



## **KazTransCom JSC**

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

# KAZTRANSCOM JSC

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## KAZTRANSCOM JSC

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

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

In preparing the 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 consolidated financial position and financial performance;
- 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 the consolidated 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 International Financial Reporting Standards;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2017 were approved by management of the Group on 28 February 2018.

On behalf of the Management of the Group:

  
Khan A.V.  
General Director



  
Kolupayeva E.V.  
Chief Accountant

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of KazTransCom JSC

### Opinion

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

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

### Basis for Opinion

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

### Key Audit Matters

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

**Why the matter was determined to be a key audit matter**

**How the matter was addressed in the audit**

<p><b>Revenue recognition</b></p> <p>Recognition of revenue from communication services was determined to be a key audit matter as the accuracy and completeness of recognised revenue is reliant on the information recorded in the billing system, which is dependent on both the capture of revenue by the system and the correct rates being input and applied.</p> <p>Revenue from communication services is disclosed in Note 20 of the consolidated financial statements.</p>	<p>With the assistance of our IT specialists we evaluated relevant IT systems and tested operating effectiveness of controls over:</p> <ul style="list-style-type: none"> <li>- capture and recording of revenue transactions;</li> <li>- authorisation of rate changes and the input of this information into the billing system;</li> <li>- calculation of amounts billed to customers; and</li> <li>- transfer of data from the billing to accounting system.</li> </ul> <p>We applied a combination of substantive analytical procedures and tests of details to ensure that revenue is recognised in the appropriate amount and the correct period. For tests of details we selected a sample of invoices and checked them to contracts and acts of acceptance.</p> <p>No significant issues were noted as a result of our testing.</p>
<p><b>Accounting for costs related to MCNet Project</b></p> <p>The Group capitalises costs in respect of major capital projects, mostly, MCNet Project associated with the construction of a new optic fiber backbone line through Kazakhstan (Note 9).</p> <p>There is a number of areas where management judgement impacts the carrying value of Assets under construction. These include:</p> <ul style="list-style-type: none"> <li>- identifying whether costs meet the criteria for capitalisation in accordance with IAS 16 "Property, Plant and Equipment" for recognitions as an asset; and</li> <li>- determining the timeliness of the transfer from assets in the course of construction to the appropriate classes of Property, Plant and Equipment.</li> </ul> <p>Based on the above we identified the application of capitalisation criteria and accounting for major capital projects as a key audit matter.</p>	<p>We evaluated the Group's capitalisation policy for its compliance with IAS 16 and obtained understanding of the process of capitalisation of costs related to construction and acquisition of property, plant and equipment.</p> <p>We analysed the MCNet Project budget, significant contracts and inquired management of the current status of the project and planned completion date.</p> <p>For a sample of capitalised expenditure, we inspected supporting documentation, assessed the nature and amounts of capitalised expenditure, analysed appropriateness of its capitalisation and the timeliness of transfer to Property, Plant and Equipment.</p> <p>No significant issues were noted as a result of our procedures.</p>

## **Other Information**

Management is responsible for the other information. The other information comprises the information included in the Annual report, and 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 the 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 scepticism 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, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters included herein.

*Olga*

Olga Belonogova  
Engagement Partner  
Certified Public Accountant  
State of Oregon, USA  
Certificate No. 10687  
dated 2 December 2003

*Daulet*

Daulet Kuatbekov  
Qualified auditor  
Certificate  
No. 0000523  
dated 15 February 2002  
Republic of Kazakhstan

*Deloitte, LLP*

Deloitte, LLP  
State audit license of the  
Republic of Kazakhstan  
No. 0000015, type MFU-2, issued by the  
Ministry of Finance of the  
Republic of Kazakhstan  
on 13 September 2006



*Nurlan*

Nurlan Bekenov  
General Director  
Deloitte LLP

28 February 2018

Almaty, Kazakhstan

**KAZTRANSCOM JSC**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2017**
*(in thousands of Tenge)*

	Note	31 December 2017	31 December 2016
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	16,147,373	15,470,704
Intangible assets	10	305,895	218,082
Goodwill	5	123,298	123,298
Non-current receivables		52,744	549
Other non-current assets		380,517	3,290
<b>Total non-current assets</b>		<b>17,009,827</b>	<b>15,815,923</b>
<b>Current assets</b>			
Inventories	13	1,118,702	1,197,315
Trade and other receivables	14	4,107,847	3,046,200
Prepayments to suppliers		163,745	209,303
Prepaid income tax		299,835	211,298
Other current assets	15	363,824	425,516
Cash and cash equivalents	16	402,649	482,964
<b>Total current assets</b>		<b>6,456,602</b>	<b>5,572,596</b>
<b>TOTAL ASSETS</b>		<b>23,466,429</b>	<b>21,388,519</b>
<b>EQUITY</b>			
Share capital	17	46,662	46,662
Additional paid-in capital	17	7,009	7,009
Other reserves	18	7,455	7,455
Retained earnings		18,848,892	17,340,741
<b>TOTAL EQUITY</b>		<b>18,910,018</b>	<b>17,401,867</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings		2,110	2,110
Deferred income tax liabilities	25	1,860,901	1,483,826
Provisions for asset retirement obligations		45,900	46,410
Other non-current liabilities		299,664	-
<b>Total non-current liabilities</b>		<b>2,208,575</b>	<b>1,532,346</b>
<b>Current liabilities</b>			
Trade payables	19	1,533,206	1,638,468
Income tax payable		18,315	14,121
Other payables	19	796,315	801,717
<b>Total current liabilities</b>		<b>2,347,836</b>	<b>2,454,306</b>
<b>TOTAL LIABILITIES</b>		<b>4,556,411</b>	<b>3,986,652</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>23,466,429</b>	<b>21,388,519</b>

Signed on behalf of Management on 28 February 2018:


  
Khan A.V.  
General Director


  
Kolupayeva E.V.  
Chief Accountant

The accompanying Notes on pages 10 to 45 are an integral part of these consolidated financial statements.



# KAZTRANSCOM JSC

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

(in thousands of Tenge)

	Note	2017	2016
Revenue	20	19,706,182	19,571,611
Cost of sales	21	(14,899,768)	(15,572,941)
<b>Gross profit</b>		<b>4,806,414</b>	<b>3,998,670</b>
Other operating income		70,753	50,199
Distribution costs	22	(629,395)	(594,018)
General and administrative expenses	23	(2,322,107)	(2,508,238)
Other operating expenses, net		(12,622)	(4,958)
<b>Operating profit</b>		<b>1,913,043</b>	<b>941,655</b>
Finance income	24	67,383	264,762
Finance costs		(137)	(30,688)
<b>Profit before income tax</b>		<b>1,980,289</b>	<b>1,175,729</b>
Income tax expense	25	(402,128)	(273,599)
<b>Profit for the year</b>		<b>1,578,161</b>	<b>902,130</b>
<b>Total comprehensive income for the year</b>		<b>1,578,161</b>	<b>902,130</b>
<b>Share of total comprehensive income attributable to shareholders of the Group</b>		<b>1,578,161</b>	<b>902,130</b>
<b>Earnings per ordinary share, basic and diluted in tenge</b>	<b>26</b>	<b>646.18</b>	<b>369.01</b>
<b>Earnings per preferred share, basic and diluted in tenge</b>	<b>26</b>	<b>666.18</b>	<b>389.01</b>

Income for the year and total comprehensive income is fully attributable to shareholders of the Group.

Signed on behalf of Management on 28 February 2018:

  
Khan A.V.  
General Director

  
Kolupayeva E.V.  
Chief Accountant

The accompanying Notes on pages 10 to 45 are an integral part of these consolidated financial statements.

# KAZTRANSCOM JSC

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

(in thousands of Tenge)

	Note	2017	2016
<b>Cash flows from operating activities</b>			
Sales of goods, works, services		16,830,537	16,210,043
Advances received		634,454	591,235
Payments to suppliers for goods and services		(8,006,878)	(7,647,344)
Advances paid		(1,233,852)	(2,220,996)
Salaries and wages payable		(2,877,194)	(2,848,586)
Interest received from deposits		35,344	181,570
Interest expense on borrowings		-	(23,260)
Corporate income tax paid		(121,647)	(513,677)
Other payments to budget		(2,346,497)	(2,038,160)
Other		(625,947)	(629,098)
<b>Net cash from operating activities</b>		<b>2,288,320</b>	<b>1,061,727</b>
<b>Cash flows from investing activities</b>			
Proceeds from disposal of property, plant and equipment		9,224	9,953
Net cash outflow on acquisition of subsidiaries	5	-	(550,199)
Acquisition of intangible assets		(129,489)	(42,417)
Acquisition of property, plant and equipment		(2,192,086)	(4,414,229)
Repayments by related parties		-	11,521
<b>Net cash used in investing activities</b>		<b>(2,312,351)</b>	<b>(4,985,371)</b>
<b>Cash flows from financing activities</b>			
Repayment of borrowings		-	(400,000)
Dividends paid	17	(73,182)	(47,266)
<b>Net cash used in financing activities</b>		<b>(73,182)</b>	<b>(447,266)</b>
Net decrease in cash		(97,213)	(4,370,910)
Cash and cash equivalents at the beginning of the year	16	482,964	4,782,924
Effects of exchange rate changes on the balance of cash held in foreign currencies		16,898	70,950
<b>Cash and cash equivalents at the end of the year</b>	16	<b>402,649</b>	<b>482,964</b>

Signed on behalf of Management on 28 February 2018:

  
Khan A.V.  
General Director

  
Kolupayeva E.V.  
Chief Accountant

The accompanying Notes on pages 10 to 45 are an integral part of these consolidated financial statements.

