



KazTransCom JSC

Consolidated Financial Statements and
Independent Auditor's Report
for the year ended 31 December 2018
(translation from Russian original)

KAZTRANSCOM JSC

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Independent Auditor's Report

To the Shareholders and Board of Directors of Joint stock company KazTransCom:

Our opinion

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

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of profit and loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

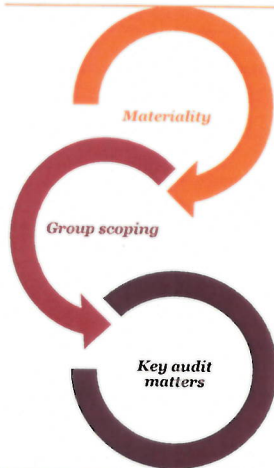
We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Independent Auditor's Report (Continued)

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Our audit approach

Overview



Overall Group materiality: 100 million Tenge, which represents 8% of profit before tax.

- Our audit scope addressed 100% of the Group's total revenue and 100% of the Group's absolute value of profit before tax.
- Contract for provision of digital communication channels for use;

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.



Independent Auditor's Report (Continued)

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<i>Overall group materiality</i>	100 million Tenge.
<i>How we determined it</i>	Materiality was determined at 8% of the profit before tax.
<i>Rationale for the materiality benchmark applied</i>	We chose profit before tax as the benchmark for materiality determination because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We determined materiality as 8%, which falls within the range of acceptable quantitative materiality thresholds applicable to entities with limited number of users, as the Company's shares or bonds are not actively traded on stock exchange, and the Group does not have external loans as at 31 December 2018.

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.



Independent Auditor's Report (Continued)

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Key audit matter	How our audit addressed the key audit matter
<p><i>Contract for provision of digital communication channels for use.</i></p> <p>See Note 7 of the consolidated financial statements.</p> <p>In 2017, the Group signed an agreement on mutual provision of services to provide digital communication channels for use under the terms of the IRU (indefeasible rights of use) with another operator ("partner").</p> <p>This agreement includes several types of services and, accordingly, requires the management to apply judgment regarding the determination of individual performance obligations, as well as to transaction price allocation.</p> <p>We considered this issue to be a key audit matter in view of the materiality of its effect on the consolidated financial statements of the Group.</p>	<p>We have performed the following procedures to confirm the correctness of the IRU contract reflection as part of the audit.</p> <p>We have received and reviewed the contract concluded by the Group. We have analysed calculation made by the Group in relation to reflecting this transaction for compliance with IFRS 15 "Revenue from contracts with customers".</p> <p>Our procedures in respect of the Group's assessment included:</p> <ul style="list-style-type: none">• analysis of IRU agreement to confirm, performance obligations, which were determined by the management, as well as transaction price allocation;• interviewing technical personnel responsible for the agreement;• testing of journal entries on a sample basis, as well as data and disclosures in consolidated financial statements reflecting the results of assessment;• check of mathematical accuracy of the transactions performed;• verification of disclosure of this agreement in the consolidated financial statements;• obtaining an advice on correctness of reflection of this transaction in accordance with IFRS 15 "Revenue from contracts with customers" from our IFRS specialists.



Independent Auditor's Report (Continued)

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How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group includes two subsidiaries, however, accounting is maintained by centralised accounting department of the Group as a whole. Our audit procedures included the audit of these enterprises together with the Company. Audit procedures were performed by the same team at the Company's office.

Other information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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 other information identified above, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, 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.



Independent Auditor's Report (Continued)

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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, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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



Independent Auditor's Report (Continued)

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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. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

PricewaterhouseCoopers LLP

5 March 2019
Almaty, Kazakhstan

Approved and signed by:



Dana Inkarbekova
Managing Director of PricewaterhouseCoopers LLP
(General State License of the Ministry of Finance
of the Republic of Kazakhstan №0000005
dated 21 October 1999)
(Qualified Auditor's Certificate №0000492
dated 18 January 2000)

KAZTRANSCOM JSC

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

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of KazTransCom JSC ("the Company") and its subsidiaries ("the Group") as at 31 December 2018, 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 accounting standards;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2018 were approved by management on 5 March 2019.

On behalf of the Group's Management:



Khan A.M.
General Director





Kolupayeva E.V.
Chief Accountant

KAZTRANSCOM JSC

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2018**

(in thousands of tenge)

	Note	<u>31 December 2018</u>	<u>31 December 2017</u>
ASSETS			
Non-current assets			
Property, plant and equipment	10	15,515,899	16,147,373
Intangible assets	11	380,068	305,895
Goodwill		123,298	123,298
Non-current receivables		54,655	52,744
Other non-current assets	12	<u>810,310</u>	<u>380,517</u>
Total non-current assets		<u>16,884,230</u>	<u>17,009,827</u>
Current assets			
Inventories	13	1,418,405	1,118,702
Trade and other receivables	14	3,623,116	4,107,847
Prepayments to suppliers		205,822	163,745
Prepaid income tax		118,508	299,835
Other current assets	15	618,875	363,824
Cash and cash equivalents	16	<u>1,188,706</u>	<u>402,649</u>
Total current assets		<u>7,173,433</u>	<u>6,456,602</u>
TOTAL ASSETS		<u>24,057,662</u>	<u>23,466,429</u>
EQUITY			
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		<u>19,861,843</u>	<u>18,848,892</u>
TOTAL EQUITY		<u>19,922,969</u>	<u>18,910,018</u>
LIABILITIES			
Non-current liabilities			
Borrowings		2,110	2,110
Deferred income tax liabilities	25	1,788,398	1,860,901
Provisions for asset retirement obligations		21,250	45,900
Other non-current liabilities		<u>5,101</u>	<u>299,664</u>
Total non-current liabilities		<u>1,816,859</u>	<u>2,208,575</u>
Current liabilities			
Trade payables	19	1,399,163	1,533,206
Income tax payable		23,017	18,315
Other payables	19	<u>895,654</u>	<u>796,315</u>
Total current liabilities		<u>2,317,834</u>	<u>2,347,836</u>
TOTAL LIABILITIES		<u>4,134,693</u>	<u>4,556,411</u>
TOTAL LIABILITIES AND EQUITY		<u>24,057,662</u>	<u>23,466,429</u>

Signed on behalf of management on 5 March 2019


Khan A.V.
General Director




Kolupayeva E.V.
Chief Accountant

The accompanying Notes on pages 6 to 51 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 2018**

(in thousands of tenge)

	Note	2018	2017
Revenue	20	18,111,516	19,706,182
Cost of sales	21	(13,636,178)	(14,899,768)
Gross profit		4,475,338	4,806,414
Other operating income		88,856	70,753
Distribution costs	22	(592,252)	(629,395)
General and administrative expenses	23	(2,392,917)	(2,322,107)
Net impairment losses on financial and contract assets		(625,119)	-
Other operating expenses, net		17,306	(12,622)
Operating profit		971,212	1,913,043
Finance income	24	344,104	67,383
Finance costs		(3,495)	(137)
Profit before income tax		1,311,821	1,980,289
Income tax expense	25	(234,402)	(402,128)
Profit for the year		1,077,419	1,578,161
Total comprehensive income for the year		1,077,419	1,578,161
Earnings per ordinary share, basic and diluted in tenge	26	440.88	646.18
Earnings per preferred share, basic and diluted in tenge	26	460.88	666.18

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

Signed on behalf of the Group's management on 5 March 2019


Khan A.V.
General Director




Kolupayeva E.V.
Chief Accountant

The accompanying Notes on pages 6 to 51 are an integral part of these consolidated financial statements.

