



KCELL JSC

Consolidated Financial Statements
for the year ended 31 December 2018
and Independent Auditor's Report

KCELL JSC

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**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES
FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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 2018, 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 2018 were approved by management on 28 February 2019.

Approved for issue and signed on behalf of the Management


Kaspars Kukelis
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 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (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.

Emphasis of Matter

We draw attention to Note 5 to the consolidated financial statements which describes the restatement of corresponding figures for the year ended 31 December 2017. Our opinion is not modified in respect of this matter.

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>Capital expenditure (Assets under construction)</p> <p>As discussed in Note 10 to the consolidated financial statements, as of the reporting date 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 once such assets are completed and put into operations.</p> <p>There is a number of areas where management judgements impact the carrying value of Assets under construction. These include:</p> <ul style="list-style-type: none"> • identifying whether costs qualify for recognition as an asset; and • the timeliness of transfer from assets in the course of construction to the appropriate classes of property. 	<p>We tested the operating effectiveness of controls in place over recognition of capital expenditures (assets under construction), evaluated the appropriateness of the Group's capitalisation policies, performed tests of details on costs capitalised during the reporting year, and assessed the nature of capitalised costs and whether the expenditure met the capitalisation criteria.</p> <p>On a sample basis, we tested the transfer of assets under construction to the appropriate property class by reviewing 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.</p> <p>No significant issues were noted from our testing.</p>

Revenue recognition

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 on revenue recognition (tariff structures, the appropriateness of the allocation of the transaction price between multiple performance obligations in a bundled transaction, etc.).

Due to the complexity of judgements and estimates related to revenues and the risks associated with the adoption of IFRS 15 "Revenue from contracts with customers" ("IFRS 15"), we identified revenue recognition and related disclosure as a key audit matter.

We 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 appropriately and processed through the billing systems, allowing us to rely on the controls in place within the billing system.

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.

We tested the basis of allocation of total transaction value between multiple elements in bundled transactions.

We analysed the requirements of IFRS 15 and challenged the policies and methods applied by the Group in respect of revenue recognition against the new requirements. We ensured that the Group appropriately restated its comparatives to account for the effects of transition to IFRS 15. We made sure that the disclosures included in these consolidated financial statements were appropriate under IFRS 15.

We 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 performance obligations in a bundled transaction to ensure that the Group accounting policies were determined appropriately and applied consistently.

Based on our work, we noted no significant issues related to the accuracy and cut-off of revenue recorded in the year.

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, which constitute the key audit matters included herein.

Mark Smith
Engagement Partner
Chartered Accountant
Institute of Chartered Accountant of
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dated 13 January 2017

28 February 2019
Almaty, the Republic of Kazakhstan

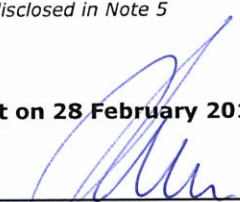
KCELL JSC
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(in thousand of Kazakhstani Tenge)

	Note	31 December 2018	31 December 2017 (restated)*	1 January 2017 (restated)*
ASSETS				
Non-current assets				
Property, plant and equipment	10	88,675,636	93,680,082	95,321,606
Intangible assets	11	40,605,754	43,060,675	42,842,480
Long-term trade receivables	12	3,009,995	1,617,206	1,162,961
Restricted cash		36,533	38,733	86,419
Cost to obtain contract		388,802	221,089	103,541
Total non-current assets		132,716,720	138,617,785	139,517,007
Current assets				
Inventories		4,728,092	3,424,664	3,587,082
Trade and other receivables	12	22,580,797	20,316,900	18,854,596
Prepaid current income tax		-	3,148,134	8,659,979
Due from related parties	9	1,018,003	810,492	738,983
Cash and cash equivalents		6,029,042	12,659,844	8,476,653
Total current assets		34,355,934	40,360,034	40,317,293
TOTAL ASSETS		167,072,654	178,977,819	179,834,300
EQUITY				
Share capital	13	33,800,000	33,800,000	33,800,000
Retained earnings		34,275,289	36,739,391	36,718,134
TOTAL EQUITY		68,075,289	70,539,391	70,518,134
LIABILITIES				
Non-current liabilities				
Deferred income tax liability	19	1,503,915	4,667,305	5,887,620
Other non-current liabilities		1,362,042	1,354,594	1,285,482
Borrowings	15	14,935,969	12,000,000	8,000,000
Total non-current liabilities		17,801,926	18,021,899	15,173,102
Current liabilities				
Borrowings	15	51,782,817	58,417,722	57,414,639
Trade and other payables	14	18,000,475	24,404,683	28,042,710
Due to related parties	9	674,718	1,177,333	1,525,559
Deferred revenue	16	7,297,746	6,007,580	6,759,535
Income tax payable		1,853,827	-	-
Taxes payable		1,585,856	409,211	400,621
Total current liabilities		81,195,439	90,416,529	94,143,064
TOTAL LIABILITIES		98,997,365	108,438,428	109,316,166
TOTAL EQUITY AND LIABILITIES		167,072,654	178,977,819	179,834,300

*The retrospective restatement of the consolidated financial statements is disclosed in Note 5

Approved for issue and signed on behalf of the Management on 28 February 2019


Kaspars Kukelis
Chief Executive Officer


Andis Locmelis
Chief Financial Officer

The accompanying notes on pages 12 to 48 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	2018	2017 (restated)*
Revenues	16	149,700,750	147,474,558
Cost of sales	17	(99,431,482)	(92,193,763)
Gross profit		50,269,268	55,280,795
Selling and marketing expenses	17	(9,805,296)	(10,388,284)
General and administrative expenses	17	(19,226,774)	(15,561,277)
Other operating income		1,009,590	1,027,660
Other operating expenses	17	(1,191,787)	(618,051)
Operating profit		21,055,001	29,740,843
Finance income	18	1,102,558	957,314
Finance costs	18	(9,894,089)	(10,376,680)
Profit before income tax		12,263,470	20,321,477
Income tax expense	19	(3,732,438)	(8,622,220)
Profit and total comprehensive income for the year		8,531,032	11,699,257
Earnings per share (Kazakhstani Tenge), basic and diluted	13	42.66	58.50

*The retrospective restatement of the consolidated financial statements is disclosed in Note 5