**KAZTRANSCOM JSC**

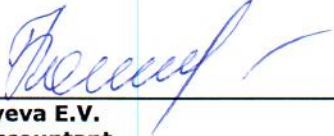
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2017**

*(in thousands of Tenge)*

	Note	Share capital	Additional paid-in capital	Other reserves	Retained earnings	Total equity
<b>Balance as at 1 January 2016</b>		<b>46,662</b>	<b>7,009</b>	<b>7,455</b>	<b>16,480,183</b>	<b>16,541,309</b>
Profit for the year		-	-	-	902,130	902,130
Total comprehensive income for the year		-	-	-	902,130	902,130
Dividends paid	17	-	-	-	(41,572)	(41,572)
<b>Balance as at 31 December 2016</b>		<b>46,662</b>	<b>7,009</b>	<b>7,455</b>	<b>17,340,741</b>	<b>17,401,867</b>
Profit for the year		-	-	-	1,578,161	1,578,161
Total comprehensive income for the year		-	-	-	1,578,161	1,578,161
Dividends paid	17	-	-	-	(70,010)	(70,010)
<b>Balance as at 31 December 2017</b>		<b>46,662</b>	<b>7,009</b>	<b>7,455</b>	<b>18,848,892</b>	<b>18,910,018</b>

Signed on behalf of Management on 28 February 2018:

  
Khan A.V.  
General Director

  
Kolupayeva E.V.  
Chief Accountant

The accompanying Notes on pages 10 to 45 are an integral part of these consolidated financial statement.

## KAZTRANSCOM JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(in thousands of Tenge)

#### 1. KAZTRANSCOM JSC AND ITS OPERATIONS

These consolidated financial statements have been prepared in accordance with IFRS for the year ended 31 December 2017 for KazTransCom JSC ("the Company") and its subsidiaries (together "the Group").

The Company was incorporated on 1 August 2001 as an Open Joint Stock Company, in accordance with the legislation of the Republic of Kazakhstan. The Company is a successor of CaspiyMunaiBailanys OJSC incorporated in Atyrau Region of the Republic of Kazakhstan on 1 February 1999. In 2001, the Company signed an agreement with Aktubneftesvyaz OJSC (Aktobe) and Bailanys OJSC (Pavlodar) on a legal merger with the Company and reorganization of those companies into the Company's branches. 1 January 2004 is the date of the Company's transition to IFRS. On 8 September 2004, the Company was reregistered as a Joint Stock Company.

As at 31 December 2017, the Group's shareholders are Rodnik INC LLP (81.77%), Abdrakhmanov M.A. (9.99%), and other shareholders (8.24%). As at 31 December 2017, the shareholders of Rodnik INC were Almaty Engineering Company (50%), Sonera Holding B.V.(25%) and Lovou B.V.(25%). The ultimate owner of Almaty Engineering Company is Mr. Nalibayev A.Z., and Sonera Holding B.V. is ultimately owned by Telia Company AB; the ultimate owners of Lovou B.V. are individuals, 60% owned by Karibzhanov A. and others each of them holds less than 10%.

As at 31 December 2016, Sonera Holding B.V. was ultimately owned by Telia Company AB; the ultimate owners of Lovou B.V. were individuals, each of them holds less than 10%.

In 2016, the Company acquired 100% of shares of STS LLP and STS-network LLP. The companies provide communication services.

The Company owns the following subsidiaries:

	Ownership interest		Voting power	
	2017	2016	2017	2016
STS LLP	100%	100%	100%	100%
STS-network LLP	100%	100%	100%	100%

#### Principal activity

The Group's principal activity is the provision of telecommunication services in the Republic of Kazakhstan. The Group carries out its activities on the basis of a General license issued by the Agency of the Republic of Kazakhstan on Informatisation and Communication dated 14 October 2004. The Group is a member of National Telecommunication Association of the Republic of Kazakhstan. Currently, the integrated management system of the Group includes 4 systems based on 4 international standards ISO:

- quality management (ISO 9001:2015, CT PK ISO 9001:2009), last transmission since 2003 to new version of standard 2015 were in 2017, re-certificated audits are conducted once per three-year period, the last audit was conducted in 2017; supervision audits are annually.
- occupation health and safety management (OHSAS 18001:2007), since 2005 re-certificated audits are conducted once per three-year period, the last audit was conducted in 2017; supervision audits are annually.
- environmental management (ISO 14001:2015), since 2005 re-certificated audits are conducted once per three-year period, the last audit was conducted in 2017; supervision audits are annually.
- information security management systems (ISO/IEC 27001:2013), since 2011 re-certificated audits are conducted once per three-year period, the last audit was conducted in 2017; supervision audits are annually.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

*(in thousands of Tenge)*

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**Registered address and place of business**

The Group's registered address is: 69/204A, Rodostovtsev Street, Almaty, Republic of Kazakhstan.

As at 31 December 2017, the Company had 7 branches (as at 31 December 2016: 7 branches) in the Republic of Kazakhstan located in Aktobe, Pavlodar, Atyrau, Uralsk, Almaty, Aktau and Astana.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all periods presented.

**Basis of preparation**

These consolidated financial statements have been prepared in accordance with IFRS, according to principle of historical cost valuation with amendment on initial recognition of financial instruments by fair value. The main provisions of accounting policies used in preparation of these consolidated financial statements are discussed below. These principles were consistently applied in connection to all periods presented in the consolidated financial statements, unless specified otherwise.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates as well as exercise of professional judgment in the process of application of the Group's accounting policy. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant for consolidated financial statements are disclosed in Note 6. Actual results can differ from such accounting estimates.

**Basis of consolidation**

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.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)***(in thousands of Tenge)*

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**Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the Company's chief operating decision maker. Segments whose revenue, result or assets are not less than ten percent of total comprehensive income, total income or total assets of all operating segments are reported separately.

**Foreign currency translation***a) 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 is also tenge, the currency of the primary economic environment in which the Group operates.

*b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

On 31 December 2017, the official exchange rate of the Kazakhstan Stock Exchange used to recalculate the balances in foreign currency was 332.33 tenge per 1 US dollar (31 December 2016: 333.29 tenge per 1 US dollar). Conversion of tenge to other currencies is regulated by rules of currency restrictions and controls. Currently tenge is not a readily convertible currency outside the Republic of Kazakhstan.

**Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment loss.

Cost includes all costs directly attributable to acquisition of respective asset. The cost of self-constructed assets includes the cost of materials, direct labour and all other costs directly attributable to bringing an asset to working condition for intended use, and costs for dismantling and relocation of an asset and land plot recovery. Costs for acquisition of software directly attributable to functional purpose of the appropriate equipment are capitalised to cost of such equipment. Costs related to replacement of part of an item of property, plant and equipment, are recognised within the carrying amount of such an item, if it is probable that the Group will receive the future economic benefits and reasonable estimate of cost of such part is possible. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired. Costs of minor repairs and maintenance of items of property, plant and equipment are recognised in profit or loss as incurred. If an item of property, plant and equipment consists of separate components with different useful lives, each of them is stated as separate item (significant component) of property, plant and equipment.

At the end of each reporting period, the management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the Group's management estimates the recoverable amount, which 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 statement of profit or loss and other comprehensive income. 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.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised through profit or loss for the year within other operating income or expense.

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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.

	<b>Useful life (years)</b>
Buildings	10-50
Telecommunication equipment	5-20
Vehicles	5-10
Other	3-10

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 were 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 reporting date.

**Construction contracts**

The Group has a range of contracts on construction of telecommunication networks. Contract costs are recognised when incurred.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a construction contract can be estimated reliably, and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. Variations in contract work, claims and incentive payments are included in contract revenue to the extent that they have been agreed with the customer and are capable of being reliably measured. The Group uses the "percentage-of-completion method" to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the completion of a physical proportion of the contract work up to the end of the reporting period as a percentage of total physical contract works.

The Group presents as trade receivable the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within "trade and other receivables".

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed recognised profits determined by the percentage-of-completion method.

**Intangible assets**

All of the Group's intangible assets have definite useful lives and primarily include capitalised computer software and licenses.

Acquired computer software and licenses are capitalised on the basis of the costs incurred to acquire and bring them to use.

Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

(in thousands of Tenge)

Intangible assets are amortised using the straight-line method over their useful lives:

	<b>Useful life (years)</b>
Licenses	15
Software	10
Other	20

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

**Business combinations**

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- Deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

**Goodwill**

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of profit or loss and other comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.



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On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

**Impairment of non-financial assets**

At each reporting date the management assesses whether there is any indication of impairment of non-financial assets. If any such indication exists, the management estimates the recoverable amount, which 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 statement of profit or loss. 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.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Such a cash-generating unit for the Group are non-financial assets of its subsidiary.