KAZTRANSCOM JSC

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018**

(in thousands of tenge)

	Note	<u>2018</u>	<u>2017</u>
Cash flows from operating activities			
Sales of goods, works, services		16,123,720	16,830,537
Advances received		178,713	634,454
Payments to suppliers for goods and services		(7,614,521)	(8,006,878)
Advances paid		(1,195,466)	(1,233,852)
Salaries and wages payable		(2,972,863)	(2,877,194)
Interest received from deposits		17,817	35,344
Corporate income tax paid		(124,088)	(121,647)
Other payments to budget		(2,256,275)	(2,346,497)
Other		(518,494)	(625,947)
		<u>1,638,543</u>	<u>2,288,320</u>
Net cash from operating activities			
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment, intangible assets		8,398	9,224
Acquisition of intangible assets		(133,106)	(129,489)
Acquisition of property, plant and equipment		(458,746)	(2,192,086)
Deposits placement		(200,000)	-
Loans issued		(120,000)	-
		<u>(903,454)</u>	<u>(2,312,351)</u>
Net cash used in investing activities			
Cash flows from financing activities			
Dividends paid	17	(2,114)	(73,182)
		<u>(2,114)</u>	<u>(73,182)</u>
Net cash used in financing activities			
Net increase decrease in cash		732,975	(97,213)
Cash and cash equivalents at the beginning of the year	16	402,649	482,964
Effects of exchange rate changes on the balance of cash held in foreign currencies		53,082	16,898
		<u>1,188,706</u>	<u>402,649</u>
Cash and cash equivalents at the end of the year			

Signed on behalf of the Group's management on 5 March 2019


Khan A.V.
General Director




Kolupayeva E.V.
Chief Accountant

The accompanying Notes on pages 6 to 51 are an integral part of these consolidated financial statements.

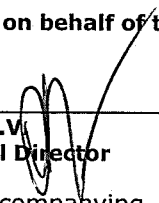
KAZTRANSCOM JSC

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018**

(in thousands of tenge)

	Note	Share capital	Additional paid-in capital	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2017		46,662	7,009	7,455	17,340,741	17,401,867
Profit for the year		-	-	-	1,578,161	1,578,161
Other comprehensive income/(loss) for the year		-	-	-	-	-
Total comprehensive income for the year		-	-	-	1,578,161	1,578,161
Dividends paid	17	-	-	-	(70,010)	(70,010)
Balance as at 31 December 2017		46,662	7,009	7,455	18,848,892	18,910,018
Adoption of IFRS 9		-	-	-	(64,468)	(64,468)
Balance adjusted as at 1 January 2018		46,662	7,009	7,455	18,784,424	18,845,550
Profit for the year		-	-	-	1,077,419	1,077,419
Other comprehensive income/(loss) for the year		-	-	-	-	-
Total comprehensive income for the year		-	-	-	1,077,419	1,077,419
Balance as at 31 December 2018		46,662	7,009	7,455	19,861,843	19,922,969

Signed on behalf of the Group's management on 5 March 2019


Khan A.V.
General Director

Kolupayeva E.V.
Chief Accountant

The accompanying Notes on pages 6 to 51 are an integral part of these consolidated financial statement.

KAZTRANSCOM JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(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 2018 for KazTransCom JSC ("the Company") and its subsidiaries (referred together herein as "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 Group's branches. 1 January 2004 is the date of the Group's transition to IFRS. On 8 September 2004, the Company was reregistered as a Joint Stock Company.

As at 31 December 2018, the Group's shareholders are Rodnik INC LLP (81.77%), Abdrakhmanov M.A. (9.99%), and other shareholders (8.24%). As at 31 December 2018, the shareholders of Rodnik INC were Almaty Engineering Company (50%) and «AMUN SERVICES DMCC» (50%). The ultimate owner of the Group is Rodnik INC LLP.

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	
	2018	2017	2018	2017
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 JSC «KazTransCom» includes 4 systems based on 4 international standards ISO:

- quality management (ISO 9001:2015, ST RK ISO 9001:2016), 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 2018; 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 2018; 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 2018; 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 2018; supervision audits are annually.

Registered address and place of business

The Group's registered address is 69/204A, Rodostovtsev Street, Almaty, Republic of Kazakhstan. As at 31 December 2018, the Company had 7 branches (as at 31 December 2017: 7 branches) in the Republic of Kazakhstan located in Aktobe, Pavlodar, Atyrau, Uralsk, Almaty, Aktau and Astana.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

(in thousands of tenge)

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. 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 7. 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 over the investee to affect the amount of variable 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.

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

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

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.

KAZTRANSCOM JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of tenge)

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 2018, the official exchange rate of the Kazakhstan Stock Exchange used to recalculate the balances in foreign currency was Tenge 384,20 Tenge per 1 US Dollar (31 December 2017: 332.33 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 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 for the year. An impairment loss recognised for an asset in prior years is reversed (as required) 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.

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.

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

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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 intangible assets have definite useful lives and primarily include capitalised computer software and licenses.

Acquired computer software and licenses are capitalised based on 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.

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

	<u>Useful life (years)</u>
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.

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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 over 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 liabilities and assets or assets (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 an gain from acquisition of share at a price below market.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses.

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.

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.

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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

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 the 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 of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation

techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. 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 solely observable market data (that is, the measurement requires significant unobservable inputs).

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost ("AC") 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 allowance for expected credit losses ("ECL"). Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to the 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 the related items in the consolidated statement of financial position.

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The effective interest method is a method of allocating interest income or interest expense over the relevant period, 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 gross 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. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

(a) Financial instruments – initial recognition

Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for 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. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

(b) Classification and subsequent measurement – measurement categories

The Group classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Group's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

(c) Classification and subsequent measurement – business model

The business model reflects how the Group manages the assets in order to generate cash flows – whether the Group's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows"), or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed.

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(d) Classification and subsequent measurement – cash flow characteristics

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

(e) Financial assets – reclassification

Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model.

(f) Financial assets impairment – credit loss allowance for ECL

The Group assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts, for contract assets. The Group measures ECL and recognises Net impairment losses on financial and contract assets at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC and contract assets are presented in the consolidated statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the consolidated statement of financial position. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

The Group applies a three-stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Group identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 14 for a description of how the Group determines when a SICR has occurred. If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL.

(g) Financial assets – write-off

Financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

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(h) Financial assets – derecognition

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the 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.

(i) Financial assets – modification

The Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset (eg profit share or equity-based return), significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Group derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Group also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Group compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Group recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets), and recognises a modification gain or loss in profit or loss.

(j) Financial liabilities – measurement categories

Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

(k) Financial liabilities – derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

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An exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in loan covenants are also considered. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

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

Trade and other receivables

Trade and other receivables are recognised initially at fair value and are subsequently carried at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at AC, calculated 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 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 recorded as share premium in equity.

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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 the Company or its subsidiaries purchase the Company's equity instruments, the consideration paid, including any directly attributable incremental costs, net of income taxes, is deducted from the equity attributable to the Company's owners until the equity instruments are reissued, disposed of or cancelled. 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 owners.

Trade payables to suppliers and contractors

Trade payables are accrued when the counterparty performs its obligations under the contract and are recognised initially at fair value and subsequently carried at AC using the effective interest method.

Income tax

Income taxes have been provided for in the consolidated financial statements in accordance with legislation of the Republic of Kazakhstan enacted or substantively enacted by the end of the reporting period. The income tax charge/(reimbursement) 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 the 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 for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable there is sufficient future taxable profit available against which the deductions can be utilised.

Value added tax

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for the ECL of receivables, the 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.

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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 the settlement is determined by considering the class of obligations as a whole. The Group recognises the estimated liability to repair or replace products sold which are 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.

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 the item 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 reserves for asset retirement obligations, including costs arising from new facts of damage to land plots, updates to accounting estimates, changes to the estimated lives of operations and revision of discount rates, are capitalized within property, plant and equipment. These costs are subsequently amortised over the useful lives of the assets to which they relate.