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 28 February 2019


Kaspars Kukelis
Chief Executive Officer


Andis Locmelis
Chief Financial Officer

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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 2017 (as previously reported)	33,800,000	38,880,286	72,680,286
Impact of adopting IFRS 15 (Note 5)	-	843,811	843,811
Corrections of errors (Note 5)	-	(3,005,963)	(3,005,963)
Balance at 1 January 2017 (restated)*	33,800,000	36,718,134	70,518,134
Profit and total comprehensive income for the year (restated)*	-	11,699,257	11,699,257
Dividends declared (Note 13)	-	(11,678,000)	(11,678,000)
Balance at 31 December 2017 (restated)*	33,800,000	36,739,391	70,539,391
Impact of adopting IFRS 9 (Note 6)	-	682,866	682,866
Restated opening balance under IFRS 9	33,800,000	37,422,257	71,222,257
Profit and total comprehensive income for the year	-	8,531,032	8,531,032
Dividends declared (Note 13)	-	(11,678,000)	(11,678,000)
Balance at 31 December 2018	33,800,000	34,275,289	68,075,289

*The retrospective restatement of the consolidated financial statements is disclosed in Note 5

Approved for issue and signed on behalf of the Management on 28 February 2019


Kaspars Kukelis
Chief Executive Officer


Andis Locmelis
Chief Financial Officer

The accompanying notes on pages 12 to 48 are an integral part of these consolidated financial statements

KCELL JSC

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousand of Kazakhstani Tenge)

	Note	2018	2017 (restated)*
Cash flows from operating activities			
Profit for the year		8,531,032	11,699,257
Adjustments for:			
Depreciation of property, plant and equipment	10	18,873,906	17,384,246
Amortisation of intangible assets	11	7,758,259	5,762,324
Income tax		1,667,855	4,291,530
Net foreign exchange loss		420,199	108,305
Interest income		(781,039)	(722,764)
Interest expense		9,720,695	10,104,293
Impairment of trade receivables		1,981,368	966,405
		48,172,275	49,593,596
Operating cash flows before working capital changes			
Change in working capital and other balances:			
Trade and other receivables		(4,350,433)	(4,331,508)
Long-term trade receivables		(1,392,789)	(454,245)
Due from related parties		(207,511)	(71,509)
Inventories		(1,303,428)	162,418
Taxes payable		1,176,645	8,590
Trade and other payables		(6,886,386)	(507,577)
Due to related parties		(502,615)	(348,226)
Deferred revenue		1,290,166	(751,955)
Cost to obtain contract		(167,713)	(117,548)
Other		2,197	47,686
		35,830,408	43,229,722
Cash generated from operations			
Interest paid		(9,040,881)	(10,469,528)
Interest received		781,039	722,764
		27,570,566	33,482,958
Net cash generated from operating activities			
Cash flows from investing activities			
Purchase of property, plant and equipment		(12,460,152)	(18,951,198)
Purchase of intangible assets		(6,791,345)	(3,632,732)
		(19,251,497)	(22,583,930)
Net cash used in investing activities			
Cash flows from financing activities			
Proceeds from bank borrowings	15	26,840,000	48,000,000
Proceeds from bond issued	15	4,950,000	-
Repayment of borrowings	15	(35,210,000)	(43,000,000)
Dividends paid	13	(11,678,000)	(11,678,000)
		(15,098,000)	(6,678,000)
Net cash used in financing activities			
Net (decrease)/increase in cash and cash equivalents			
Effects of exchange rate changes on the balance of cash held in foreign currencies		148,129	(37,837)
Cash and cash equivalents at the beginning of the year		12,659,844	8,476,653
		6,029,042	12,659,844
Cash and cash equivalents at the end of the year			

*The retrospective restatement of the consolidated financial statements is disclosed in Note 5

Approved for issue and signed on behalf of the Management on 28 February 2019

 **Kaspars Kukelis**
Chief Executive Officer

 **Andis Locmelis**
Chief Financial Officer

The accompanying notes on pages 12 to 48 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 2018 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") 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 13).

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.

On 21 December 2018, the 75 percent stake in the Company owned by Telia Company was sold directly to Kazakhtelecom JSC ("Parent"). Kazakhtelecom JSC is controlled by the Government of the Republic of Kazakhstan through Sovereign Wealth Fund "Samruk-Kazyna" JSC ("Samruk-Kazyna") which owns 51% of Kazakhtelecom's controlling shares.

The Company owns the following subsidiaries:

	Ownership interest		Voting power	
	2018	2017	2018	2017
KazNet Media LLP (Note 3)	100%	100%	100%	100%
KT-Telecom LLP	100%	100%	100%	100%
AR-Telecom LLP	-	100%	-	100%

On 27 September 2018, the Company liquidated AR-Telecom LLP.

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 2018, the principal rate of exchange used for translating foreign currency balances was US Dollar ("USD") 1 = Tenge 384.20 (31 December 2017: USD 1 = Tenge 332.33). 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 11, 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 based on an expected credit loss model. The Group accounts expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. The primary factors that the Group considers whether a receivable is impaired is its overdue status, collection history and forward looking macro-economic factors.

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 recognized when the goods or services are transferred to the customer, at the transaction price, 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 that revenue is recognised. The revenue is allocated to equipment and services on a relative stand-alone selling price basis.

The stand-alone selling prices are determined based on the list prices at which the Group sells the mobile devices and telecommunication services. 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.

As a practical expedient, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if the Group expects, at contract inception, that the period between when the Group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

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.

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 Group sells part of payment scratch cards, sim cards, and handsets using dealers. The Group pays a certain commission to dealers depending on the number of payment scratch cards, sim cards or handset sold. Sales commissions and equipment subsidies granted to dealers for obtaining a specific contract are capitalised and deferred over the period over which the Group expects to provide services to the customer. Other commissions to dealers are 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

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.

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***Financial assets***

All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as fair value through profit or loss (FVTPL). Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognized immediately in profit or loss.

All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- Debt instruments 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 amount outstanding (SPPI), are subsequently measured at amortized cost;
- Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income (FVTOCI);

All other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

Debt instruments at amortized cost or at FVTOCI

The Group assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Group's business model for managing the asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

For an asset to be classified and measured at amortized cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Financial assets at FVTPL

Financial assets at FVTPL are:

- Assets with contractual cash flows that are not SPPI; or/and
- Assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- Assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognized in profit or loss.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire hybrid (combined) contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains/losses arising on remeasurement recognized in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'net income from other financial instruments at FVTPL' line item in the profit or loss account.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

However, for non-derivative financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

For issued loan commitments and financial guarantee contracts that are designated as at FVTPL all gains and losses are recognized in profit or loss.