**Financial instruments**

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

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

- b) *Classification of financial assets.* Financial assets of the Group include loans and receivables. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting period. These are classified as non-current assets. Loans and receivables in the Group's consolidated statement of financial position consist of trade and other receivables (Note 14), other current assets (Note 15), cash and cash equivalents (Note 16), and non-current receivables.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)***(in thousands of Tenge)*

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- c) *Classification of financial liabilities.* The Group's financial liabilities are financial liabilities which are carried at amortised cost. Financial liabilities in the financial position include trade payables (Note 19).
- d) *Initial recognition of financial instruments.* Financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.
- e) *Derecognition of financial asset.* The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost of inventory is assigned using first-in-first-out method (FIFO). Cost of finished goods and production in process comprises costs of materials, delivery to current location, direct labour costs, other direct costs, and corresponding proportion of overhead costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

**Prepayment**

Prepayments to suppliers are reported at cost less provision for doubtful debt. Prepayments to suppliers are classified as long-term, if the expected date of receipt of goods or services is more than one year, or if the payment of suppliers relate to assets that will be reflected in the account as long at initial recognition. The prepayment amount for the acquisition of the assets included in the carrying value when the Group receive the control of these assets and it is probable that future economic benefits associated with them, will be received by the Group. Other prepayments are written off after receipt of goods or services. If there is an indication that the assets, goods or services will not be received, the carrying value of prepaid shall be reduced to the amount of provision and the related provision is recognised through profit or loss for the year.

**Trade and other receivables**

Trade and other receivables are carried at amortised cost using the effective interest method.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account within the profit or loss for the year.

**Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities less than three months. Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the end of the reporting period are included in other non-current assets.

**Share capital**

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented in the Notes as a share premium.

Preference shares which carry a mandatory coupon or are redeemable on a specific date or at the option of the shareholder are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognised as interest expense on an amortised cost basis using the effective interest method.

Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

**Trade payables**

Trade payables are accrued when the counterparty performs its obligations under the contract and are carried at amortised cost using the effective interest method.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)***(in thousands of Tenge)*

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**Income tax**

Income taxes have been provided for in the consolidated financial statements in accordance with tax legislation of the Republic of Kazakhstan enacted or substantively enacted by the end of the reporting period. The income tax charge/(credit) comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and 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 end of the reporting period, 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 and liabilities are netted only within the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

**Value added tax**

Value added tax ("VAT") related to sales is payable to state budget 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 statement of financial position on net basis. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

**Employee benefits**

Wages, salaries, contributions to the pension fund, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services, camps services, etc.) are accrued in the year in which the associated services are rendered by the employees of the Group.

**Pension payments**

The Group does not incur any expenses relating to the payment of pension and other retirement benefits to its employees. In accordance with the laws of the Republic of Kazakhstan, the Group keeps pension contributions from employees' salaries and transfers them to the state pension fund. After the retirement of employee, liabilities of the Group are terminated, and all subsequent payments are made by state pension savings fund.

**Provisions for liabilities and charges**

Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Where there are a number of similar obligations, the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. The Group recognises the estimated liability to repair or replace products sold still under warranty at the end of each reporting period. This provision is calculated based on past history of the level of repairs and replacements.

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*(in thousands of Tenge)*

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**Asset retirement obligations**

Estimated costs of dismantling and removing an item of property, plant and equipment (asset retirement obligations) are added to the cost of an item of property plant and equipment when incurred either when an item is acquired or as the item is used during a particular period for purposes other than to produce inventories during that period.

Other movements in the provisions for asset retirement obligations, including costs, resulting from new disturbance, updated cost estimates, changes to the estimated lives of operations and revisions to discount rates are capitalised within property, plant and equipment. These costs are then depreciated over the lives of the assets to which they relate.

The amortisation or "unwinding" of the discount applied in establishing the net present value of provisions is charged to profit or loss for the year. The amortisation of the discount is shown as a financing cost.

When the asset achieves the end of its useful life all changes in liability are charged to profit or loss for the year.

**Revenue recognition**

Revenue is stated on accrual basis in the amount of receipts from sales less provided discounts and taxes, related to sales turnovers. Revenue is determined by fair value of the consideration received or receivable. Sales are shown net of VAT and discounts.

Revenues from sales of telecommunication equipment are recognised at the point of transfer of risks and rewards of ownership of the equipment, normally when the equipment is shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the equipment is passed to the customer at the destination point.

Call out revenue is recognised based on the actual airtime used by a subscriber. All the Group's subscribers are served on post-paid basis.

Revenues from providing an access to Internet network are stated on the basis of actual traffic used by a subscriber. The Internet users are served both on the prepaid and post-paid basis.

Sales of consulting services and installation services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

**Leases**

*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 for the year on a straight-line basis over the lease term. 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.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)***(in thousands of Tenge)*

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*Finance lease liabilities*

Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to the income statement over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

**Dividends**

Dividends are recognised as a liability and deducted from equity at the end of the reporting period only if they are declared before or at the end of the reporting period. Dividends are disclosed when they are proposed after the end of the reporting period but before the consolidated financial statements are authorised for issue and included to the Note "Events after the reporting period".

**Earnings per share**

Preference shares are neither redeemable, nor considered to be participating shares with respect to the distribution of dividends. Ordinary share dividends cannot exceed preference share dividends. Thus, preference shares are compound instruments with an equity component. The preference shares give their holders the right to participate in general shareholders' meetings without voting rights and to participate with voting rights when considering the issue in relation to reorganization and liquidation of the Group, when considering the issue of restriction of rights of preference shareholders, and also if dividends on preference shares are not paid in full in three months from the date of expiry of the period set for payment of such dividends. As a result, preference shares get voting rights without conversion to ordinary shares at the moment when dividends of preference shares are not paid in full in three months from the date of expiry of the period set for payment of such dividends until the dividends are paid.

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.

**3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)****Amendments to IFRSs affecting amounts reported in the financial statements**

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

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

The adoption of the above mentioned Standards and Interpretations has not led to any changes in the Group's accounting policies. The amendments did not materially affect the consolidated financial statements of the Group.

**Amendments to IAS 7 *Disclosure Initiative***

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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*(in thousands of Tenge)*

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**Annual Improvements to IFRSs - 2014-2016 Cycle**

The Group has applied the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Group (see the list of new and revised IFRSs in issue but not yet effective below).

IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

**New and revised IFRSs 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:

- IFRS 9 *Financial Instruments*<sup>1</sup>;
- IFRS 15 *Revenue from Contracts with Customers (and the related Clarifications)*<sup>1</sup>;
- IFRS 16 *Leases*<sup>2</sup>;
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*<sup>1</sup>;
- IFRIC 23 *Uncertainty Over Income Tax Treatments*<sup>2</sup>;
- Amendments to IFRS 2 – *Classification and Measurement of Share-based Payment Transactions*<sup>1</sup>;
- Annual Improvements to IFRSs 2014-2016 Cycle<sup>1</sup>;
- Annual Improvements to IFRSs 2015-2017 Cycle<sup>2</sup>.

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

**IFRS 9 *Financial Instruments***

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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(in thousands of Tenge)

The key requirements of IFRS 9 are:

- Classification and measurement of financial assets.** All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- Classification and measurement of financial liabilities.** With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- Impairment.** In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- Hedge accounting.** The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Group plans to adopt the new standard on the required effective date. During 2017, the Group has performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. Overall, the Group expects no significant impact on its balance sheet and equity except for the effect of applying the impairment requirements of IFRS 9. The Group expects changes in the loss allowance methodology and will perform a detailed assessment in the future to determine the extent.

**IFRS 15 Revenue from Contracts with Customers**

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



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

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

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

The management is still in the process of assessing the full impact of the application of IFRS 15 on the Group's consolidated financial statements and it is not practicable to provide a reasonable financial estimate of the effect until the management completes the detailed review.

**IFRS 16 Leases**

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

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

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 is still in the process of assessing the full impact of the application of IFRS 16 on the Group's consolidated financial statements and it is not practicable to provide a reasonable financial estimate of the effect until the management completes the detailed review.

**4. FINANCIAL RISK MANAGEMENT**

The Group's activities expose it to a variety of financial risks: market risk (including currency risk), credit risk and liquidity risk. The Group's overall risk management program 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 derivatives for risk hedging.

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in thousands of Tenge)

There is a Risk Committee under the Board of Directors established in the Group. The principal activity of the Committee is to analyse the Group's operations in order to detect risk events, analyse transaction risks and develop recommendations to decrease the Group's risks. The activities of the Committee have a recommendation nature.

#### Market risk

##### (a) Currency risk

The Group operates in the Republic of Kazakhstan, the majority part of the Group's transactions are carried out in tenge. The Group has some financial instruments denominated in US Dollar, British Pounds, Euro and Russian Roubles. They include some accounts receivable and accounts payable. The Group does not hedge such financial instruments, since the management does not consider currency risk as significant.