Amortisation or "unwinding" of the discount applied in measuring the present value of provisions is included in the profit or loss for the year. Amortisation of the discount is reflected in finance costs.

When an asset reaches the end of its useful life, all changes in the liability are included in profit or loss for the year.

Revenue recognition

Revenue is income arising in the course of the Group's ordinary activities. Revenue is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties.

Revenue is recognised net of discounts and value added taxes.

(a) Revenues from sales of telecommunication equipment

Sales of telecommunications equipment are recognised when control of the good has transferred, being when the goods are delivered to the customer, the customer has full discretion over the goods, and there is no unfulfilled obligation that could affect the customer's acceptance of the goods. Delivery occurs when the goods have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the goods in accordance with the contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

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Revenue from the sales with discounts is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability (included in trade and other payables) is recognised for expected volume discounts payable to customers in relation to sales made until the end of the reporting period.

No element of financing is deemed present as the sales are made with a credit term of less than a year, which is consistent with market practice.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

If the Group provides any additional services to the customer after control over goods has passed, revenue from such services is considered to be a separate performance obligation and is recognised over the time of the service rendering.

(b) Sales of telecommunications (line-cable, telephone/trunking and satellite communications) services

The Group provides services under fixed-price and variable price contracts. Revenue from providing services is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously. Call out revenue is recognised based on the actual airtime used by a subscriber. 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.

Where the contracts include multiple performance obligations, the transaction price is allocated to each separate performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by the Group exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised.

If the contract includes variable consideration, revenue is recognised only to the extent that it is highly probable that there will be no significant reversal of such consideration.

Financing components. The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

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.

(c) Maintenance of information technology and equipment

Revenue from providing services is recognised in the accounting period in which the services are rendered. Customers are served both on the prepaid and post-paid basis.

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Where the contracts include multiple performance obligations, the transaction price is allocated to each separate performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by the Group exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised.

If the contract includes variable consideration, revenue is recognised only to the extent that it is highly probable that there will be no significant reversal of such consideration.

Financing components. The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

Leases

(a) 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 .

(b) 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 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.

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

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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.

ECL measurement.

Measurement of ECLs is a significant estimate that involves determination methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 53. The following components have a major impact on credit loss allowance: definition of default, SICR, probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"), as well as models of macro-economic scenarios. The Group regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

Adoption of IFRS 9 "Financial Instruments"

The Group adopted IFRS 9, Financial Instruments, from 1 January 2018. The Group elected not to restate comparative figures and recognised any adjustments to the carrying amounts of financial assets and liabilities in the opening retained earnings as of the date of initial application of the standards, 1 January 2018. Consequently, the revised requirements of the IFRS 7, Financial Instruments: Disclosures, have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior year.

The significant new accounting policies applied in the current period are described in Note 4. Accounting policies applied prior to 1 January 2018 and applicable to the comparative information are disclosed in Note 28.

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The following table reconciles the carrying amounts of each class of financial assets as previously measured in accordance with IAS 39 and the new amounts determined upon adoption of IFRS 9 on 1 January 2018.

	Measurement category		Carrying value under IAS 39 – 31 December 2017	Effect of adopting IFRS 9				Carrying value under IFRS 9 - 1 January 2018
	IAS 39	IFRS 9		Reclassification		Remeasurement		
				Mandatory	Voluntary	ECL	Other	
Cash and cash equivalents	L&R	AC	402,649	402,649	-	-	-	402,649
Placements with other banks with original maturities of more than three months	L&R	AC	99,699	99,699	-	-	-	99,699
Trade and other receivables	L&R	AC	4,107,847	4,107,847	-	(64,468)	-	4,043,379
Total financial assets			4,610,195	4,610,195		(64,468)		4,545,727

Reconciliation of provision for impairment at 31 December 2017 and credit loss allowance at 1 January 2018. The following table reconciles the prior period's closing provision for impairment measured in accordance with incurred loss model under IAS 39 to the new credit loss allowance measured in accordance with expected loss model under IFRS 9 at 1 January 2018.

	Provision under IAS 39 or IAS 37 at 31 Dec 2017	Effect			Credit loss allowance under IFRS 9 at 1 January 2018
		Reclassification to FVTPL	Reclassification to FVOCI	Remeasurement from incurred to expected loss	
<i>Loans and receivables measurement category</i>					
- Cash and cash equivalents	-	-	-	-	-
- Placements with other banks with original maturities of more than three months	-	-	-	-	-
- Trade and other receivables	224,315	-	-	64,468	288,783

At 31 December 2017, all of the Group's financial liabilities except for derivatives were carried at AC. The derivatives belonged to the FVTPL measurement category under IAS 39. There were no changes to the classification and measurement of financial liabilities.

The following table analyses the impact, net of tax, of transition to IFRS 9 on reserves and retained earnings as of 1 January 2018.

	Share capital	Additional paid-in capital	Other reserves	Retained earnings	Total equity
Amounts at 31 December 2017 prior to adoption of IFRS 9	46,662	7,009	7,455	18,848,892	18,910,018
Recognition of ECL under IFRS 9 for debt financial assets at amortized cost and credit related commitments				(64,468)	(64,468)
At 1 January 2018 (under IFRS 9)	46,662	7,009	7,455	18,784,424	18,845,550

Adoption of IFRS 15 "Revenue from Contracts with Customers"

The Group applied simplified method of transition to IFRS 15, and elected to apply the practical expedient available for simplified transition method. The Group applies IFRS 15 retrospectively only to contracts that were not completed at the date of initial application (1 January 2018). The adoption of IFRS 15 did not result in significant changes in accounting policies and adjustments to the consolidated financial statements.

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The following amended standards became effective for the Group from 1 January 2018, but did not have any material impact on the Group:

- Amendments to IFRS 2 "Share-based Payment" (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 4 - "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Annual Improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 1 and IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IAS 40 - "Transfers of Investment Property" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

4. NEW ACCOUNTING PRONOUNCEMENTS

Amendments to IFRS affecting financial statements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and which the Group has not early adopted.

- IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group decided that it will apply the standard from its mandatory adoption date of 1 January 2019 using the modified retrospective method, without restatement of comparatives. Right-of-use assets for property leases are measured on transition as if the new rules had always applied. All other right-of-use assets are measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued expenses).

As at 31 December 2018 the Group has non-cancellable lease commitments. All lease commitments are concluded for a period of up to one year. Accordingly, the Group does not expect a significant impact from the application of this standard.

The Group is currently assessing the impact of the amended standard on its consolidated financial statements:

- Amendments to IFRS 10 and IAS 28 - "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).

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- IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).
- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020)

5. FINANCIAL RISK MANAGEMENT

The risk management function within the Group is carried out with respect to financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risks), credit risk and liquidity risk. The primary function of financial risk management is to establish risk limits and to ensure that any exposure to risk stays within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures in order to minimise operational and legal risks.

The Group has established a Risk Committee of the Board of Directors. The main activity of the Committee is to review the Group's operations in order to identify risk events, to analyse transactions and to develop recommendations for mitigating the Group's risks. The work of the Committee serve as a guideline.

Credit risk

The Group exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation.

Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the consolidated statement of financial position.

Credit risk management. Credit risk is the single largest risk for the Group's business; management therefore carefully manages its exposure to credit risk.

The estimation of credit risk for risk management purposes is complex and involves the use of models, as the risk varies depending on market conditions, expected cash flows and the passage of time. The assessment of credit risk for a portfolio of assets entails further estimations of the likelihood of defaults occurring, the associated loss ratios and default correlations between counterparties.

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Expected credit loss (ECL) measurement. ECL is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Group: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate.

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest. PD is an estimate of the likelihood of default to occur over a given time period. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period. The discount rate represents the effective interest rate ("EIR") for the financial instrument or an approximation thereof.