In making the determination of whether recognizing changes in the liability's credit risk in OCI will create or enlarge an accounting mismatch in profit or loss, the Group assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL. This determination is made at initial recognition.

Other financial liabilities

Other financial liabilities, including payables and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

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 20).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

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 2018, the Company did not apply for permission to use the frequencies.

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, 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.

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 46,433,697 thousand Tenge (Note 10) as at 31 December 2018 (2017: 53,685,373 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

Provisions and 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.

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 2018 amounted to 1,503,915 thousand Tenge (as at 31 December 2017: 4,667,305 thousand Tenge) (Note 19).

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.

As at 31 December 2018, the Group's net current liabilities are 46,839,505 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. In 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. 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.

5. RESTATEMENT OF PRIOR PERIOD FINANCIAL INFORMATION DUE TO APPLICATION OF IFRS 15 AND CORRECTION OF ERRORS**Impact of application of IFRS 15 Revenue from contracts with customers**

The Group applied IFRS 15 in accordance with the full retrospective transitional approach by restating all comparative periods presented. The Group's accounting policies for its revenue streams are disclosed in detail in Note 2 above.

The most significant changes to the Group's accounting policies and the effect of transition to IFRS 15 for each financial statements line affected is illustrated below.

Bundled offerings: prior to transition to IFRS 15 the Group's accounting for and recognition of revenue for bundled offerings and allocation of the consideration between equipment and services did not contradict the principles outlined in IFRS 15, except for the basis of allocation of transaction price to performance obligations under the contracts, in particular to mobile devices and telecommunication services which previously was proportion of fair value of individual items. Following the adoption of IFRS 15, transaction prices were allocated based on standalone selling price basis. A detailed analysis of performance obligations and revenue recognition for each type of customer contract was performed and the model used in the previous financial year was revised for certain types of customer contracts, the effect was not material.

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

Incremental costs for obtaining a contract: Sales commissions and equipment subsidies granted to dealers for obtaining a specific contract are capitalised and deferred over the period over which the Group expects to provide services to the customer, according to IFRS 15 requirements. The Group did not capitalize such costs in the periods prior to IFRS 15 adoption. The main effect of transition to IFRS 15 for the Group relates to capitalisation of costs to obtain the contract and their subsequent amortization through the statement of comprehensive income.

Correction of errors

In the process of preparing the consolidated financial statements for the year ended 31 December 2018 the management of the Group identified certain errors in the previously issued financial statements for the years ended 31 December 2017 and 31 December 2016.

The management of the Group identified certain errors related to the reconciliation of current income tax expense recognised in the consolidated financial statements for the years ended 31 December 2012, 2013, 2014 and 2015 with the Group's actual income tax returns for the years then ended. The Group recognised current income tax expense in the consolidated financial statements based on the estimates before tax returns were submitted to the tax authorities. The Group did not account for the differences between the current income tax expense previously recognized in the consolidated financial statements and actual amounts in the income tax returns. The effect of these corrections is included in the restated retained earnings and prepaid current income tax in the amount of 1,915,867 thousand Tenge as at 1 January 2017 (refer to (i) "correction of errors related to reconciliation of current income tax" in the table below).

In the previously issued consolidated financial statements for the years ended 31 December 2017 and 31 December 2016 the Group did not recognise expenses related to interconnect fees due to certain third party suppliers. The Group restated comparative information that resulted in increased interconnect fees and expenses in the amount of 2,086,368 thousand Tenge in the year ended 31 December 2017 and increased trade payables in the amount of 3,176,465 thousand Tenge and 1,090,096 thousand Tenge as at 31 December 2017 and 2016 (refer to (ii) "correction of errors related to interconnect fees and expenses" in the table below).

The effects of the corrections of errors and IFRS 15 adoption is presented below.

Effect on the consolidated statement of financial position as at 1 January 2017

<i>In thousand of Tenge</i> As at 1 January 2017	As previously reported	Impact of IFRS 15	Corrections of errors	As restated
Cost to obtain contract	-	103,541	-	103,541
Total non-current assets	139,413,466	103,541	-	139,517,007
Trade and other receivables	18,238,920	615,676	-	18,854,596
Prepaid current income tax	10,575,846	-	(1,915,867) (i)	8,659,979
Total current assets	41,617,484	615,676	(1,915,867)	40,317,293
TOTAL ASSETS	181,030,950	719,217	(1,915,867)	179,834,300
Retained Earnings	38,880,286	843,811	(3,005,963) (i), (ii)	36,718,134
TOTAL EQUITY	72,680,286	843,811	(3,005,963)	70,518,134
Deferred income tax liability	6,012,214	(124,594)	-	5,887,620
Total non-current liabilities	15,297,696	(124,594)	-	15,173,102
Trade and other payables	26,952,614	-	1,090,096 (ii)	28,042,710
Total current liabilities	93,052,968	-	1,090,096	94,143,064
TOTAL LIABILITIES	108,350,664	(124,594)	1,090,096	109,316,166
TOTAL EQUITY AND LIABILITIES	181,030,950	719,217	(1,915,867)	179,834,300

- (i) correction of errors related to reconciliation of current income tax
(ii) correction of errors related to interconnect fees and expenses

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

Effect on the consolidated statement of comprehensive income for the year ended 31 December 2017

<i>In thousand of Tenge</i>	<u>As previously reported</u>	<u>Impact of IFRS 15</u>	<u>Corrections of errors (i)</u>	<u>As restated</u>
For the year ended 31 December 2017				
Revenue	147,228,988	245,570	-	147,474,558
Cost of sales	(90,107,393)	-	(2,086,370)	(92,193,763)
Gross profit	57,121,595	245,570	(2,086,370)	55,280,795
Selling and marketing expenses	(10,505,832)	117,548	-	(10,388,284)
General and administrative expenses	(15,523,936)	(37,341)	-	(15,561,277)
Operating profit	31,501,436	325,777	(2,086,370)	29,740,843
Profit before income tax	22,082,070	325,777	(2,086,370)	20,321,477
Income tax expense	(8,647,824)	25,604	-	(8,622,220)
Profit and total comprehensive income for the period	13,434,246	351,381	(2,086,370)	11,699,257
Earnings per share (Kazakhstani Tenge), basic and diluted	67.17	1.76	(10.43)	58.50

(i) correction of errors related to interconnect fees and expenses

Effect on the consolidated statement of financial position as at 31 December 2017