The table below shows maximum exposure of the Group to currency risk at the end of the reporting period:

	31 December 2017				31 December 2016			
	US Dollar	Euro	Russian Rouble	British Pounds	US Dollar	Euro	Russian Rouble	British Pounds
Trade and other receivables	2,129,668	27,873	-	-	1,159,975	51,822	-	-
Cash and cash equivalents	165,236	42,317	8	137	259,720	18,390	1	34
Other current assets	99,699	-	-	-	166,645	-	-	-
Trade payables	(663,333)	(8,052)	(2,821)	-	(911,692)	(5,979)	(13,203)	-
<b>Net position</b>	<b>1,731,270</b>	<b>62,138</b>	<b>(2,813)</b>	<b>137</b>	<b>674,648</b>	<b>64,233</b>	<b>(13,202)</b>	<b>34</b>
Strengthening of tenge against currency by 30% (2016: 30%)	(519,381)	(18,641)	844	(41)	(202,394)	(19,270)	3,961	(10)
Weakening of tenge against currency by 30% (2016: 30%)	519,381	18,641	(844)	41	202,394	19,270	(3,961)	10

Changes in exchange rates do not affect the Group's equity, since the Group does not have any financial instruments accounted for within equity. The analysis calculates the effect of a reasonably possible fluctuations of the currency rate against tenge, with all other variables held constant on the statement of profit or loss and other comprehensive income.

##### (b) Interest rate risk

Since the Group does not have any significant interest-bearing assets, the Group's income and cash flows from the Group's operating activity are mainly independent from changes in interest rates. As such, management has not presented interest rate sensitivity analysis.

##### (c) Price risk

The Group is not exposed to the price risk of equity securities, since the Group does not hold a portfolio of these securities.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**
*(in thousands of Tenge)*
**Credit risk**

Credit risk is managed at Group level. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables.

The table below shows maximum exposure of the Group to credit risk:

	Note	31 December 2017	31 December 2016
Non-current receivables		52,744	549
Trade and other receivables	14	4,107,847	3,046,200
Other current assets	15	99,699	166,645
Cash and cash equivalents	16	402,649	482,964
<b>Total maximum exposure to the credit risk</b>		<b>4,662,939</b>	<b>3,696,358</b>

The Group has policies in place to ensure that sales of services are made to customers with an appropriate credit history. If wholesale customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, corporate customers department assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Sales to customers are done on a post-paid basis and settled in cash. The Group management checks unsettled accounts receivable analysis by terms due and traces unpaid balances. The customers with unpaid balances are not provided with telecommunication services until full settlement. The management provided a settlement terms analysis and other information on credit risk in Note 14. As at 31 December 2017, 63% of the Group's trade accounts receivable is represented by 12 debtors (2016: 12 debtors represent 68%).

Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default. The ratings and balances with major banks at the end of the reporting period are presented in Note 12.

**Liquidity risk**

The Group exercises control over risk of cash shortage using long term (5 years) and short term (annual, quarterly and monthly) forecasts of future cash flows from operating activities. The Company has developed a number of internal regulations aimed to adopt control procedures of record keeping and making payments, and also regulations on operational budget settlement. The Group's aim is to maintain the balance between continuing financing and flexibility using bank overdrafts, bank loans, preference shares, finance lease and instalment contracts.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 2 and 5 years
<b>As at 31 December 2017</b>		
Borrowings	-	2,110
Trade payables	1,533,206	-
<b>Total financial liabilities</b>	<b>1,533,206</b>	<b>2,110</b>
	Less than 1 year	Between 2 and 5 years
<b>As at 31 December 2016</b>		
Borrowings	-	2,110
Trade payables	1,638,468	-
<b>Total financial liabilities</b>	<b>1,638,468</b>	<b>2,110</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**
*(in thousands of Tenge)*
**Capital risk management**

The Group's main objective when managing capital is to ensure stable credibility and normal level of capital adequacy for the Group's operations and maximum increase of return for shareholders. The Group manages capital structure and changes it in accordance with the changes in the economy. To maintain or adjust capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. Optimal structure of capital is formed through combination of borrowing and capital financing to decrease cost of capital.

The Group monitors capital on the basis of the gearing ratio. The Group's strategy is to optimise its gearing ratio through a combination of equity financing from its shareholder and external borrowings. This ratio is determined as total debt divided by total capital, and is considered as optimal if it does not exceed 200%. Total debt is determined as "borrowings" as shown in the statement of financial position. Total capital is determined as "total equity" as shown in the statement of financial position.

	<b>31 December 2017</b>	<b>31 December 2016</b>
Total debt	2,110	2,110
Total capital	18,910,018	17,401,867
<b>Gearing ratio</b>	<b>0%</b>	<b>0%</b>

The Group management considers the level of gearing ratio as at 31 December 2017 as optimal and reflecting the requirements of the industry.

**Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs).

All financial instruments of the Group are carried at amortised cost. Their fair value at the level 3 measurement have been determined using the discounted cash flows method.

*Financial assets 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. Applied rates of discounting depend on counterparty's credit risk. The carrying amounts of the Group's financial assets approximate fair values, due to their short-term nature.

## KAZTRANSCOM JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in thousands of Tenge)

#### *Liabilities carried at amortised cost*

The fair value of liabilities is determined using valuation techniques. The estimated fair value of fixed interest rate instruments, 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. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date on which the amount could be required to be paid. Due to the short-term nature of short-term financial payables, their carrying amounts approximate fair values.

#### 5. BUSINESS COMBINATIONS

	<u>Principal activity</u>	<u>Date of acquisition</u>	<u>Proportion of voting equity interests acquired, (%)</u>	<u>Consideration transferred</u>
STS LLP	Communication services	20 January 2016	100%	525,000
STS-Network LLP	Communication services	20 January 2016	100%	30,000
				<b><u>555,000</u></b>

On 20 January 2016, the Company acquired a 100% ownership interest in CTC LLP and CTC-Network LLP, whose activities are providing internet connection testings. The Company obtained control over the activity of CTC LLP and CTC-Network LLP since 20 January 2016.

The main purpose of the purchase was the switching equipment in order to expand telecommunication networks of the Company in Almaty.

The business acquisition has been accounted based on the purchase method.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**
*(in thousands of Tenge)*

The fair value of the acquired net assets at the acquisition date of the subsidiaries are presented as follows:

	<b>STS LLP</b>	<b>STS-Network LLP</b>
<b>Current assets</b>		
Cash	2,567	2,234
Trade and other receivables	28,804	10,827
Inventories	1,847	1
Other current assets	17,546	296
<b>Total current assets</b>	<b>50,764</b>	<b>13,358</b>
<b>Non-current assets</b>		
Property, plant and equipment	501,668	7,524
<b>Total non-current assets</b>	<b>501,668</b>	<b>7,524</b>
<b>Current liabilities</b>		
Trade and other payables	23,170	18,500
Payables to employees	693	486
Other current liabilities	4,102	3,680
Current tax liabilities	-	1,172
<b>Total current liabilities</b>	<b>27,965</b>	<b>23,838</b>
<b>Non-current liabilities</b>		
Deferred tax liabilities	89,809	-
<b>Total non-current liabilities</b>	<b>89,809</b>	<b>-</b>
<b>Net assets/(liabilities)</b>	<b>434,658</b>	<b>(2,956)</b>
Goodwill recognised on the acquisition of a subsidiary for the year ended 31 December 2017 and 2016 were presented as follows:		
Consideration transferred	525,000	30,000
Less: fair value of identifiable net (assets)/liabilities acquired	(434,658)	2,956
Goodwill recognised on the acquisition of a subsidiary	<b>90,342</b>	<b>32,956</b>
<b>Net cash outflow on acquisition of a subsidiary</b>		
Consideration paid in cash	525,000	30,000
Less: cash balances acquired	(2,567)	(2,234)
	<b>522,433</b>	<b>27,766</b>

The management of the Group has assessed the net assets of the acquired subsidiary at fair value. As a result of this business combination, the Group recognized a goodwill in the amount of 123,298 thousand tenge in the consolidated statement of financial position.

Goodwill is mainly attributable to the expected synergies from increase in market share and reduction of capital expenditures to be made by the Group to enlarge its optical fiber network.

Goodwill is not deductible for income tax purposes.

Group made an allocation of purchase price based on internal valuation. Management of the Group recognized amounts of 451,709 thousand tenge in respect of property, plant and equipment at the date of acquisition.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)***(in thousands of Tenge)*

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**6. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES**

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on the Group 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 the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

*a) Useful lives of property, plant and equipment and intangible assets*

The estimation of the useful lives of items of property, plant and equipment is a matter of judgment based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Company. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions.

If the estimated useful lives differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2017 would be to increase/decrease it by 143,261 thousand tenge (2016: increase/decrease by 125,284 thousand tenge).

*b) Inventories for resale*

The Group classifies telecommunication equipment for resale as inventories, since this equipment is purchased for the purpose of installation into the property, plant and equipment of the clients during the construction or maintenance of communication lines of the clients or resale. However, the Group may use certain equipment for its own use as necessary including the construction of its communication network. In this case equipment is transferred to property, plant and equipment, and used item is replaced with the same for resale. Accordingly, certain equipment at 31 December 2017, classified by management as current within inventories may be transferred to property, plant and equipment in future.