Expected credit losses are modelled over instrument's lifetime period.

Management models Lifetime ECL, that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument. The 12-month ECL, represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining lifetime period of the financial instrument if it is less than a year.

The ECLs that are estimated by management for the purposes of these financial statements are point-in-time estimates, rather than through-the-cycle estimates that are commonly used for regulatory purposes. The estimates consider forward looking information, that is, ECLs reflect probability weighted development of key macroeconomic variables that have an impact on credit risk.

For purposes of measuring PD, the Group defines default as a situation when the exposure meets one or more of the following criteria:

- the borrower is more than 360 days past due on its contractual payments;
- international rating agencies have classified the borrower in the default rating class;
- the borrower meets the unlikeliness-to-pay criteria listed below:
 - the borrower is deceased;
 - the borrower is insolvent;
 - the borrower is in breach of financial covenant(s);
 - it is becoming likely that the borrower will enter bankruptcy;

For purposes of disclosure, the Group fully aligned the definition of default with the definition of credit-impaired assets. The default definition stated above is applied to all types of financial assets of the Group.

The assessment whether or not there has been a significant increase in credit risk ("SICR") since initial recognition is performed on an individual basis and on a portfolio basis. The Group constantly monitors and verifies the criteria used to determine whether there is a significant increase in credit risk in terms of their appropriateness.

The Group believes that there has been a significant increase in credit risk on trade and other receivables and assets under contracts with customers when the delay in payment is more than 180 days.

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The level of ECL that is recognised in these consolidated financial statements depends on whether the credit risk of the borrower has increased significantly since initial recognition. This is a three-stage model for ECL measurement. A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs. The consequence of an asset being in Stage 3 is that the entity ceases to recognise interest income based on gross carrying value and applies the asset's effective interest rate to the carrying amount, net of ECL, when calculating interest income.

If there is evidence that the SICR criteria are no longer met, the instrument is transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Group monitors whether that indicator continues to exist or has changed.

ECL for POCI financial assets is always measured on a lifetime basis. The Group therefore only recognises the cumulative changes in lifetime expected credit losses.

The Group has three approaches for ECL measurement: (i) assessment on an individual basis; (ii) assessment on a portfolio basis: internal ratings are estimated on an individual basis but the same credit risk parameters (e.g. PD, LGD) will be applied during the process of ECL calculations for the same credit risk ratings and homogeneous segments of the loan portfolio; and (iii) assessment based on external ratings. The Group performs an assessment on an individual basis for the financial assets with unique credit risk characteristics, individually significant financial assets. The Group performs an assessment on a portfolio basis for financial receivables. This approach stratifies the loan pool into homogeneous segments based on borrower-specific information, such as delinquency status and the historical data on losses.

When assessment is performed on a portfolio basis, the Group determines the staging of the exposures and measures the loss allowance on a collective basis. The Group analyses its exposures by segments determined on the basis of shared credit risk characteristics, such that exposures within a group have homogeneous or similar risks. The key-shared credit characteristics considered are: type of customer, date of initial recognition and term to maturity. The different segments also reflect differences in credit risk parameters such as PD and LGD. The appropriateness of groupings is monitored and reviewed on a periodic basis.

In general, ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained above, and discounted to present value using the instrument's effective interest rate. The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future month during the lifetime period for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has been repaid or defaulted in an earlier month). This effectively calculates an ECL for each future period that is then discounted back to the reporting date and summed up. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The key principles of calculating the credit risk parameters. The EADs are determined based on the expected payment profile, that varies by product type. EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment or refinancing assumptions are also incorporated into the calculation.

Two types of PDs are used for calculating ECLs: 12-month and lifetime PD. An assessment of a 12-month PD is based on the latest available historic default data and adjusted for supportable forward-looking information when appropriate. Lifetime PDs represent the estimated probability of a default occurring over the remaining life of the financial instrument and it is a sum of the 12 months PDs over the life of the instrument. The Group uses different extrapolation of 12-month PDs based on migration matrixes statistical approaches depending on the segment and product type to calculate lifetime PDs.

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LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by the type of counterparty, type and seniority of the claim, and the availability of collateral or other credit support. The 12-month and lifetime LGDs are determined based on the factors that impact the expected recoveries after a default event.

Principles of assessment based on external ratings. Certain exposures have external credit risk ratings and these are used to estimate credit risk parameters PD and LGD from the default and recovery statistics published by the respective rating agencies.

The Group regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit. Such backtesting is performed at least once a year.

The results of backtesting the ECL measurement methodology are communicated to Group Management and further steps for tuning models and assumptions are defined after discussions between authorised persons.

The table below summarises the Group's maximum exposure to credit risk:

	Note	31 December 2018	31 December 2017
Non-current receivables		54,655	52,744
Trade and other receivables	14	3,623,116	4,107,847
Other current financial assets	15	323,307	99,699
Cash and cash equivalents	16	1,188,706	402,649
Total maximum exposure to credit risk		5,189,784	4,662,939

Customers who do not pay for services, telecommunication services will not be provided until total repayment of debt. Management presented maturity analysis and other information about credit risk in Note 14. As at December 31, 2018, 88% of the Group's trade receivables were 12 customers (2017: 12 customers - 63%).

The funds are placed in those financial institutions, whose risk of default at the time of opening the account is minimal. Ratings of large banks and the account balances with these banks as of the reporting date are specified in Note 16.

Market risk

(a) Currency risk

The Group operates in the Republic of Kazakhstan. The Group does not operate internationally, thus, 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 cash and cash equivalents, accounts receivable and accounts payable. The Group does not hedge such financial instruments, since the management does not consider currency risk as significant.

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

	31 December 2018				31 December 2017			
	US Dollar	Euro	Russian Rouble	British Pounds	US Dollar	Euro	Russian Rouble	British Pounds
Trade and other receivables	1,392,515	22,317	-	-	2,129,668	27,873	-	-
Cash and cash equivalents	564,307	130	74,832	207	165,236	42,317	8	137
Other current assets	384	-	-	-	99,699	-	-	-
Trade payables	(594,077)	(5,389)	(9,632)	-	(663,333)	(8,052)	(2,821)	-
Net position	1,363,129	17,058	65,200	207	1,731,270	62,138	(2,813)	137
Strengthening of tenge against currency by 30% (2018: 30%)	(408,939)	(5,117)	(19,560)	(62)	(519,381)	(18,641)	844	(41)
Weakening of tenge against currency by 30% (2018: 30%)	408,939	5,117	19,560	62	519,381	18,641	(844)	41

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.

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 Group 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, and finance lease and instalment contracts.

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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.

	<u>Less than 1 year</u>	<u>Between 2 and 5 years</u>
As at 31 December 2018		
Borrowings	-	2,110
Trade payables	1,399,163	-
Total financial liabilities	<u>1,399,163</u>	<u>2,110</u>
	<u>Less than 1 year</u>	<u>Between 2 and 5 years</u>
As at 31 December 2017		
Borrowings	-	2,110
Trade payables	1,533,206	-
Total financial liabilities	<u>1,533,206</u>	<u>2,110</u>

Capital 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.

	<u>31 December 2018</u>	<u>31 December 2017</u>
Borrowings	2,110	2,110
Trade payables	19,922,969	18,910,018
Total financial liabilities	<u>0%</u>	<u>0%</u>

The Group management considers the level of gearing ratio as at 31 December 2018 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.

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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.

(a) 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.

(b) 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.

6. FINANCIAL INSTRUMENTS BY CATEGORIES

For the purposes of measurement at 31 December 2017, IAS 39 "Financial Instruments: Recognition and Measurement", classified financial assets into the following categories: (a) L&R; (b) AFS financial assets; (c) financial assets HTM and (d) financial assets at FVTPL ("FVTPL"). Financial assets at FVTPL had two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. As at 31 December 2017 all financial assets of the Group are classified as borrowings and receivables. All financial liabilities of the Group are carried at amortised cost.