<i>In thousand of Tenge</i>	<u>As previously reported</u>	<u>Impact of IFRS 15</u>	<u>Corrections of errors</u>	<u>As restated</u>
As at 31 December 2017				
Long-term trade receivables	1,437,480	179,726	-	1,617,206
Cost to obtain contract	-	221,089	-	221,089
Total non-current assets	138,216,970	400,815	-	138,617,785
Trade and other receivables	19,672,722	644,178	-	20,316,900
Prepaid current income tax	5,064,001	-	(1,915,867) (i)	3,148,134
Total current assets	41,631,723	644,178	(1,915,867)	40,360,034
TOTAL ASSETS	179,848,693	1,044,993	(1,915,867)	178,977,819
Retained Earnings	40,636,532	1,195,191	(5,092,332) (i), (ii)	36,739,391
TOTAL EQUITY	74,436,532	1,195,191	(5,092,332)	70,539,391
Deferred income tax liability	4,817,503	(150,198)	-	4,667,305
Total non-current liabilities	18,172,097	(150,198)	-	18,021,899
Trade and other payables	21,228,218	-	3,176,465 (ii)	24,404,683
Total current liabilities	87,240,064	-	3,176,465	90,416,529
TOTAL LIABILITIES	105,412,161	(150,198)	3,176,465	108,438,428
TOTAL EQUITY AND LIABILITIES	179,848,693	1,044,993	(1,915,867)	178,977,819

(i) correction of errors related to reconciliation of current income tax

(ii) correction of errors related to interconnect fees and expenses

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)*(in thousand of Kazakhstani Tenge, unless otherwise stated)**Effect on the consolidated statement of cash flows for the year ended 31 December 2017*

<i>In thousand of Tenge</i>	As previously reported	Impact of IFRS 15	Corrections of errors (i)	As restated
For the year ended 31 December 2017				
Profit for the period	13,434,246	351,381	(2,086,370)	11,699,257
Income tax	4,317,134	(25,604)	-	4,291,530
Operating cash flows before working capital changes	51,354,189	325,777	(2,086,370)	49,593,596
Changes in working capital and other balances:				
Trade and other receivables	(4,303,005)	(28,503)	-	(4,331,508)
Long-term trade receivables	(274,519)	(179,726)	-	(454,245)
Trade and other payables	(2,593,947)	-	2,086,370	(507,577)
Cost to obtain contract	-	(117,548)	-	(117,548)

(i) correction of errors related to interconnect fees and expenses

6. 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 in these consolidated financial statements:

- IFRS 15 Revenue from Contracts with Customers;
- IFRS 9 Financial Instruments;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration;
- Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions;
- Amendments to IAS 40 – Transfers of Investment Property;
- Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts;
- Annual Improvements to IFRSs 2014-2016 Cycle.

The adoption of the above mentioned Standards and Interpretations has not led to any changes in the Group's accounting policies and did not materially affect the consolidated financial statements of the Group, with the exception of IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments as follows.

In the current year, the Group has applied IFRS 9 Financial Instruments that is mandatorily effective for an accounting period that begins on or after 1 January 2018. 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. In the current year, the Group changed incurred credit loss model to expected credit loss model, although the effect was not material.

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

In relation to a modification of terms of a financial liability, the Group needs to consider whether that modification is substantial. The treatment of non-substantial modification is different under IAS 39 and IFRS 9. Under IAS 39, the Group did not recognize any gain or loss at the time of non-substantial modification. At the point of modification the carrying amount of the financial liability is revised for directly attributable transaction costs and any consideration paid to or received from the counterparty. The effective interest rate is then adjusted to amortise the difference between the revised carrying amount and the expected cash flows over the life of the modified instrument. Under IFRS 9, a gain or loss shall be recognized at the point of a non-substantial modification. The modification gain or loss is equal to the difference between the present value of the cash flows under the original and modified terms discounted at the original effective interest rate. At the point of modification the carrying amount of the financial liability is revised to reflect the new cash flows discounted by the original effective interest rate as well as directly attributable transaction costs and any cash paid to or received from the counterparty. The effective interest rate is then adjusted to amortise the difference between the revised carrying amount and the expected cash flows over the life of the modified instrument.

Corresponding information was not restated for the effect of IFRS 9 adoption, as the modified retrospective approach was applied on transition, which allows recognition of differences in the opening retained earnings at the beginning of the period. The adjustment to the retained earnings as at 1 January 2018 was caused by the effect of change in accounting for the non-substantial loan modification in the amount of 682,866 thousand Tenge, net of income tax. Due to immaterial nature of the resulting adjustment, the notes to the consolidated financial statements do not contain separate disclosure of the impacts of IFRS 9 adoption on the consolidated statement of financial position, statement of comprehensive income and statement of cash flows.

The Group has applied IFRS 15 Revenue from Contracts with customers that is mandatorily effective for an accounting period that begins on or after 1 January 2018. The Group has amended accounting for bundled offerings and incremental costs for obtaining a contract (Note 5).

7. 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 17 Insurance Contracts</i>	1 January 2021*
<i>IFRIC 23 Uncertainty Over Income Tax Treatments</i>	1 January 2019*
<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 IFRS 9 – Prepayment Features With Negative Compensation and modifications of financial liabilities</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 2015-2017 Cycle</i>	1 January 2019*

*with earlier application permitted

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

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.

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 assessed an impact of the new standard on the financial results. The Group reviewed their agreements that may contain lease and evaluated the disclosure requirements of the new guidance, and will design and implement any identified necessary controls. The preliminary assessment indicates that the Group will recognise the right of use asset of 24,756,315 thousand Tenge and the corresponding lease liability of 25,594,676 thousand Tenge. The impact on profit or loss for the year ended 31 December 2018 is to decrease expenses by 5,834,772 thousand Tenge, to increase depreciation by 2,630,329 thousand Tenge and to increase interest expense by 2,320,888 thousand Tenge.

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.

8. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)*(in thousand of Kazakhstani Tenge, unless otherwise stated)***9. 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. For the majority of the year Telia Company was the ultimate parent company of the Group. Telia Company group includes entities under common control and associates of Telia Company. On 21 December 2018, the 75 percent stake in the Company owned by Telia Company was sold directly to Kazakhtelecom JSC. Kazakhtelecom JSC is controlled by the Government of the Republic of Kazakhstan through Sovereign Wealth Fund "Samruk-Kazyna" JSC ("Samruk-Kazyna") which owns 51% of Kazakhtelecom's controlling shares (Note 1). Governmental entities include entities under common control and associates of the Government of the Republic of Kazakhstan.