*c) Valuation of inventories*

Inventories are recorded at the lower of cost and net realisable value. The Group creates an obsolescence provision for inventories based on the results of regular physical count procedure and management's analysis in relation to slow-moving, obsolete and other inventories which realisable value is less than their cost. Identification process provides for the analysis of historical data and current operating plans with respect to appropriate provisions. For damaged inventories, a provision is accrued or write-off is made depending on the level of damage. Management accrues provision on any items of inventories recognised as obsolete.

Management believes that provision for inventory impairment reflected as at 31 December 2017 and 31 December 2016 is sufficient and represents the management's best estimate with respect to impaired inventories (Note 13).

*d) Impairment of trade and other receivables*

Recognition of individual provisions for impairment of accounts receivable is based on a regular estimate by management of the repayment results of accounts receivable, its overdue status and past experience. Management believes that the provisions for impairment recorded as at 31 December 2017 and 31 December 2016 are sufficient and represent the best estimate of management of accounts receivable which will not be collected (Note 14).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

*(in thousands of Tenge)*

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*e) 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.

The management of the Group believes that no allowance should be made in respect of deferred tax assets as of the reporting date as it is probable that deferred tax assets will be fully realised. As at 31 December 2017 the carrying value of deferred tax assets on tax losses carry forward 481,811 thousand tenge (Note 25).

**7. SEGMENT INFORMATION**

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the entity. The functions of CODM are performed by the Management of the Group.

(a) Description of products and services from which each reportable segment derives its revenue

The Group is organised on the basis of three main operating segments:

- Telecommunication services – cable and satellite communication services as well as land telephone communication and related repair services.
- Maintenance – equipment design, development, supply, installation for telecommunication platforms, and network and equipment maintenance.
- System integration – design, construction, certification and commissioning of communication objects and telecommunication systems.

(b) Factors that management used to identify the reportable segments

Segment financial information is reviewed by the Board of Directors of the Group, responsible for operational decision making. Such financial information is similar to the segment analysis provided internally to the Board of Directors of the Group. Management therefore applied the core principle of IFRS 8, *Operating Segments*, in determining which of the components should form the basis of operating segments.

(c) Measurement of operating segment profit or loss, assets and liabilities

The Board of Directors of the Group reviews financial information prepared based on IFRS.

The Board of Directors of the Group evaluates performance of each segment based on gross profit.

Transactions between the operating segments are carried out based on normal commercial terms and conditions.

The headquarters is not an operating segment. Corporate profit and expenses, such as other income, distribution costs, general and administrative expenses, other expenses, finance income and costs are related to the headquarters and are not allocated between operating segments.

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, trade receivables, and mainly exclude cash and cash equivalents, prepayments and income tax balances. Segment liabilities comprise operating liabilities and exclude items such as taxation and corporate borrowings. Capital expenditure comprises additions to property, plant and equipment and intangible assets.



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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**
*(in thousands of Tenge)*

(d) Information about reportable segment profit or loss, assets and liabilities.

Segment information for the main reportable operating segments of the Group for 2017 and 2016 is set out below:

	<b>Telecom- munication services</b>	<b>Technical main- tenance</b>	<b>System integration</b>	<b>Head- quarters</b>	<b>Total</b>
<b>2017</b>					
Segment revenue	17,648,815	1,176,272	881,095	-	19,706,182
Cost of segment sales	<u>(13,471,585)</u>	<u>(793,088)</u>	<u>(635,095)</u>	-	<u>(14,899,768)</u>
<b>Gross profit for segment</b>	<b><u>4,177,230</u></b>	<b><u>383,184</u></b>	<b><u>246,000</u></b>	<b>-</b>	<b><u>4,806,414</u></b>
Other income	-	-	-	70,753	70,753
Administrative and other expenses	-	-	-	(2,964,124)	(2,964,124)
Finance income	-	-	-	67,383	67,383
Finance costs	-	-	-	(137)	(137)
<b>Profit before income tax</b>	<b><u>4,177,230</u></b>	<b><u>383,184</u></b>	<b><u>246,000</u></b>	<b><u>(2,826,125)</u></b>	<b><u>1,980,289</u></b>
Income tax expense	-	-	-	(402,128)	(402,128)
<b>Profit for the year</b>	<b><u>4,177,230</u></b>	<b><u>383,184</u></b>	<b><u>246,000</u></b>	<b><u>(3,228,253)</u></b>	<b><u>1,578,161</u></b>
<b>31 December 2017</b>					
Segment assets	21,036,641	300,557	775,880	-	22,113,078
Other unallocated assets	-	-	-	1,353,351	1,353,351
<b>Total assets</b>	<b><u>21,036,641</u></b>	<b><u>300,557</u></b>	<b><u>775,880</u></b>	<b><u>1,353,351</u></b>	<b><u>23,466,429</u></b>
Segment liabilities	2,520,389	7,552	147,144	-	2,675,085
Current and deferred tax liability	-	-	-	1,879,216	1,879,216
Other unallocated liabilities	-	-	-	2,110	2,110
<b>Total liabilities</b>	<b><u>2,520,389</u></b>	<b><u>7,552</u></b>	<b><u>147,144</u></b>	<b><u>1,881,326</u></b>	<b><u>4,556,411</u></b>
<b>2017</b>					
Capital expenditure	1,701,564	-	-	-	1,701,564
Depreciation and amortisation	<u>1,368,988</u>	63,363	260	-	<u>1,432,611</u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**
*(in thousands of Tenge)*

	<b>Telecom- munication services</b>	<b>Technical main- tenance</b>	<b>System integration</b>	<b>Head office</b>	<b>Total</b>
<b>2016</b>					
Segment revenue	17,610,552	1,036,088	924,971	-	19,571,611
Cost of segment sales	(14,050,782)	(848,286)	(673,873)	-	(15,572,941)
<b>Gross profit for segment</b>	<b>3,559,770</b>	<b>187,802</b>	<b>251,098</b>	<b>-</b>	<b>3,998,670</b>
Other income	-	-	-	50,199	50,199
Administrative and other expenses	-	-	-	(3,107,214)	(3,107,214)
Finance income	-	-	-	264,762	264,762
Finance costs	-	-	-	(30,688)	(30,688)
<b>Profit before income tax</b>	<b>3,559,770</b>	<b>187,802</b>	<b>251,098</b>	<b>(2,822,941)</b>	<b>1,175,729</b>
Income tax expense	-	-	-	(273,599)	(273,599)
<b>Profit for the year</b>	<b>3,559,770</b>	<b>187,802</b>	<b>251,098</b>	<b>(3,096,540)</b>	<b>902,130</b>
<b>31 December 2016</b>					
Segment assets	19,196,789	212,183	523,878	-	19,932,850
Other unallocated assets	-	-	-	1,455,669	1,455,669
<b>Total assets</b>	<b>19,196,789</b>	<b>212,183</b>	<b>523,878</b>	<b>1,455,669</b>	<b>21,388,519</b>
Segment liabilities	2,389,491	14,408	82,696	-	2,486,595
Current and deferred tax liability	-	-	-	1,497,947	1,497,947
Other unallocated liabilities	-	-	-	2,110	2,110
<b>Total liabilities</b>	<b>2,389,491</b>	<b>14,408</b>	<b>82,696</b>	<b>1,500,057</b>	<b>3,986,652</b>
<b>2016</b>					
Capital expenditure	4,538,016	-	-	-	4,538,016
Depreciation and amortisation	1,176,767	74,842	1,228	-	1,252,837

Segment assets and liabilities are reconciled to the Company's assets and liabilities of as follows:

	<b>31 December 2017</b>		<b>31 December 2016</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
Segment assets and liabilities	22,113,078	2,675,085	19,932,850	2,486,595
Non-current borrowings	-	2,110	-	2,110
Deferred income tax	-	1,860,901	-	1,483,826
Current income tax payable	-	18,315	-	14,121
Cash and cash equivalents	402,649	-	482,964	-
Prepayments to suppliers	163,745	-	209,303	-
Income tax prepaid	299,835	-	211,298	-
Goodwill	123,298	-	123,298	-
Other	363,824	-	428,806	-
<b>Total</b>	<b>23,466,429</b>	<b>4,556,411</b>	<b>21,388,519</b>	<b>3,986,652</b>

**Geographical segments.** The Group's assets are mainly concentrated in the Republic of Kazakhstan, and the main part of the Group's profits is generated from transactions in the Republic of Kazakhstan.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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*(in thousands of Tenge)*
**8. BALANCES AND TRANSACTIONS WITH RELATED PARTIES**

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Group's parent company and immediate controlling party is Rodnik INC LLP. The Company's ultimate controlling parties are disclosed in Note 1.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding as at 31 December 2017 and 31 December 2016 are detailed below.

As at 31 December 2017 and 2016 the outstanding balances with related parties were as follows:

	<u>Other related parties</u>
<b>31 December 2017</b>	
Accounts receivable	235,095
Other current assets	115
Trade payables	(83,042)
	<u><b>152,168</b></u>
<b>31 December 2016</b>	
Accounts receivable	650,848
Trade payables	(49,096)
	<u><b>601,752</b></u>

Information on dividends declared and paid to the Parent is disclosed in Note 17.

