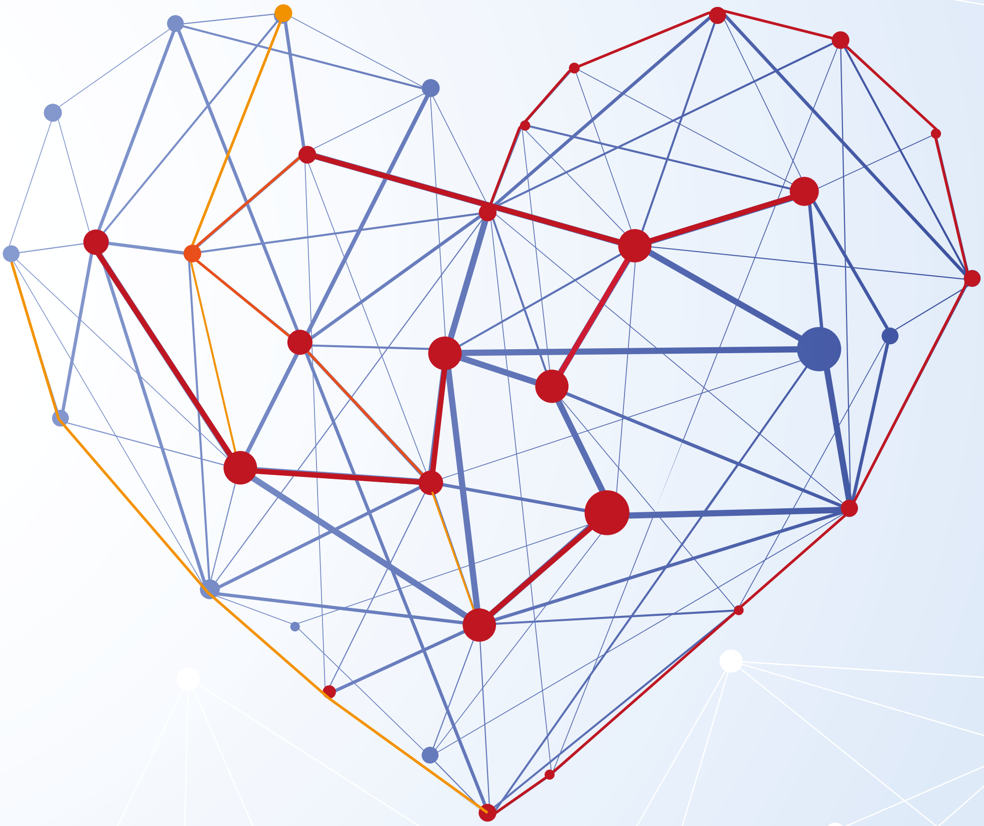
DIGITAL HEART OF THE SILK ROAD 2017



ҚАЗАҚТЕЛЕКОМ

ANNUAL REPORT
OF KAZAKHTELECOM JSC

Approved by
the Board of Directors of Kazakhtelecom JSC
Minutes as of May 31, 2018 No. 6

Approved by the decision of
the Management Board of Kazakhtelecom JSC
As of May 2, 2018 No. 17/71

Annual Report of Kazakhtelecom JSC

For 2017

DIGITAL HEART OF THE SILK ROAD

CONTENT

DIGITAL HEART OF THE SILK ROAD

THANKS TO ITS FAVORABLE LOCATION, IN THE HEART OF EURASIA, THE TERRITORY OF KAZAKHSTAN HAS ALWAYS BEEN A STRATEGICALLY IMPORTANT STRETCH OF THE SILK ROAD.

Keeping the best experience and traditions, significant lessons of the history and successful practices, and also taking into account the modern challenges of the digital world, the «heart» of the Silk Road and its main «arteries» become digital. In this context, the Company becomes not only an infocommunicational operator, but also an integrator of solutions and innovations for the «digital heart» of the Silk Road.