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:

		2018	2017
Due from related parties	Entities of Telia Company group	358,090	810,492
Due to related parties	Entities of Telia Company group	71,963	135,926
Due to related parties	Fintur Holdings B.V.	474,596	1,041,407
Revenue	Entities of Telia Company group	538,393	897,529
Expense	Entities of Telia Company group	1,274,050	3,807,743
Expense	Fintur Holdings B.V.	474,735	103,977
		2018	2017
Due from related parties	Entities of NWF "Samruk-Kazyna" group	452,534	-
Due from related parties	Entities of Kazakhtelecom JSC group	199,106	-
Due from related parties	Governmental entities	8,273	-
Due to related parties	Entities of NWF "Samruk-Kazyna" group	14,823	-
Due to related parties	Entities of Kazakhtelecom JSC group	112,063	-
Due to related parties	Governmental entities	1,273	-
Revenue	Entities of NWF "Samruk-Kazyna" group	7,825	-
Revenue	Entities of Kazakhtelecom JSC group	62,203	-
Revenue	Governmental entities	8,115	-
Expense	Entities of NWF "Samruk-Kazyna" group	44,949	-
Expense	Entities of Kazakhtelecom JSC group	12,303	-
Expense	Governmental entities	2,982	-

Amounts due from related parties are neither past due nor impaired. 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 20.

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 dependent on the 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 409,349 thousand Tenge for the year ended 31 December 2018 (2017: 236,408 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)

10. 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 2017					
Cost	21,216,911	193,752,896	26,553,990	16,711,684	258,235,481
Accumulated depreciation and impairment losses	(5,313,603)	(137,350,205)	(20,250,067)	-	(162,913,875)
Carrying amount as at 1 January 2017	<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	(579,066)	(14,604,457)	(2,200,723)	-	(17,384,246)
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	(5,892,669)	(151,954,662)	(22,450,790)	-	(180,298,121)
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>
Additions	123,935	-	1,010,949	13,079,613	14,214,497
Transfers	374,922	8,084,799	180,748	(8,640,469)	-
Transfer to Advances given for Intangible assets (Note 11)	-	-	-	(345,037)	(345,037)
Depreciation charge	(646,165)	(15,336,475)	(2,891,266)	-	(18,873,906)
As at 31 December 2018					
Cost	21,775,227	213,724,834	31,288,572	21,059,030	287,847,663
Accumulated depreciation and impairment losses	(6,538,834)	(167,291,137)	(25,342,056)	-	(199,172,027)
Carrying amount as at 31 December 2018	<u>15,236,393</u>	<u>46,433,697</u>	<u>5,946,516</u>	<u>21,059,030</u>	<u>88,675,636</u>

As at 31 December 2018, the gross carrying value of property, plant and equipment, which had been fully depreciated and were still in use, was 125,217,497 thousand Tenge (31 December 2017: 105,879,825 thousand Tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

11. INTANGIBLE ASSETS

	Software and licenses	Intangible assets in progress	Advances given	Total
As at 1 January 2017				
Cost	73,151,906	5,638,363	8,222	78,798,491
Accumulated amortisation	(35,956,011)	-	-	(35,956,011)
Carrying amount as at 1 January 2017	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
Additions	4,523,468	184,819	250,014	4,958,301
Transfer of Advances given for Property, plant and equipment (Note 10)	-	-	345,037	345,037
Transfers	112,514	548,872	(661,386)	-
Amortisation charge	(7,758,259)	-	-	(7,758,259)
As at 31 December 2018				
Cost	88,401,148	1,190,441	490,759	90,082,348
Accumulated amortisation	(49,476,594)	-	-	(49,476,594)
Carrying amount as at 31 December 2018	38,924,554	1,190,441	490,759	40,605,754

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

As at 31 December 2018, the carrying amount of the 3G license was 2,333,333 thousand Tenge (31 December 2017: 2,666,667 thousand Tenge) and its remaining amortisation period was 7 years. As at 31 December 2018, the carrying amount of the 4G license was 20,944,444 thousand Tenge (31 December 2017: 22,677,777 thousand Tenge) and its remaining amortisation period was 12 years. As at 31 December 2018, the gross carrying value of intangible assets, which had been fully amortised and were still in use was 27,630,351 thousand Tenge (31 December 2017: 19,275,605 thousand Tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

12. TRADE AND OTHER RECEIVABLES

	31 December 2018	31 December 2017 (restated)*	1 January 2017 (restated)*
Trade receivables from subscribers	20,579,975	16,394,364	13,571,486
Trade and other receivables from dealers and distributors	629,826	326,613	1,280,359
Trade receivables from roaming operators	456,470	259,550	1,895,114
Trade receivables for interconnect services	330,859	900,299	452,276
Less: allowance for impairment of trade receivables	<u>(6,680,113)</u>	<u>(5,642,354)</u>	<u>(2,839,931)</u>
Total financial assets	15,317,017	12,238,472	14,359,304
Less: long-term trade receivables from subscribers	(3,009,995)	(1,617,206)	(1,162,961)
Total current financial assets	12,307,022	10,621,266	13,196,343
VAT recoverable	6,674,090	5,516,033	2,330,281
Prepaid other taxes	1,201,942	497,818	454,778
Advances to suppliers	975,529	2,556,276	1,456,953
Deferred expenses	411,507	446,512	544,379
Other receivables	<u>1,010,707</u>	<u>678,995</u>	<u>871,862</u>
Total trade and other receivables	22,580,797	20,316,900	18,854,596

*The retrospective restatement of the consolidated financial statements is disclosed in Note 5

Total financial assets are denominated in currencies as follows:

	31 December 2018	31 December 2017 (restated)*	1 January 2017 (restated)*
Tenge	14,860,547	11,978,922	12,464,190
US dollar	456,470	259,550	1,895,114
Total financial assets	15,317,017	12,238,472	14,359,304

*The retrospective restatement of the consolidated financial statements is disclosed in Note 5

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 2018	31 December 2017 (restated)*	1 January 2017 (restated)*
<i>Total neither past due nor impaired</i>	10,391,317	9,123,562	12,594,547
<i>Past due but not impaired</i>			
due for 1 month	998,019	118,310	77,591
due for 2 months	984,739	881,987	61,162
due for 3 months	510,551	577,530	213,468
due for 4 to 6 months	811,176	696,213	941,068
due for more than 6 months	1,621,215	840,870	471,468
<i>Total past due but not impaired</i>	4,925,700	3,114,910	1,764,757
<i>Impaired</i>			
30 to 60 days	268,376	72,966	56,860
60 to 90 days	11,254	22,752	69,496
90 to 120 days	133,627	110,273	82,514
120 to 200 days	202,978	171,071	232,627
over 200 days	6,063,878	5,265,292	2,398,434
<i>Total impaired</i>	6,680,113	5,642,354	2,839,931
<i>Allowance for impairment of trade receivables</i>	<u>(6,680,113)</u>	<u>(5,642,354)</u>	<u>(2,839,931)</u>
Total financial assets	15,317,017	12,238,472	14,359,304

*The retrospective restatement of the consolidated financial statements is disclosed in Note 5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

The main factors, which the Group takes into account when considering whether receivables are impaired, are their past due status, historical experience of collectability and forward looking macro-economic factors.