The income and expense items with related parties for 2017 and 2016 were as follows:

	<u>Other related parties</u>	<u>Key management personnel</u>
<b>2017</b>		
Revenue	3,738,258	-
Cost of sales	950,123	-
General and administrative expenses	2,185	67,609
	<u>2,185</u>	<u>67,609</u>
<b>2016</b>		
Revenue	4,815,684	-
Cost of sales	1,475,485	-
General and administrative expenses	1,986	84,422
	<u>1,986</u>	<u>84,422</u>

Compensation to management for their services at permanent positions of executive management consists of contractual amount of salary and performance bonus depending on the results of the Group's business activities. Total management compensation included into personnel costs in the statement of profit or loss and other comprehensive income for the year ended 31 December 2017 was 67,609 thousand tenge (2016: 84,422 thousand tenge). Directors classified as key management personnel include three positions (2016: three positions).

# KAZTRANSCOM JSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in thousands of Tenge)

### 9. PROPERTY, PLANT AND EQUIPMENT

Movements in the carrying amount of property, plant and equipment were as follows:

	Land and buildings	Telecom- munication equipment	Vehicles	Others	Construc- tion in progress/ Equipment to be installed	Total
<b>Cost</b>						
<b>Cost as at 1 January 2016</b>	<b>1,933,204</b>	<b>12,365,003</b>	<b>630,130</b>	<b>1,491,062</b>	<b>1,515,337</b>	<b>17,934,736</b>
Acquisitions through business combinations	-	501,668	-	7,524	-	509,192
Additions	7,938	409,143	4,424	84,512	4,538,016	5,044,033
Transfers	64,518	943,145	3,372	2,839	(1,013,874)	-
Disposals	(11,902)	(122,805)	(22,761)	(35,039)	(43,336)	(235,843)
<b>Cost as at 31 December 2016</b>	<b>1,993,758</b>	<b>14,096,154</b>	<b>615,165</b>	<b>1,550,898</b>	<b>4,996,143</b>	<b>23,252,118</b>
Additions	28,724	372,962	85,602	37,390	1,701,564	2,226,242
Transfers	3,793,185	1,762,035	459	86,889	(5,642,568)	-
Disposals*	-	(149,962)	(34,936)	(134,591)	(164,443)	(483,932)
<b>Cost as at 31 December 2017</b>	<b>5,815,667</b>	<b>16,081,189</b>	<b>666,290</b>	<b>1,540,586</b>	<b>890,696</b>	<b>24,994,428</b>
<b>Accumulated depreciation</b>						
<b>Balance as at 1 January 2016</b>	<b>383,155</b>	<b>4,811,899</b>	<b>459,259</b>	<b>1,082,339</b>	-	<b>6,736,652</b>
Depreciation charge	46,518	983,635	42,691	116,376	-	1,189,220
Disposals	(5,351)	(81,871)	(22,761)	(34,475)	-	(144,458)
<b>Balance as at 31 December 2016</b>	<b>424,322</b>	<b>5,713,663</b>	<b>479,189</b>	<b>1,164,240</b>	-	<b>7,781,414</b>
Depreciation charge	126,274	1,095,388	39,325	110,681	-	1,371,668
Disposals	-	(139,642)	(33,201)	(133,184)	-	(306,027)
<b>Balance as at 31 December 2017</b>	<b>550,596</b>	<b>6,669,409</b>	<b>485,313</b>	<b>1,141,737</b>	-	<b>8,847,055</b>
<b>Carrying value as at 1 January 2016</b>	<b>1,550,049</b>	<b>7,553,104</b>	<b>170,871</b>	<b>408,723</b>	<b>1,515,337</b>	<b>11,198,084</b>
<b>Carrying value as at 31 December 2016</b>	<b>1,569,436</b>	<b>8,382,491</b>	<b>135,976</b>	<b>386,658</b>	<b>4,996,143</b>	<b>15,470,704</b>
<b>Carrying value as at 31 December 2017</b>	<b>5,265,071</b>	<b>9,411,780</b>	<b>180,977</b>	<b>398,849</b>	<b>890,696</b>	<b>16,147,373</b>

\*Disposals during the year ended 31 December 2017, include transfer from Construction in progress to inventory in the amount of 164,443 thousand tenge.

As at 31 December 2017, land, buildings, machinery and equipment with collateral values of 309,583 thousand tenge have been pledged to secure an open credit line for the amount of 3,000 thousand US Dollars in Kazkommertsbank JSC (as at 31 December 2016: 309,583 thousand tenge).

The Group has completed optic fiber backbone line construction on MCNet and other projects in the amount of 5,642,568 thousand tenge in 2017 and classified to the appropriate categories of property, plant and equipment on completion. Depreciation of these assets is on the same basis as other property assets, which commenced when the assets were ready for their intended use.

Construction in progress as at 31 December 2017 consist of optic backbone line construction in the amount of 284,972 thousand tenge. The Group plans to complete construction works in the first half of 2018.

# KAZTRANSCOM JSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in thousands of Tenge)

### 10. INTANGIBLE ASSETS

	Licenses	Software	Other	Total
<b>Cost</b>				
<b>Cost as at 1 January 2016</b>	<b>269,261</b>	<b>219,272</b>	<b>8,345</b>	<b>496,878</b>
Additions	2,581	40,770	9,045	52,396
Disposals	-	(326)	(2,588)	(2,914)
<b>Cost as at 31 December 2016</b>	<b>271,842</b>	<b>259,716</b>	<b>14,802</b>	<b>546,360</b>
Additions	99,101	51,616	181	150,898
Disposals	(3,980)	(17,393)	(4,183)	(25,556)
<b>Cost as at 31 December 2017</b>	<b>366,963</b>	<b>293,939</b>	<b>10,800</b>	<b>671,702</b>
<b>Accumulated amortization</b>				
<b>Accumulated amortisation as at 1 January 2016</b>	<b>107,220</b>	<b>155,182</b>	<b>5,041</b>	<b>267,443</b>
Amortisation charge	34,859	27,032	1,726	63,617
Disposals	-	(196)	(2,586)	(2,782)
<b>Accumulated amortisation as at 31 December 2016</b>	<b>142,079</b>	<b>182,018</b>	<b>4,181</b>	<b>328,278</b>
Amortisation charge	37,155	20,961	2,827	60,943
Disposals	(3,980)	(17,393)	(2,041)	(23,414)
<b>Accumulated amortisation as at 31 December 2017</b>	<b>175,254</b>	<b>185,586</b>	<b>4,967</b>	<b>365,807</b>
<b>Carrying value as at 1 January 2016</b>	<b>162,041</b>	<b>64,090</b>	<b>3,304</b>	<b>229,435</b>
<b>Carrying value as at 31 December 2016</b>	<b>129,763</b>	<b>77,698</b>	<b>10,621</b>	<b>218,082</b>
<b>Carrying value as at 31 December 2017</b>	<b>191,709</b>	<b>108,353</b>	<b>5,833</b>	<b>305,895</b>

### 11. FINANCIAL INSTRUMENTS BY CATEGORIES

The reconciliation between the consolidated statement of financial position balances and categories of financial instruments is presented below:

	Note	31 December 2017	31 December 2016
<b>Assets as per consolidated statement of financial position</b>			
Non-current receivables		52,744	549
Trade and other receivables	14	4,107,847	3,046,200
Other current assets	15	99,699	166,645
Cash and cash equivalents	16	402,649	482,964
<b>Total</b>		<b>4,662,939</b>	<b>3,696,358</b>
<b>Liabilities as per consolidated statement of financial position</b>			
Trade payables	19	1,533,206	1,638,468
Preference shares		2,110	2,110
<b>Total</b>		<b>1,535,316</b>	<b>1,640,578</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**
*(in thousands of Tenge)*
**12. CREDIT QUALITY OF FINANCIAL ASSETS**

None of the Group's clients have an external credit rating. Only banks, where the Group places its cash and short-term deposits, have external credit ratings. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates:

	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Trade receivables</b>		
Counterparties without external credit rating		
Group 1	226,268	183,944
Group 2	3,198,872	2,494,879
Group 3	219,644	155,808
<b>Total trade receivables</b>	<b>3,644,784</b>	<b>2,834,631</b>

Group 1 – new clients (less than 6 months).

Group 2 – existing customers (more than 6 months) with no defaults in the past.

Group 3 – existing customers (more than 6 months) with some defaults in the past. All defaults were fully provided.

**Cash at bank and short-term bank deposits**

	<b>Rating Agency</b>	<b>Rating</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
Kazkommertsbank JSC	Moody's Standard &	Ba2	344,690	168,159
Tsesnabank JSC	Poor's	B+	47,440	205,686
Sberbank of Russia JSC	Moody's	Ba3	6,608	97,106
Halyk Bank of Kazakhstan JSC	Moody's	Ba1	2,423	9,180
<b>Total cash at bank and short-term bank deposits</b>			<b>401,161</b>	<b>480,131</b>

**Other current assets**

	<b>Rating Agency</b>	<b>Rating</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
Tsesnabank JSC	Standard & Poor's	B+	99,699	99,987
Sberbank of Russia JSC	Moody's	Ba3	-	66,658
<b>Total other current assets</b>			<b>99,699</b>	<b>166,645</b>
<b>Long-term receivables</b>			<b>52,744</b>	<b>549</b>

Management of the Group estimates credit quality of long-term accounts receivable as high.