The table below presents financial assets and liabilities measured at amortised cost as at 31 December and 1 January 2018. As at 31 December 2017, all assets were included in borrowings and receivables.

	Note	31 December 2018	1 January 2018	31 December 2017
Assets as per consolidated statement of financial position				
Non-current receivables		54,655	52,744	52,744
Trade and other receivables	14	3,623,116	4,043,379	4,107,847
Other current assets	15	323,307	99,699	99,699
Cash and cash equivalents	16	1,188,706	402,649	402,649
Total		5,189,784	4,598,471	4,662,939

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7. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

In 2017, the Group entered into an agreement on the mutual services to provide digital communication channels for use under IRU terms with another operator (the "Partner"). Under this agreement, the Group provides the following services to the Partner; i) installation of a digital communication channel; ii) provision of a digital communication channel. This agreement is valid for 13 years and provides for fines for early termination for both parties.

Installation / connection of a digital communication channel is the installation of the equipment necessary for connecting the telecommunications networks of a partner to the telecommunications networks of the Group. For these activities, the Group makes a one-time payment to the Partner. Revenue from this service is recognised in the reporting period when the services were provided, i.e. at the time of completion and transfer of installation services. Revenue is recognised based on the scope of services actually provided until the end of the reporting period, as the customer simultaneously receives and consumes benefits.

Providing a digital communication channel consists of: i) a lump sum payment and ii) a monthly payment. The Group believes that a one-time payment is not a separate obligation to execute and, accordingly, should be recognised over time, i.e. as the provision of mutual services, which is 13 years. A lump sum payment is recognised as deferred income and is applied to the income statement on a monthly basis for 13 years. The monthly payment is credited monthly for 13 years.

The Group also incurs connection costs under this agreement. The cost of services received by the Group consists of: i) a lump sum payment and ii) a monthly payment. The Group recognises a lump sum payment as deferred expenses and credits it to the income statement on a monthly basis for 13 years. Monthly payment is expensed monthly for 13 years.

b) 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 2018 would be to increase/decrease it by Tenge 170,321 thousand (2017: increase/decrease by Tenge 143,261 thousand).

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c) Inventories for sale

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 (Note 9), and used item is replaced with the same for resale. Accordingly, certain equipment at 31 December 2018, classified by management as current within inventories may be used by the Group and transferred to property, plant and equipment in future.

d) Valuation of inventory

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 2018 and 31 December 2017 is sufficient and represents the management's best estimate with respect to impaired inventories (Note 13).

e) Impairment of trade receivables

Measurement of ECLs is a significant estimate that involves determination methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 2. The following components have a major impact on credit loss allowance: definition of default, SICR, probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"), as well as models of macro-economic scenarios. The Group regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience. Long-term macroeconomic development does not play a significant role in shaping the risk profile in this segment. Therefore, a forecast adjustment based on a macroeconomic function is not applied to receivables.

f) 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 2018 the carrying value of deferred tax assets on tax losses carry forward Tenge 433,630 thousand (Note 25).

8. 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 Management of the Group performs the functions of CODM.

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(in thousands of tenge)

(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.

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

Segment information for the main reportable operating segments of the Group for 2018 and 2017 is set out below:

	Telecom- munication services	Technical mainte- nance	System integration	Head- quarters	Total
2018					
Segment revenue	16,947,285	501,333	662,898	-	18,111,516
Cost of segment sales	(12,696,297)	(405,954)	(533,927)	-	(13,636,178)
Gross profit for segment	4,250,988	95,379	128,971	-	4,475,338
Other income	-	-	-	88,856	88,856
Administrative and other expenses	-	-	-	(3,592,982)	(3,592,982)
Finance income	-	-	-	344,104	344,104
Finance costs	-	-	-	(3,495)	(3,495)
Profit before income tax	4,250,988	95,379	128,971	(3,163,517)	1,311,821
Income tax expense	-	-	-	(234,402)	(234,402)
Profit for the year	4,250,988	95,379	128,971	(3,397,919)	1,077,419

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	<u>Telecom- munication services</u>	<u>Technical mainte- nance</u>	<u>System integration</u>	<u>Head- quarters</u>	<u>Total</u>
2018					
31 December 2018					
Segment assets	20,371,949	161,573	404,324		20,937,846
Other unallocated assets	-	-	-	3,119,816	3,119,816
Total assets	<u>20,371,949</u>	<u>161,573</u>	<u>404,324</u>	<u>3,119,816</u>	<u>24,057,662</u>
Segment liabilities	2,266,892	13,655	63,638	-	2,344,185
Current and deferred tax liability	-	-	-	1,788,398	1,788,398
Other unallocated liabilities	-	-	-	2,110	2,110
Total liabilities	<u>2,266,892</u>	<u>13,655</u>	<u>63,638</u>	<u>1,790,508</u>	<u>4,134,693</u>
2018					
Capital expenditure	430,059	-	-	-	430,059
Depreciation and amortisation	1,647,901	55,311	-	-	1,703,212
	<u>Telecom- munication services</u>	<u>Technical mainte- nance</u>	<u>System integration</u>	<u>Head- quarters</u>	<u>Total</u>
2017					
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>
Gross profit for segment	<u>4,177,230</u>	<u>383,184</u>	<u>246,000</u>	<u>-</u>	<u>4,806,414</u>
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)
Profit before income tax	<u>4,177,230</u>	<u>383,184</u>	<u>246,000</u>	<u>(2,826,125)</u>	<u>1,980,289</u>
Income tax expense	-	-	-	(402,128)	(402,128)
Profit for the year	<u>4,177,230</u>	<u>383,184</u>	<u>246,000</u>	<u>(3,228,253)</u>	<u>1,578,161</u>
31 December 2017					
Segment assets	21,036,641	300,557	775,880	-	22,113,078
Other unallocated assets	-	-	-	1,353,351	1,353,351
Total assets	<u>21,036,641</u>	<u>300,557</u>	<u>775,880</u>	<u>1,353,351</u>	<u>23,466,429</u>
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
Total liabilities	<u>2,520,389</u>	<u>7,552</u>	<u>147,144</u>	<u>1,881,326</u>	<u>4,556,411</u>
2017					
Capital expenditure	1,701,564	-	-	-	1,701,564
Depreciation and amortisation	1,368,988	63,363	260	-	1,432,611

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

	31 December 2018		31 December 2017	
	Assets	Liabilities	Assets	Liabilities
Segment assets and liabilities	21,802,453	2,321,168	22,113,078	2,675,085
Non-current borrowings	-	2,110	-	2,110
Deferred income tax	-	1,788,398	-	1,860,901
Corporate income tax payable	-	23,017	-	18,315
Cash and cash equivalents	1,188,706	-	402,649	-
Prepayments to suppliers	205,822	-	163,745	-
Income tax prepaid	118,508	-	299,835	-
Goodwill	123,298	-	123,298	-
Other	618,875	-	363,824	-
Total	24,057,662	4,134,693	23,466,429	4,556,411

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.

9. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. 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 2018 and 31 December 2017 are detailed below.

As at 31 December 2018 and 2017 the outstanding balances with related parties were as follows:

	Other related parties
31 December 2018	
Accounts receivable	135,269
Other current assets	
Trade payables	(1,050)
	134,219
31 December 2017	
Accounts receivable	235,095
Other current assets	115
Trade payables	(83,042)
	152,168

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

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The income and expense items with related parties for 2018 and 2017 were as follows:

	<u>Other related parties</u>	<u>Key management personnel</u>
2018		
Revenue	1,812,751	-
Cost of sales	475,276	-
General and administrative expenses	<u>1,655</u>	<u>115,968</u>
2017		
Revenue	3,738,258	-
Cost of sales	950,123	-
General and administrative expenses	<u>2,185</u>	<u>67,609</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 2018 was Tenge 115,968 thousand (2017: Tenge 67,609 thousand).