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 12,704,826 thousand Tenge will be fully repaid in 2019.

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

	2018	2017 (restated)*
As at 1 January	5,642,354	2,839,931
Charge for the year	1,981,368	2,864,623
Receivables written off during the year as uncollectible	(943,609)	(62,200)
As at 31 December	6,680,113	5,642,354

**The retrospective restatement of the consolidated financial statements is disclosed in Note 5*

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

13. SHARE CAPITAL AND EARNINGS PER SHARE

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

	31 December 2018		31 December 2017	
	Share	Number of shares	Share	Number of shares
JSC Kazakhtelecom	75.00 percent	150,000,000	-	-
JSC Raiffeisenbank	11.14 percent	22,282,367	-	-
JSC Freedom Finance	5.68 percent	11,353,659	9.08 percent	18,153,541
Single Accumulative Pension Fund	1.72 percent	3,431,950	1.14 percent	2,270,950
Fintur	-	-	51.00 percent	102,000,000
TeliaSonera Kazakhstan	-	-	24.00 percent	48,000,000
JSC Central Securities Depository	-	-	13.24 percent	26,472,717
Other	6.46 percent	12,932,024	1.54 percent	3,102,792

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. On 21 December 2018, the 75 percent stake in the Company owned by Fintur and TeliaSonera Kazakhstan was sold directly to Kazakhtelecom JSC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

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

	2018	2017 (restated)*
Profit for the period attributable to equity shareholders	8,531,032	11,699,257
Weighted average number of common shares	200,000,000	200,000,000
Earnings per share (Kazakhstani Tenge), basic and diluted	42.66	58.50

*The retrospective restatement of the consolidated financial statements is disclosed in Note 5

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 2018 and 31 December 2017 is presented below.

	31 December 2018	31 December 2017 (restated)*
Net assets, excluding intangible assets	27,469,535	27,478,716
Number of common shares in issue	200,000,000	200,000,000
Book value per share (Kazakhstani Tenge)	137.35	137.39

*The retrospective restatement of the consolidated financial statements is disclosed in Note 5

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

	2018	2017
Dividends payable as at 1 January	-	-
Dividends declared during the year	11,678,000	11,678,000
Dividends paid during the year	(11,678,000)	(11,678,000)
Dividends payable as at 31 December	-	-

14. TRADE AND OTHER PAYABLES

	31 December 2018	31 December 2017 (restated)*	1 January 2017 (restated)*
Trade payables	13,372,884	18,275,481	22,696,052
Total financial liabilities	13,372,884	18,275,481	22,696,052
Accrued salaries and bonuses to employees	1,716,864	1,334,003	1,276,596
Other payables	2,910,727	4,795,199	4,070,062
Total trade and other payables	18,000,475	24,404,683	28,042,710

*The retrospective restatement of the consolidated financial statements is disclosed in Note 5

Trade payables are denominated in currencies as follows:

	31 December 2018	31 December 2017 (restated)*	1 January 2017 (restated)*
Tenge	6,287,335	14,174,439	10,602,504
US dollar	7,085,549	4,099,843	11,624,078
Other	-	1,199	469,470
Total financial liabilities	13,372,884	18,275,481	22,696,052

*The retrospective restatement of the consolidated financial statements is disclosed in Note 5

KCELL JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

15. BORROWINGS

	31 December 2018	31 December 2017
Eurasian Development Bank	29,749,590	26,103,278
Halyk Bank of Kazakhstan JSC	21,688,817	34,209,722
SB Alfabank JSC	10,086,666	10,104,722
Bonds	5,193,713	-
Total borrowings	66,718,786	70,417,722
<i>Including</i>		
Long-term loans – principal amount	10,000,000	12,000,000
Short-term loans – principal amount	51,630,000	58,000,000
Loans discount	(366,125)	-
Long-term bonds	4,935,969	-
Loans– accrued interest	261,198	417,722
Accrued coupon payable on bonds	257,744	-
	31 December 2018	31 December 2017
Short-term borrowings	51,782,817	58,417,722
Long-term borrowings	14,935,969	12,000,000
Total borrowings	66,718,786	70,417,722

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 2018 are as follows:

Bank name	Date of issue	Maturity date	Nominal interest rate	Principal amount	Outstanding balance
Eurasian Development Bank	10.02.2017	20.12.2019	12.00%	29,630,000	29,749,590
Halyk Bank of Kazakhstan JSC	28.11.2016	02.12.2019	11.50%	8,000,000	7,818,525
Halyk Bank of Kazakhstan JSC	23.09.2016	20.09.2019	11.50%	4,000,000	3,893,578
Halyk Bank of Kazakhstan JSC	19.07.2018	16.07.2021	11.50%	10,000,000	9,976,714
Alfabank JSC	26.06.2018	07.06.2019	12.00%	5,000,000	5,036,666
Alfabank JSC	04.07.2018	07.06.2019	12.00%	5,000,000	5,050,000
Total				61,630,000	61,525,073

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

KCELL JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

	<u>Maturity</u>	<u>Coupon rate, %</u>	<u>31 December 2018</u>	<u>31 December 2017</u>
Unsecured Tenge denominated bonds	16 January 2021	11.50%	4,950,000	-
Including/(excluding): Discount on bonds issued, net			(14,031)	-
Accrued coupon payable			257,744	-
			<u>5,193,713</u>	<u>-</u>

As at 31 December 2018 and 2017, no assets were pledged under borrowing agreements.