## KAZTRANSCOM JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in thousands of Tenge)

#### 13. INVENTORIES

	<b>31 December 2017</b>	<b>31 December 2016</b>
Telecommunication equipment for resale	724,016	791,279
Raw materials	290,943	310,125
Spare tools and appliances under maintenance contracts	63,545	62,839
Spare parts	40,198	33,072
<b>Total inventories</b>	<b><u>1,118,702</u></b>	<b><u>1,197,315</u></b>

#### 14. TRADE AND OTHER RECEIVABLES

	<b>31 December 2017</b>	<b>31 December 2016</b>
Trade and other receivables	4,332,162	3,205,296
Less: Provision for impairment	(224,315)	(159,096)
<b>Total trade and other receivables</b>	<b><u>4,107,847</u></b>	<b><u>3,046,200</u></b>

The carrying value of trade and other receivables, less provision for impairment is expressed in the following currencies:

	<b>31 December 2017</b>	<b>31 December 2016</b>
US Dollar	2,129,668	1,159,975
Tenge	1,950,306	1,834,403
Euro	27,873	51,822
<b>Total trade and other receivables</b>	<b><u>4,107,847</u></b>	<b><u>3,046,200</u></b>

Below is presented the ageing analysis of trade and other receivables:

	<b>31 December 2017</b>	<b>31 December 2016</b>
<i>Current and not impaired</i>		
Trade and other receivables	3,644,784	2,834,631
<b>Total current and not impaired</b>	<b><u>3,644,784</u></b>	<b><u>2,834,631</u></b>
<i>Past due and not impaired</i>		
From 3 to 6 months	282,405	207,286
From 6 months to 1 year	180,658	4,283
<b>Total past due and not impaired</b>	<b><u>463,063</u></b>	<b><u>211,569</u></b>
<i>Impaired</i>		
More than a year	224,315	159,096
<b>Total impaired</b>	<b><u>224,315</u></b>	<b><u>159,096</u></b>
Less provision for impairment of trade and other receivables	(224,315)	(159,096)
<b>Total trade and other receivables</b>	<b><u>4,107,847</u></b>	<b><u>3,046,200</u></b>

## KAZTRANSCOM JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in thousands of Tenge)

A movement of the Company's provision for impairment of trade receivables is follow:

	<u>2017</u>	<u>2016</u>
As at 1 January	159,096	6,918
Accrual of provision for impairment of trade receivables	67,816	153,190
Accounts receivable write-off	(2,597)	(1,012)
<b>As at 31 December</b>	<b><u>224,315</u></b>	<b><u>159,096</u></b>

Accruals of provision for impairment are included in general and administrative expenses in the statement of profit or loss and other comprehensive income. Amounts charged to the impairment provision account are generally written off when no cash inflows recovery is expected.

#### 15. OTHER CURRENT ASSETS

	<u>31 December 2017</u>	<u>31 December 2016</u>
<i>Other current financial assets</i>		
Short term bank deposits	99,699	166,645
<b>Total other current financial assets</b>	<b><u>99,699</u></b>	<b><u>166,645</u></b>
<i>Other current non-financial assets</i>		
Deferred expenses	259,575	250,919
Other taxes	4,550	7,952
<b>Total other current non-financial assets</b>	<b><u>264,125</u></b>	<b><u>258,871</u></b>
<b>Total other current assets</b>	<b><u>363,824</u></b>	<b><u>425,516</u></b>

Other current assets are denominated in following currencies:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Tenge	264,125	258,871
US Dollar	99,699	166,645
<b>Total other current assets</b>	<b><u>363,824</u></b>	<b><u>425,516</u></b>

#### 16. CASH AND CASH EQUIVALENTS

	<u>31 December 2017</u>	<u>31 December 2016</u>
Cash in bank in foreign currency	160,272	27,611
Cash in deposit bank accounts in tenge and foreign currency	156,825	250,534
Cash in bank in tenge	84,064	201,986
Cash on hand	1,488	2,833
<b>Total cash and cash equivalents</b>	<b><u>402,649</u></b>	<b><u>482,964</u></b>



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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*(in thousands of Tenge)*

Cash and cash equivalents are denominated in following currencies:

	<b>31 December 2017</b>	<b>31 December 2016</b>
Tenge	194,951	204,819
US Dollar	165,236	259,720
Euro	42,317	18,390
British Pounds	137	34
Russian Rouble	8	1
<b>Total cash and cash equivalents</b>	<b>402,649</b>	<b>482,964</b>

**17. SHARE CAPITAL**
**a) Ordinary Shares**

	<b>Number of outstanding shares (in thousands)</b>	<b>Ordinary shares</b>	<b>Additional paid-in capital</b>	<b>Total</b>
As at 31 December 2017	2,387	46,662	7,009	<b>53,671</b>
As at 31 December 2016	2,387	46,662	7,009	<b>53,671</b>

Shareholders are entitled to dividends and allocation of capital in tenge.

The total number of authorised shares is 3,000 thousand shares and the number of outstanding ordinary shares is 2,387 thousand shares (31 December 2016: 2,387 thousand shares) with a par value of 20 tenge per share (31 December 2016: 20 tenge per share). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

Share premium represents the excess of contributions received over the nominal value of shares issued.

As at 31 December 2017, treasury shares consist of 54,015 ordinary shares of the Group (31 December 2016: 54,015 ordinary shares).

As at 31 December 2017 and 2016, the following shareholders owned more than 3% of issued and standing ordinary shares of the Company:

<b>Shareholders</b>	<b>Number of ordinary shares 31 December 2017</b>	<b>Number of ordinary shares 31 December 2016</b>	<b>% 31 December 2017</b>	<b>% 31 December 2016</b>
Rodnik INC LLP	1,907,556	1,907,556	81.77	81.77
Abdrakhmanov M.A.	233,090	233,090	9.99	9.99
Telecom-Asia LLP	80,496	80,496	3.45	3.45
<b>Total</b>	<b>2,221,142</b>	<b>2,221,142</b>	<b>95.21</b>	<b>95.21</b>

**b) Preference shares**

The total authorised and issued number of preference shares is 115,738 shares (31 December 2016: 115,738 shares), of which the number of outstanding shares is 105,714 shares (31 December 2016: 105,714 shares) with a par value of 20 tenge per share (31 December 2016: 20 tenge per share). All issued preference shares are fully paid.

The preference shares are not convertible or redeemable, but guarantee annual cumulative dividends in the amount of not less than 10% of nominal value of shares, but not less than dividends due to holders of ordinary shares.

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in thousands of Tenge)

In case of liquidation, the holders of preference shares are the first to receive any declared unpaid dividends. Then all holders of ordinary and preference shares participate in distribution of remaining assets on equal basis.

Preference shares are included in borrowings.

Below are dividends declared and paid during the period:

	2017		2016	
	Ordinary shares	Preference shares	Ordinary shares	Preference shares
<b>Dividends payable as at 1 January</b>	-	-	-	1,465
Dividends declared during the year	70,010	3,172	41,572	4,229
Dividends paid during the year	<u>(70,010)</u>	<u>(3,172)</u>	<u>(41,572)</u>	<u>(5,694)</u>
<b>Dividends payable as at 31 December</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Dividends per share declared during the year</b>	<u>-</u>	<u>20.00 tenge</u>	<u>-</u>	<u>20.00 tenge</u>

All dividends are declared and paid in Kazakhstani tenge. Dividends on preference shares are included within finance costs, dividends on ordinary shares declared and paid for the first half of 2017.

#### 18. OTHER RESERVES

In accordance with its Charter, the Group should create a general loss reserve in the amount of not less than 15% of its authorised share capital. In 2001, in accordance with the Group's shareholders' decision, a reserve was created in the amount of 7,455 thousand tenge, which represented 15.6% of share capital.