In 2018, Directors classified as key management personnel include three positions (2017: three positions).

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10. PROPERTY, PLANT AND EQUIPMENT

	<u>Land and buildings</u>	<u>Telecom- munication equipment</u>	<u>Vehicles</u>	<u>Others</u>	<u>Construction in progress/ Equipment to be installed</u>	<u>Total</u>
Cost						
Cost as at 1 January 2017	1,993,758	14,096,154	615,165	1,550,898	4,996,143	23,252,118
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)
Cost as at 31 December 2017	<u>5,815,667</u>	<u>6,081,189</u>	<u>666,290</u>	<u>1,540,586</u>	<u>890,696</u>	<u>24,994,428</u>
Additions	14,480	677,165	-	47,860	430,059	1,169,564
Transfers	220,602	346,164	-	17,094	(583,860)	-
Disposals*	(2,018)	(180,500)	(32,327)	(59,966)	(141,768)	(416,579)
Cost as at 31 December 2018	<u>6,048,731</u>	<u>6,924,018</u>	<u>633,963</u>	<u>1,545,574</u>	<u>595,127</u>	<u>25,747,413</u>
Accumulated depreciation						
Balance as at 1 January 2017	424,322	5,713,663	479,189	1,164,240	-	7,781,414
Tear	126,274	1,095,388	39,325	110,681	-	1,371,668
Disposals	-	(139,642)	(33,201)	(133,184)	-	(306,027)
Balance as at 31 December 2017	<u>550,596</u>	<u>6,669,409</u>	<u>485,313</u>	<u>1,141,737</u>	<u>-</u>	<u>8,847,055</u>
Depreciation charge	243,039	1,228,963	36,600	101,949	-	1,610,551
Transfers	1,399	(1,769)	-	370	-	-
Disposals	(1,181)	(134,073)	(32,070)	(58,768)	-	(226,092)
Balance as at 31 December 2018	<u>793,853</u>	<u>7,762,530</u>	<u>489,843</u>	<u>1,185,288</u>	<u>-</u>	<u>10,231,514</u>
Carrying value as at 1 January 2017	<u>1,569,436</u>	<u>8,382,491</u>	<u>135,976</u>	<u>386,658</u>	<u>4,996,143</u>	<u>15,470,704</u>
Carrying value as at 31 December 2017	<u>5,265,071</u>	<u>9,411,780</u>	<u>180,977</u>	<u>398,849</u>	<u>890,696</u>	<u>16,147,373</u>
Carrying value as at 31 December 2018	<u>5,254,878</u>	<u>9,161,488</u>	<u>144,120</u>	<u>360,286</u>	<u>595,127</u>	<u>15,515,899</u>

*Disposal during the year ended 31 December 2018, include transfer from Construction in progress to inventory of Tenge 141,768 thousand.

As at 31 December 2018, land, buildings, machinery and equipment with collateral values of Tenge 309,583 thousand have been pledged to secure an open credit facility for US Dollars 3,000 thousand in Halyk Bank of Kazakhstan JSC (as at 31 December 2017 in Kazkommertsbank JSC: Tenge 309,583 thousand).

The Group has completed construction of FOCLs on MCNet project for Tenge 99,052 thousand in 2018 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 2018 consist of construction of FOCLs for Tenge 90,418 thousand. The Group plans to complete construction works in the first quarter of 2018.

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11. INTANGIBLE ASSETS

	<u>Licenses</u>	<u>Software</u>	<u>Other</u>	<u>Total</u>
Cost				
Cost as at 1 January 2017	271,842	259,716	14,802	546,360
Additions	99,101	51,616	181	150,898
Disposals	(3,980)	(17,393)	(4,183)	(25,556)
Cost as at 31 December 2017	366,963	293,939	10,800	671,702
Additions	139,696	27,420	11	167,127
Disposals	-	(4,262)	-	(4,262)
Cost as at 31 December 2018	506,659	317,097	10,811	834,567
Accumulated amortisation				
Accumulated amortisation as at 1 January 2017	142,079	182,018	4,181	328,278
Amortisation	37,155	20,961	2,827	60,943
Disposals	(3,980)	(17,393)	(2,041)	(23,414)
Accumulated amortisation as at 31 December 2017	175,254	185,586	4,967	365,807
Amortisation	50,544	36,949	5,168	92,661
Disposals	-	(4,242)	273	(3,969)
Accumulated amortisation as at 31 December 2018	225,798	218,293	10,408	454,499
Carrying value as at 1 January 2017	129,763	77,698	10,621	218,082
Carrying value as at 31 December 2017	191,709	108,353	5,833	305,895
Carrying value as at 31 December 2018	280,861	98,804	403	380,068

12. OTHER NON-CURRENT ASSETS

	<u>31 December 2018</u>	<u>31 December 2017</u>
Prepaid expenses	807,500	377,467
Non-current advance given	2,810	3,050
Total other non-current assets	810,310	380,517

13. INVENTORIES

	<u>31 December 2018</u>	<u>31 December 2017</u>
Telecommunication equipment for resale	1,064,080	724,016
Raw materials	263,418	290,943
Spare tools and appliances under maintenance contracts	54,311	63,545
Spare parts	36,596	40,198
Total inventories	1,418,405	1,118,702

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14. TRADE AND OTHER RECEIVABLES

	<u>31 December 2018</u>	<u>31 December 2017</u>
Trade and other receivables	4,504,215	4,332,162
Less: Provision for impairment	<u>(881,099)</u>	<u>(224,315)</u>
Total trade and other receivables	<u>3,623,116</u>	<u>4,107,847</u>

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

	<u>31 December 2018</u>	<u>31 December 2017</u>
US Dollar	1,392,515	2,129,668
Tenge	2,208,284	1,950,306
Euro	<u>22,317</u>	<u>27,873</u>
Total trade and other receivables	<u>3,623,116</u>	<u>4,107,847</u>

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables.

To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period.

The credit loss allowance for trade and other receivables is determined according to provision matrix presented in the table below. The provision matrix is based the number of days that an asset is past due, adjusted for:

<i>In % of gross value</i>	<u>Loss rate</u>	<u>Gross carrying amount</u>	<u>Lifetime ECL</u>
<i>Trade receivables</i>			
- Less than 30 days overdue	0.00%	2,115,926	-
- 31 to 60 days	0.00%	490,449	(1)
- 61 to 90 days	0.01%	188,038	(19)
- 91 to 120 days	0.25%	88,438	(217)
- 121 to 180 days	4.50%	163,788	(7,370)
- 181 to 360 days	37.38%	932,688	(348,604)
- over 360 days overdue	<u>100.00%</u>	<u>524,888</u>	<u>(524,888)</u>
Total trade receivables (gross carrying amount)		<u>4,504,215</u>	<u>(881,099)</u>

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Below is presented the analysis of trades and other payables on credit quality as at 31 December 2017:

	31 December 2017
<i>Current and not impaired</i>	
Trade and other receivables	3,644,784
Total current and not impaired	3,644,784
<i>Past due and not impaired</i>	
From 3 to 6 months	282,405
From 6 months to 1 year	180,658
Total past due and not impaired	463,063
<i>Impaired</i>	
More than a year	224,315
Total impaired	224,315
Less provision for impairment	(224,315)
Total trade and other receivables	4,107,847

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

	2018	2017
As at 1 January	224,315	159,096
Accrued through retained earnings	64,468	-
Accrual of provision for impairment of trade receivables	625,119	67,816
Effect of currency difference	32,531	-
Write-off of accounts receivable against the allowance	(65,334)	(2,597)
As at 31 December	881,099	224,315

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.