As at 31 December 2018 and 2017, 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 2018</u>	<u>Financing cash flows*</u>	<u>31 December 2018</u>
Borrowings, principal amount	70,000,000	(8,370,000)	61,630,000
Bonds	-	4,950,000	4,950,000

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

16. REVENUES

	<u>2018</u>	<u>2017 (restated)*</u>
Voice and other services	77,515,304	80,050,026
Data service	45,799,748	45,540,808
Sale of handsets	18,432,075	12,081,596
Value added services	7,953,623	9,802,128
Total revenues	<u>149,700,750</u>	<u>147,474,558</u>
	<u>2018</u>	<u>2017 (restated)*</u>
At a point in time	18,432,075	12,081,596
Over time	131,268,675	135,392,962
Total revenues	<u>149,700,750</u>	<u>147,474,558</u>

*The retrospective restatement of the consolidated financial statements is disclosed in Note 5

A reconciliation of movements in deferred revenue is as follows:

	<u>2018</u>
As at 1 January	6,007,580
Payments received from subscribers	101,653,985
Revenue	(95,578,274)
Utilisation for other services	(4,785,545)
As at 31 December	<u>7,297,746</u>

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

Revenue in the amount of 6,007,580 thousand tenge was recognised in year ended 31 December 2018 that was included in the deferred revenue balance at the beginning of the period.

17. 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 are classified by nature as follows:

	2018	2017 (restated)*
Depreciation and amortisation	26,632,165	23,146,570
Interconnect fees and expenses	25,255,806	25,889,588
Network maintenance expenses	15,986,284	16,126,531
Cost of SIM card, scratch card, start package sales and handsets	15,026,175	11,004,649
Staff costs	11,421,009	10,949,404
Frequency usage charges and taxes other than on income	12,835,449	11,388,790
Transmission rent	9,647,353	9,803,504
Sales commissions to dealers and advertising expenses	2,949,694	2,481,146
Amortisation expense of cost to obtain the contract	264,519	125,017
Other	8,445,098	7,228,125
Total expenses	<u>128,463,552</u>	<u>118,143,324</u>

*The retrospective restatement of the consolidated financial statements is disclosed in Note 5

Amortisation and depreciation by function were as follows:

	2018	2017
Cost of sales	23,075,157	20,361,235
General and administrative expenses	3,557,008	2,785,335
Total depreciation of property, plant and equipment and amortisation of intangible assets	<u>26,632,165</u>	<u>23,146,570</u>

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

	2018	2017
Operational foreign exchange loss	1,025,442	415,968
Other	166,345	202,083
Total other operating expenses	<u>1,191,787</u>	<u>618,051</u>

18. FINANCE INCOME AND FINANCE COSTS

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

	2018	2017
Interest income	781,137	722,764
Foreign exchange gains related to financing arrangements	321,421	234,550
Total finance income	<u>1,102,558</u>	<u>957,314</u>

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

	2018	2017
Interest expense	9,720,695	10,104,293
Foreign exchange losses related to financing arrangements	173,394	272,387
Total finance costs	<u>9,894,089</u>	<u>10,376,680</u>

KCELL JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

19. TAXES

Income tax expense comprised the following:

	<u>2018</u>	<u>2017 (restated)*</u>
Current income tax	6,893,128	7,267,496
Deferred income tax	(3,334,106)	(1,220,315)
Current income tax (benefit)/expense in respect of prior years	173,416	2,575,039
Total income tax expense	<u>3,732,438</u>	<u>8,622,220</u>

*The retrospective restatement of the consolidated financial statements is disclosed in Note 5

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>2018</u>	<u>2017 (restated)*</u>
Profit before income tax	<u>12,263,470</u>	<u>20,321,477</u>
Theoretical tax charge at the statutory rate of 20 percent	2,452,694	4,064,295
Other non-deductible expenses	1,106,328	1,982,886
	3,559,022	6,047,181
Adjustments recognised in the current year in relation to the current tax of prior years	173,416	2,575,039
Income tax expense	<u>3,732,438</u>	<u>8,622,220</u>

*The retrospective restatement of the consolidated financial statements is disclosed in Note 5

The Group paid income tax in the amount of 5,099,039 thousand Tenge for the year ended 31 December 2018 (2017: 5,012,000 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.

	<u>31 December 2017 (restated)*</u>	<u>Credited to profit or loss</u>	<u>Impact of IFRS 9*</u>	<u>31 December 2018</u>
Tax effects of deductible temporary differences				
Other	2,479,324	(9,924)	(170,716)	2,298,684
Gross deferred tax asset	<u>2,479,324</u>	<u>(9,924)</u>	<u>(170,716)</u>	<u>2,298,684</u>
Tax effect of taxable temporary differences				
Property, plant and equipment and Intangible assets	7,146,629	(3,344,030)	-	3,802,599
Gross deferred tax liability	<u>7,146,629</u>	<u>(3,344,030)</u>	<u>-</u>	<u>3,802,599</u>
Less offsetting with deferred tax assets	(2,479,324)	9,924	170,716	(2,298,684)
Recognised deferred tax liability, net	<u>4,667,305</u>	<u>(3,334,106)</u>	<u>170,716</u>	<u>1,503,915</u>

*Impact of IFRS 9 is disclosed in Note 6

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

Comparative movements for year ended 31 December 2017 is detailed below:

	1 January 2017 (as previously reported)	Adjustment*	1 January 2017 (restated)*	Debited/ credited to profit or loss	31 December 2017
Tax effects of deductible temporary differences					
Other	1,158,353	124,594	1,282,947	1,196,377	2,479,324
Gross deferred tax asset	1,158,353	124,594	1,282,947	1,196,377	2,479,324
Tax effect of taxable temporary differences					
Property, plant and equipment and Intangible assets	7,170,567	-	7,170,567	(23,938)	7,146,629
Gross deferred tax liability	7,170,567	-	7,170,567	(23,938)	7,146,629
Less offsetting with deferred tax assets	(1,158,353)	(124,594)	(1,282,947)	(1,196,377)	(2,479,324)
Recognised deferred tax liability, net	6,012,214	(124,594)	5,887,620	(1,220,315)	4,667,305

*The retrospective restatement of the consolidated financial statements is disclosed in Note 5

20. 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 between 2012 and 2015. Following the 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. In January 2018, the Company disputed the Notification of the tax authority in the First Instance Court and the Company's appeal was dismissed. Whilst the Company further appealed this decision, in June 2018, the Court of Appeal reviewed the appeal claim and left the unfavorable ruling of the First Instance Court in force. Although the decision is binding, the Company reserves the right to further appeal it in the Supreme Court. In the fourth quarter of 2016 and in the second quarter 2017, the Company made tax provisions of 4 billion Tenge and 2.8 billion Tenge, respectively. The Company made another tax provision of 1.4 billion Tenge, which was reported in the second quarter of 2018. During the third quarter of 2018, the Company has additionally accrued tax provisions in the amount of 0.8 billion Tenge, meaning the full amount at risk of 9 billion Tenge is provided for. On 5 November 2018 the Company filed a petition to the cassation instance of the Supreme Court of the Republic of Kazakhstan. On 5 December 2018, the petition was dismissed by Resolution of a judge of the Supreme Court of the Republic of Kazakhstan. The Company intends to appeal to the Supreme Court of the Republic of Kazakhstan again. The goal of the Company is to cancel the decisions of the Almaty City Specialized Inter-district Economic Court and the court of Almaty.