#### 19. TRADE AND OTHER PAYABLES

	31 December 2017	31 December 2016
Trade payables	<u>1,533,206</u>	<u>1,638,468</u>
<b>Total trade payables</b>	<b><u>1,533,206</u></b>	<b><u>1,638,468</u></b>
Value added tax	262,363	341,543
Provision for unused vacation	217,384	223,312
Payables to employees	124,934	5,684
Advances received	51,080	127,954
Deferred income	34,511	-
Personal income tax payable	17,813	25,952
Payments to pension fund	13,824	32,759
Other payables	<u>74,406</u>	<u>44,513</u>
	<b><u>796,315</u></b>	<b><u>801,717</u></b>
<b>Total trade and other payables</b>	<b><u>2,329,521</u></b>	<b><u>2,440,185</u></b>

**KAZTRANSCOM JSC**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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*(in thousands of Tenge)*

Trade payables are denominated in the following currencies:

	<b>31 December 2017</b>	<b>31 December 2016</b>
Tenge	859,000	707,594
US Dollar	663,333	911,692
Euro	8,052	5,979
Russian Rouble	2,821	13,203
<b>Total trade payables</b>	<b>1,533,206</b>	<b>1,638,468</b>

**20. REVENUE**

	<b>2017</b>	<b>2016</b>
Line cable communication services	9,650,184	8,942,985
Local telephone and trunk communication services	5,830,775	7,029,292
Satellite communication services	2,029,671	1,489,965
Technical maintenance of information systems and equipment	1,144,697	1,017,218
Equipment installation and sales	1,030,023	516,235
Revenue from construction contract	20,832	575,916
<b>Total revenue</b>	<b>19,706,182</b>	<b>19,571,611</b>

**21. COST OF SALES**

	<b>2017</b>	<b>2016</b>
Communication services	8,548,906	9,677,876
Payroll expenses and personnel costs	2,352,548	2,294,243
Depreciation and amortisation expenses	1,408,506	1,226,188
Lease of communication facilities and other equipment	943,212	889,738
Equipment, materials and consumables	804,059	747,452
Repair and maintenance expenses	306,702	306,813
Third-party contractors	271,083	218,478
Utilities	120,746	115,002
Business trip expenses	63,352	52,875
Transportation expenses	17,914	17,474
Other	62,740	26,802
<b>Total cost of sales</b>	<b>14,899,768</b>	<b>15,572,941</b>

**22. DISTRIBUTION COSTS**

	<b>2017</b>	<b>2016</b>
Payroll expenses and personnel costs	509,950	463,295
Marketing expenses	30,721	20,511
Communication services	10,262	13,590
Material	2,586	2,963
Business trip expenses	2,090	3,765
Depreciation and amortisation expenses	444	470
Other	73,342	89,424
<b>Total distribution costs</b>	<b>629,395</b>	<b>594,018</b>

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in thousands of Tenge)

#### 23. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2017</u>	<u>2016</u>
Taxes other than income tax	999,317	1,127,613
Payroll expenses and personnel costs	945,828	862,167
Professional and consulting services	79,152	72,738
Provision for impairment of trade receivables	67,816	149,811
Third parties services	56,214	67,641
Business trip expenses	56,213	49,976
Depreciation and amortisation	23,661	26,179
Rent	20,754	33,929
Bank charges	19,415	19,213
Communication services	10,883	11,574
Materials	10,326	24,332
Other	32,528	63,065
<b>Total general and administrative expenses</b>	<b><u>2,322,107</u></b>	<b><u>2,508,238</u></b>

#### 24. FINANCE INCOME

	<u>2017</u>	<u>2016</u>
Foreign exchange gains	41,581	49,848
Bank interest income	25,802	213,612
Other interest income	-	1,302
<b>Total finance income</b>	<b><u>67,383</u></b>	<b><u>264,762</u></b>

#### 25. INCOME TAX

Income tax expense comprises the following:

	<u>2017</u>	<u>2016</u>
Current income tax	23,320	268,184
Current tax of prior years	1,733	23,507
Deferred income tax expense/(benefit)	377,075	(18,092)
<b>Income tax expense for the year</b>	<b><u>402,128</u></b>	<b><u>273,599</u></b>

Reconciliation between the expected and the actual tax charge is provided below:

	<u>2017</u>	<u>2016</u>
<b>Profit before income tax</b>	<b><u>1,980,289</u></b>	<b><u>1,175,729</u></b>
Theoretical tax charge at statutory rate 20% (2016: 20%)	396,058	235,146
Tax effect on non-deductible non-assessable items	4,337	14,946
Adjustments recognised in the current year in relation to the current tax of prior years	1,733	23,507
<b>Income tax expense for the year</b>	<b><u>402,128</u></b>	<b><u>273,599</u></b>

Differences between IFRS and Kazakhstan 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 temporary differences is recorded at the tax rate applicable when deferred tax assets are realised or liabilities settled.

## KAZTRANSCOM JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in thousands of Tenge)

	1 January 2016	Charged to profit and loss	Acquisi-tions	31 December 2016	Charged to profit and loss	31 December 2017
<b>Tax effect of deductible temporary differences</b>						
Provision for impairment of trade receivables	1,384	30,284	-	31,668	13,195	44,863
Accruals	58,287	17,740	-	76,027	11,056	87,083
Provisions for asset retirement	10,663	(1,381)	-	9,282	(102)	9,180
Tax losses carry forward	-	-	-	-	481,811	481,811
<b>Gross deferred income tax asset</b>	<b>70,334</b>	<b>46,643</b>	<b>-</b>	<b>116,977</b>	<b>505,960</b>	<b>622,937</b>
<b>Tax effect of taxable temporary differences</b>						
Property, plant and equipment and intangible assets	(1,482,443)	(28,551)	(89,809)	(1,600,803)	(883,035)	(2,483,838)
<b>Gross deferred income tax liability</b>	<b>(1,482,443)</b>	<b>(28,551)</b>	<b>(89,809)</b>	<b>(1,600,803)</b>	<b>(883,035)</b>	<b>(2,483,838)</b>
<b>Recognised deferred income tax liability</b>	<b>(1,412,109)</b>	<b>18,092</b>	<b>(89,809)</b>	<b>(1,483,826)</b>	<b>(377,075)</b>	<b>(1,860,901)</b>

## 26. EARNINGS-PER SHARE

For the purpose of earning per share calculation, two share classes are specified: ordinary and preference shares. To calculate basic and diluted earnings per share the profit or loss attributable to the ordinary shareholders is adjusted by the amount of dividends declared in the period for each class of shares. The remaining profit or loss is allocated to ordinary shares and preferred shares to the extent that each instrument shares in earnings as if all the profit or loss for the reporting period had been distributed. The total amount of profit or loss allocated to each class of shares is divided by the weighted-average number of outstanding shares to which the earnings are allocated to determine the earnings per share for the instrument.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**
*(in thousands of Tenge)*

The Group has no potentially dilutive instruments; therefore, the diluted earnings per share equal the basic earnings per share.

<b>Earnings per share are calculated as follows:</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Amount of shares (in thousands)</b>		
Ordinary shares	2,387	2,387
Treasury shares	54	54
<i>Ordinary shares net of treasury shares</i>	<u>2,333</u>	<u>2,333</u>
Preference shares	116	116
Treasury shares	10	10
<i>Preferred shares net of treasury shares</i>	<u>106</u>	<u>106</u>
<b>Total number of shares</b>	<b>2,439</b>	<b>2,439</b>
Profit for the year attributable to the Group's shareholders	<u>1,578,161</u>	<u>902,130</u>
<b>Less:</b>		
Minimum cumulative dividends on preference shares	2,120	2,120
<b>Retained Earnings</b>	<b>1,576,041</b>	<b>900,010</b>
Allocation to ordinary shareholders	1,507,546	860,895
Allocation to preference shareholders	68,495	39,115
<b>Retained Earnings</b>	<b>1,576,041</b>	<b>900,010</b>
<b>Preference shares</b>		
Distributed earnings	20	20
Retained earnings	646.18	369.01
<b>Total earnings per share</b>	<b>666.18</b>	<b>389.01</b>
<b>Ordinary shares</b>		
<b>Retained earnings</b>	<b>646.18</b>	<b>369.01</b>

**27. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS**
**Operating environment 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. In 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  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)***(in thousands of Tenge)*

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**Legal proceedings**

In the normal course of business, the Group may be subject to legal proceedings or claims. According to the management's view, final liabilities, if any arise out of such legal proceedings or claims, will not significantly affect the financial position or operations of the Group.

**Tax legislation**

Kazakhstani tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, additional taxes, penalties and interest may be assessed. The statute of limitation period for tax obligations, within which the tax authorities may audit the accrued tax amounts and other obligatory payments, is 5 years. The given threshold may be prolonged subject to specific conditions.

The management of the Group believes that it correctly interprets respective regulations of legislation, and that Group's position in relation to tax, currency and customs legislation will be successfully protected in case of any dispute. Accordingly, as at 31 December 2017, the Group has no provision for contingent tax liability (31 December 2016: nil). The Group management considers that there will be no significant losses in relation to existing and contingent tax claims above provisions made in these consolidated financial statements.

**Capital expenditure commitments**

As at 31 December 2017, the Group has contractual capital expenditure commitments in respect of property, plant and equipment totaling 60,198 thousand tenge (31 December 2016: 505,574 thousand tenge).

**Insurance policies**

Insurance services market in the Republic of Kazakhstan is at the development stage and many forms of insurance which are common in other countries of the world are not yet available in the Republic of Kazakhstan. The Group does not have complete insurance protection in regard to its production facilities, losses resulted from business disruption, or liabilities to third parties due to damage caused to real estate or environment as a result of accidents or the Group's activities. Until the Group obtains the adequate insurance protection, there is a risk that loss or damage of certain assets can have significant adverse impact on the activities and financial position of the Group.

**Environmental matters**

The enforcement of environmental regulation in the Republic of Kazakhstan is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations related to usage of land for telecommunication networks laying. As obligations are determined, they are recognised immediately in the consolidated financial statements. Estimates can change in case of additional environmental analysis and revision of current program for restoration and equipment dismantlement.

**28. EVENTS AFTER THE REPORTING PERIOD**

The Group has evaluated events after the reporting period and concluded no subsequent events have occurred that would require recognition or disclosure in the consolidated financial statements.

**29. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS**

These consolidated financial statements of the Group for the year ended 31 December 2017, were approved and authorized for issue by management on 28 February 2018.