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15. OTHER CURRENT ASSETS

	31 December 2018	31 December 2017
<i>Other current financial assets</i>		
Short term bank deposits	201,384	99,699
Loans issued	121,923	-
Total other current financial assets	323,307	99,699
<i>Other current non-financial assets</i>		
Deferred expenses	288,828	259,575
Other taxes	6,740	4,550
Total other current non-financial assets	295,568	264,125
Total other current assets	618,875	363,824

Other current assets are denominated in following currencies:

	31 December 2018	31 December 2017
Tenge	322,923	-
US Dollar	384	99,699
Total other current assets	323,307	99,699

Short-term bank deposits

	Rating agency	Assigned rating	31 December 2018	31 December 2017
Tenge	Standard & Poor's	B+	384	99,699
US Dollar	Moody's	Ba3	201,000	-
Total other current assets			201,384	99,699

Management of the Group estimates credit quality of other short-term assets as high.

16. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Cash in bank in foreign currency	639,454	160,272
Cash in deposit bank accounts in tenge and foreign currency	509,022	156,825
Cash in bank in tenge	38,103	84,064
Cash on hand	2,127	1,488
Total cash and cash equivalents	1,188,706	402,649

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Cash and cash equivalents are denominated in following currencies:

	31 December 2018	31 December 2017
Tenge	549,230	194,951
US Dollar	564,307	165,236
Euro	130	42,317
British Pounds	207	137
Russian Rouble	74,832	8
Total cash and cash equivalents	1,188,706	402,649

	Rating agency	Assigned rating	31 December 2018	31 December 2017
Halyk Bank of Kazakhstan JSC	Moody's	Ba1	790,751	2,423
Sberbank of Russia JSC	Moody's	Ba3	395,675	6,608
Tsesnabank JSC	Standard & Poor's	B+	153	47,440
Kazkommertsbank JSC	Moody's	Ba2	-	344,690
Total cash in bank and short-term bank deposits			1,186,579	401,161

17. SHARE CAPITAL

a) Ordinary Shares

	Number of outstanding shares (in thousands)	Ordinary shares	Additional paid-in capital	Total
As at 31 December 2018	2,387	46,662	7,009	53,671
As at 31 December 2017	2,387	46,662	7,009	53,671

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 2017: 2,387 thousand shares) with a par value of Tenge 20 per share (31 December 2017: Tenge 20 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 2018, treasury shares consist of 54,015 ordinary shares of the Group (31 December 2017: 54,015 ordinary shares).

As at 31 December 2018 and 2017, the following shareholders owned more than 5% of issued and standing ordinary shares of the Company:

	Number of ordinary shares 31 December 2018	Number of ordinary shares 31 December 2017	%, 31 December 2018	%, 31 December 2017
Shareholders				
Rodnik INC LLP	1,907,556	1,907,556	81,77	81,77
Abdrakhmanov M.A.	233,090	233,090	9,99	9,99
Total	2,140,646	2,140,646	91,76	91,76

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(b) Preference shares

The total authorised and issued number of preference shares is 115,738 shares (31 December 2017: 115,738 shares), of which the number of outstanding shares is 105,714 shares (31 December 2017: 105,714 shares) with a par value of 20 tenge per share (31 December 2017: 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.

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:

	2018		2017	
	Ordinary shares	Preference shares	Ordinary shares	Preference shares
Dividends payable as at 1 January	-	-	-	-
Dividends declared during the year		2,114	70,010	3,172
Dividends paid during the year		(2,114)	(70,010)	(3,172)
Dividends payable as at 31 December	-	-	-	-
Dividends per share declared during the year	-	Tenge 20.00	-	Tenge 20.000

All dividends are declared and paid in Kazakhstani tenge. Dividends on preference shares are included within finance costs; dividends on ordinary shares were not accrued.

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 by the Company in the amount of 7,455 thousand tenge, which represented 15.6% of authorized share capital.

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19. TRADE AND OTHER PAYABLES

	31 December 2018	31 December 2017
Trade payables	1,399,163	1,533,206
Total financial trade and other payables liabilities	1,399,163	1,533,206
Value added tax	290,122	262,363
Provision for unused vacation	299,549	217,384
Payables to employees	75,820	124,934
Advances received	52,070	51,080
Payments to pension fund	34,948	13,824
Personal income tax payable	30,598	17,813
Deferred income	79,771	34,511
Other payables	32,776	74,406
	895,654	796,315
Total trade and other payables	2,294,817	2,329,521

Trade payables are denominated in the following currencies:

	31 December 2018	31 December 2017
Tenge	790,065	859,000
US Dollar	594,077	663,333
Euro	5,389	8,052
Russian Rouble	9,632	2,821
Total trade payables	1,399,163	1,533,206

20. REVENUE

	2018	2017
Line cable communication services	8,820,604	9,650,184
Local telephone and trunk communication services	5,136,616	5,830,775
Satellite communication services	2,851,128	2,029,671
Technical maintenance of information systems and equipment	485,774	1,144,697
Equipment installation and sales	411,215	1,030,023
Revenue from construction contract	406,179	20,832
Total revenue	18,111,516	19,706,182

21. COST OF SALES

	2018	2017
Communication services	7,333,043	8,548,906
Payroll expenses and personnel costs	2,448,136	2,352,548
Depreciation and amortisation expenses	1,679,800	1,408,506
Lease of communication facilities and other equipment	903,298	943,212
Equipment, materials and consumables	455,032	804,059
Repair and maintenance expenses	343,434	306,702
Third-party contractors	241,145	271,083
Utilities	118,639	120,746
Business trip expenses	62,915	63,352
Transportation expenses	16,946	17,914
Other	33,790	62,740
Total cost of sales	13,636,178	14,899,768

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FOR THE YEAR ENDED 31 DECEMBER 2018***(in thousands of tenge)***22. DISTRIBUTION COSTS**

	<u>2018</u>	<u>2017</u>
Payroll expenses and personnel costs	505,475	509,950
Marketing expenses	16,791	30,721
Communication services	7,489	10,262
Material	1,591	2,586
Business trip expenses	1,216	2,090
Depreciation and amortisation expenses	437	444
Other	59,253	73,342
Total distribution costs	<u>592,252</u>	<u>629,395</u>

23. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2018</u>	<u>2017</u>
Payroll expenses and personnel costs	1,073,835	945,828
Taxes other than income tax	977,909	999,317
Provision for impairment of trade receivables	-	67,816
Third parties services	77,048	56,214
Business trip expenses	64,294	56,213
Professional and consulting services	55,046	79,152
Rent	37,723	20,754
Bank charges	25,009	19,415
Depreciation and amortisation	22,975	23,661
Communication services	12,291	10,883
Materials	9,139	10,326
Other	37,648	32,528
Total general and administrative expenses	<u>2,392,917</u>	<u>2,322,107</u>

24. FINANCE INCOME

	<u>2018</u>	<u>2017</u>
Foreign exchange gains	321,219	25,802
Bank interest income	20,962	41,581
Other interest income	1,923	-
Total finance income	<u>344,104</u>	<u>67,383</u>

25. INCOME TAX

Income tax expense comprises the following:

	<u>2018</u>	<u>2017</u>
Current income tax	304,491	23,320
Current income tax adjustments of prior years	2,414	1,733
Deferred income tax expense/(benefit)	(72,503)	377,075
Income tax expense for the year	<u>234,402</u>	<u>402,128</u>

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

	<u>2018</u>	<u>2017</u>
Profit before income tax	1,311,821	1,980,289
Theoretical tax charge at statutory rate 20% (2017: 20%)	262,364	396,058
Tax effect on non-deductible non-assessable items	(30,376)	4,337
Adjustments recognised in the current year in relation to the current tax of prior years	<u>2,414</u>	<u>1,733</u>
Income tax expense for the year	<u>234,402</u>	<u>402,128</u>

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.