Capital expenditure commitments

As at 31 December 2018, the Group has contractual capital expenditure commitments in respect of property, plant and equipment and intangible assets totaling 4,295,229 thousand Tenge (31 December 2017: 6,873,547 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 depository 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.

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 IFRS 9 Financial Instruments. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

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 can 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 2018, 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 2018, the instrument has been used, the outstanding balance is 546 thousand Tenge.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

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 2018, the total amount returned to subscribers is 2,618,045 thousand Tenge. As at 31 December 2018, the Company accrued a provision in the amount of 116,640 thousand Tenge (31 December 2017: 116,640 thousand Tenge). The Company expects further refunding the subscription of fees until point 2 above is enforced.

New Technical Regulations

Order No. 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 (hereinafter - ORA). Management is currently implementing an action plan in order to comply with the requirements of Technical Regulations.

Amendments and addendums to the "Rules of communication service provision"

Order No. 403 of the Minister of Information and Communications of the Republic of Kazakhstan dated 21 November 2017 on Amendments and Additions to the Order No. 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. The 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 (item 26); and
- (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 an abuse of dominant position that entails a penalty of 5% of the total income of the company or 10% 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".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)*(in thousand of Kazakhstani Tenge, unless otherwise stated)***Cases related to the abuse of dominant position**

On 19 October 2018, the Committee on Regulation of Natural Monopolies, Protection of Competition and Consumer Rights of the Ministry of National Economy of the Republic of Kazakhstan ("Committee") initiated administrative proceedings against the Company for an alleged administrative violation related to the abuse of its dominant position in 2017.

The potential fine, which can be imposed by the court, constitutes approximately 2 billion Tenge. According to the Committee, the violation resulted in the establishment of different prices for Kcell's mobile Internet access service with a data allowance, when the data allowance was exceeded or the monthly subscription fee was not paid in a timely manner.

In addition, the Committee issued an order for the Company to return to Kcell brand subscribers all fees charged in 2017 when the monthly data allowance was exceeded and when the monthly subscription fee for mobile Internet access services had not been paid. Kcell has filed an appeal against this decision with the court.

The Company appealed the order issued by the Committee referring to noncompliance with the requirements of the law.

The management of the Company believes that the overall claim will be satisfied in favor of the Company, and so no provision has been made for this amount.

Physical verification of fixed assets

Starting from June 2017 Kcell Solutions LLP ("the Subsidiary") began the process of physical verification of the Company's fixed assets at its work sites and warehouses, visiting, counting and reconciliation procedures over fixed assets of the Company with accounting data as a general contractor. The Group is analysing shortages and surpluses identified during the physical verification of fixed assets and assessing their potential tax effect.

21. 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.

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

	Note	31 December 2018	31 December 2017 (restated)*
Cash and cash equivalents		6,029,042	12,659,844
Trade receivables	12	12,307,022	10,621,266
Long-term trade receivables	12	3,009,995	1,617,206
Due from related parties	9	1,018,003	810,492
Restricted cash		36,533	38,733
Total maximum exposure to credit risk		22,400,595	25,747,541

*The retrospective restatement of the consolidated financial statements is disclosed in Note 5

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

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 12). 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 2018	31 December 2017	31 December 2018	31 December 2017
US Dollar	7,085,549	4,099,843	1,203,082	2,472,071
Euro	-	-	21,473	212,019
Others	-	1,199	1,482	4,280

As at 31 December 2018, 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 2018 would have been 468,761 thousand Tenge lower/higher (2017: 113,014 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 2018 than at 31 December 2017 because of the increased amount of US Dollar denominated cash and cash equivalents at 31 December 2018 offsets exposure to US Dollar denominated accounts payable.

Cash flow and fair value interest rate risk

The Group does not have floating interest bearing assets or liabilities as of 31 December 2018, 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.

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

The table below shows financial liabilities as at 31 December 2018 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 2018 is as follows:

	Demand and less than 3 months	From 3 to 12 months	More than 12 months	Total
Liabilities				
Borrowings	5,693,931	53,098,692	16,926,723	75,719,346
Trade payables	13,372,884	-	-	13,372,884
Due to related parties	674,718	-	-	674,718
Total future payments	19,741,533	53,098,692	16,926,723	89,766,948

The comparative maturity analysis of financial liabilities as at 31 December 2017 is detailed below:

	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	18,275,481	-	-	18,275,481
Due to related parties	1,177,333	-	-	1,177,333
Total future payments	22,140,536	62,109,417	13,319,444	97,569,397

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 15).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)*(in thousand of Kazakhstani Tenge, unless otherwise stated)***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 2018:

	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position and net amount of exposure
	(a)	(b)	(c) = (a) - (b)
ASSETS			
Trade receivables from interconnect services	219,099	38,772	180,327
Trade receivables from roaming services	884,173	427,703	456,470
Total assets subject to offsetting, master netting and similar arrangement	<u>1,103,272</u>	<u>466,475</u>	<u>636,797</u>
LIABILITIES			
Trade payables for interconnect services	291,577	38,772	252,805
Trade payables for roaming services	427,703	427,703	-
Total liabilities subject to offsetting, master netting and similar arrangement	<u>719,280</u>	<u>466,475</u>	<u>252,805</u>

Financial instruments represented by trade receivables from interconnect services in the amount of 150,532 thousand Tenge and corresponding trade payables in the amount of 8,555 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 2017:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

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.

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.

22. 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 2018 and 31 December 2017, 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 2018 and 31 December 2017, the fair value of financial liabilities was not significantly different from their carrying value.

23. SUBSEQUENT EVENTS

In February 2019, the Group fully repaid loans to Alfa-Bank JSC and opened a credit line in the SB JSC VTB Bank Kazakhstan in the amount of 5 billion Tenge for a period of one year and annual interest rate of 10.9%