (i) to inform subscribers when bonus allowances are fully consumed and charge from the main balance only after receiving respective consent from subscriber. In case subscriber did not give the consent, operator should postpone services (paragraph 26);
- (ii) potentially it will not be allowed to operators to allow debt of subscribers in roaming (which contradicts to the Rules).

The violations of new rules can be recognized as an abuse of dominant position that entails a penalty of 5 percent of the total income of the Group or 10 percent in case if repeated within a year with monopoly revenue confiscation.

Management is currently assessing the risks associated with the introduction of new rules in order to comply with the amendments and additions to the "Rules for the Provision of Communication services".

Order № 91 of the Committee of the National Security dated 20 December 2016 on approval of Technical Regulations "General requirements to the telecommunication equipment in ensuring conducting of operative search measures, collection and storage of subscribers' information" was published on 7 February 2017 and came into force on 8 February 2018. According to the new regulations, there are additional requirements to the telecommunication equipment that include expansion of technical capabilities of equipment to conduct operative search activities, collection and storage of subscribers' information ("ORA"). Management is currently implementing the action plan in order to comply with the requirements of Technical Regulations.

On 16 January 2018, the Group undertook a bond placement on the Kazakhstan Stock Exchange, in which bonds to the value of 4.95 billion Tenge were placed with investors at a yield of 11.5 percent. This was the first placement in the programme which the Group had announced on 14 December 2017, aimed at expanding and diversifying the Group's funding sources, increasing the average term of Kcell's financial liabilities and decreasing its funding costs. The programme details are as follows:

Type of bonds:	Unsecured coupon bonds
Amount of bonds:	30,000,000 (thirty million) bonds
Nominal price of a bond:	1,000 (one thousand) Tenge
Total volume of the bond issue:	30,000,000,000 (thirty billion) Tenge