	<u>1 January 2017</u>	<u>Charged to profit and loss</u>	<u>31 December 2017</u>	<u>Charged to profit and loss</u>	<u>31 December 2018</u>
<i>Tax effect of deductible temporary differences</i>					
Provision for impairment of trade receivables	31,668	13,195	44,863	131,358	176,221
Accruals	76,027	11,056	87,083	21,095	108,178
Provision for dismantling and land restoration	9,282	(102)	9,180	(4,930)	4,250
Tax losses carry forward	<u>-</u>	<u>481,811</u>	<u>481,811</u>	<u>(48,181)</u>	<u>433,630</u>
Gross deferred income tax asset	<u>116,977</u>	<u>505,960</u>	<u>622,937</u>	<u>99,342</u>	<u>722,279</u>
<i>Tax effect of taxable temporary differences</i>					
Property, plant and equipment and intangible assets	<u>(1,600,803)</u>	<u>(883,035)</u>	<u>(2,483,838)</u>	<u>(26,839)</u>	<u>(2,510,677)</u>
Gross deferred income tax liability	<u>(1,600,803)</u>	<u>(883,035)</u>	<u>(2,483,838)</u>	<u>(26,839)</u>	<u>(2,510,677)</u>
Recognised deferred income tax liability	<u>(1,483,826)</u>	<u>(377,075)</u>	<u>(1,860,901)</u>	<u>72,503</u>	<u>(1,788,398)</u>

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.

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

	31 December 2018	31 December 2017
Earnings per share are calculated as follows:		
Amount of shares (in thousands)		
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 preference shares	10	10
<i>Preferred shares net of treasury shares</i>	<u>106</u>	<u>106</u>
Total number of shares	<u>2,439</u>	<u>2,439</u>
Profit for the year attributable to the Group's shareholders	<u>1,077,419</u>	<u>1,578,161</u>
Less:		
Minimum cumulative dividends on preference shares	2,120	2,120
Retained Earnings	<u>1,075,299</u>	<u>1,576,041</u>
Allocation to ordinary shareholders	1,028,566	1,507,546
Allocation to preference shareholders	46,733	68,495
Retained Earnings	<u>1,075,299</u>	<u>1,576,041</u>
Preference shares		
Distributed earnings	20	20
Retained earnings	440,88	646,18
Total earnings per share	<u>460,88</u>	<u>666,18</u>
Ordinary shares		
Retained earnings	<u>440,88</u>	<u>646,18</u>

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, the possibility of arbitrary interpretation exists. 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.

The ongoing political tensions in the region, exchange rate volatility have had and may continue to have a negative impact on the economy of the Republic of Kazakhstan, including reduced liquidity and difficulties in attracting international funding. 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. Herewith, the National Bank's policy on the exchange rate admits interventions to prevent sharp fluctuations in the Tenge exchange rate to ensure financial sustainability.

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As at the date of this report the official exchange rate of the National Bank of the Republic Kazakhstan was Tenge 376.65 per USD 1, compared to Tenge 384.20 per USD 1 as at 31 December 2018 (31 December 2017: Tenge 332.33 per USD 1). Therefore, uncertainty exists in relation to exchange rate of Tenge and future actions of National Bank and the Government of the Republic of Kazakhstan and the impact of these factors on the economy of the Republic of Kazakhstan.

In September 2018, the international rating agency Standard & Poor's affirmed Kazakhstan's long-term credit ratings for obligations in foreign and local currencies at the "BBB-" level, its short-term ratings for obligations in foreign and local currencies at the "A-3" level, and the the national scale: "kzAAA". The outlook for long-term ratings is "Stable". Stable outlook is confirmed by the presence of positive balance indicators due to additional inflow to the National Fund of the Republic of Kazakhstan, as well as low national debt, the total amount of which will not exceed the external liquid assets of the state within two years.

Growth in production and oil price stability, low unemployment and wage increase promoted moderate economic growth in 2018. Such an economic environment has a significant impact on the Company's operations and financial position. Management takes all necessary measures to ensure sustainable Company operations. However, the future consequences of the current economic situation are difficult to predict. Also, current expectations and management estimates may differ from actual results.

In addition, the telecommunications sector in the Republic of Kazakhstan is still subject to the influence of political, legislative, tax and regulatory changes. The prospects for the economic stability of the Republic of Kazakhstan significantly depend on the effectiveness of economic measures undertaken by the Government, as well as on the legal, regulatory and political developments, which are beyond the Company's control.

For the purpose of measurement of expected credit losses ("ECL") the Company uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected. Note 5 Financial Risk Management provides more information of how the Company incorporated forward-looking information in the ECL models.

Management is unable to predict all developments which could have an impact on the Kazakhstani economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business.

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

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.

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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 2018, the Group has no provision for contingent tax liability (31 December 2017: 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 2018, the Group has contractual capital expenditure commitments in respect of property, plant and equipment totaling Tenge 72,008 thousand (31 December 2017: Tenge 60,198 thousand).

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 concerning its production facilities, losses resulted from business disruption, or liabilities to third parties due to damage caused to real estate or environment because 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. ACCOUNTING POLICIES BEFORE 1 JANUARY 2018

Accounting policies applicable to the comparative period ended 31 December 2017 that were amended by IFRS 9 and IFRS 15, are as follows.

Financial instruments

(a) Key measurement terms. Financial instruments are carried at amortised cost as described below. Amortised cost ("AC") 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 amount of losses (direct or through the use of an estimated allowance account) from impairment. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to the 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 the related items in the consolidated statement of financial position.

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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 gross 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. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

(b) Financial assets - classification. The Group's financial assets include borrowings and receivables. Management determines the classification of its financial assets upon initial recognition.

Borrowings and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on the active market. They are included in current assets, except for the borrowings and receivables for which repayment periods exceed 12 months after the end of the reporting period, which are classified as non-current assets. The Group's borrowings and receivables in the consolidated statement of financial position consist of trade receivables from customers and other debtors (Note 14), other current assets (Note 15), cash and cash equivalents (Note 16) and non-current receivables.

(c) Financial liabilities - classification. The Group's liabilities are presented by financial liabilities that are measured at amortised cost. Financial liabilities in the consolidated statement of financial position include payables to suppliers and contractors (Note 19).

(d) Financial instruments – initial recognition. Financial assets and liabilities are initially recorded at fair value adjusted for 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) Financial assets – derecognition. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the 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. Trade and other receivables are recorded at amortised cost calculated using the effective interest method.

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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 Company 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 Company 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:

- delay of any payment, while late payment is not due to a delay in the operation of settlement systems;
- the counterparty is experiencing significant financial difficulties, as evidenced by the financial information about the counterparty held by the Company;
- the counterparty considers bankruptcy or financial reorganization;
- there is an adverse change in the payment status of the counterparty, due to changes in the national or local economic conditions that affect the counterparty; or
- the value of collateral, if any, is significantly reduced as a result of deteriorating market conditions.

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 the impairment loss account within the profit or loss for the year.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. Revenues are measured at the fair value of the consideration received or receivable. Revenues are recognised net of VAT and discounts.

Revenues from sales of telecommunications equipment are recognised when the risks and rewards of ownership of the equipment are transferred, usually upon delivery of the equipment. If the Group agrees to deliver the equipment to the specified location, revenue is recognised when the equipment is transferred to the customer at the destination point.

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Revenue from outbound calls is recorded based on the actual talk time used by the subscriber. All subscribers of the Group are serviced on a credit basis.

Revenue from the provision of Internet access is recorded based on the actual prepaid traffic used by the subscriber. Internet users are served both on a prepaid and on a credit basis.

Delivery of advisory services and equipment installation services is recognised in the accounting period in which the services are provided in line with the completion stage of a specific operation, assessed based on actual services provided as part of the total services to be provided.