The location of the republic in the center of the Eurasian continent creates the necessary conditions for the development of a transport, logistics and communication center, thanks to which our country is a transit «bridge» between Asia and Europe. These opportunities formed the basis for the provision of transit corridors connecting Europe with the countries of Central Asia (Uzbekistan, Tajikistan, Turkmenistan, Kyrgyzstan, Afghanistan) and with the countries of South-East Asia (China, Singapore, Malaysia, etc.). Despite the fact that today there are alternative routes for the transfer of traffic from Europe to the countries of South-East Asia, the route through Kazakhstan is recognized as the shortest and most convenient. Our company pays special attention to the development of transit potential of the country and increasing the transit of telecommunication flows through Kazakhstan, conducts systematic work on the modernization of the transit route through the territory of the country and has a network of main fiber-optic communication lines connecting all the border areas, providing a connection with China and Russia, and also the Central Asian republics with Russia with access to Europe. The company modernized the equipment along the route, increased throughput, improved the quality of signal transmission. There are two projects launched jointly with partners for the provision of transit capacities in the direction Europe – Southeast Asia – DREAM and REAL. In 2017, sales of capacities in the direction of Europe – Southeast Asia increased more than 1.5 times.

To preserve the achieved level of development, the company intends to continue implementation of the initiatives, development and introduction of new services, while, as before, its main priorities remain: following customer-focused principles, achievement of the objectives of improving its competitiveness, flexibility to changes, introduction of industry trends and global best practices, and the preservation of the best traditions and values of the Company.

REGISTERED ADDRESS:

12, Sauran street, Essil district,
Astana, 010000,
Republic of Kazakhstan.

3.43 million
fixed telephony subscribers

1.7 million
fixed broadband access subscribers

735 thousand
Pay TV subscribers

ҚАЗАҚТЕЛЕКОМ

Kazakhtelecom Joint Stock Company is the leading telecommunication operator of the Republic of Kazakhstan providing a wide range of infocommunication services across the country.

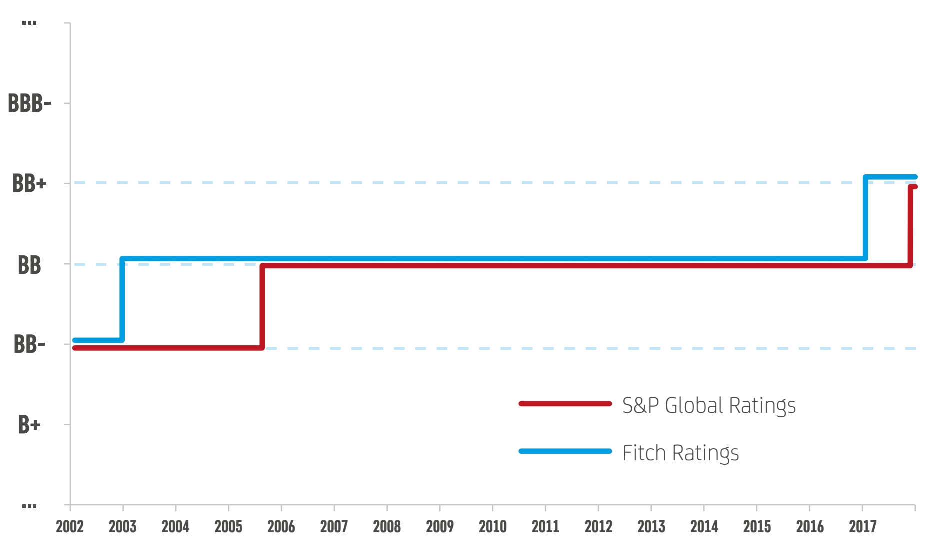
Kazakhtelecom JSC (Company, Kazakhtelecom) is the largest fixed telephony operator in Kazakhstan, a recognized leader in providing communication services, including rural telecommunications services, as well as one of the largest operators of the National Data Network.

Kazakhtelecom delivers an efficient modern communication network of national scale and covers the majority of main target markets for consumers of information and communications services. Reliability and scale of the backbone network as well as the high efficiency of use of innovative technologies are what the Company considers are its most important competitive advantages.

Revenues	Net profit	EBITDA margin
210 225 KZT mln	24 718 KZT mln	36,4%

In October 2017 Standard & Poor's International Rating Agency upgraded the credit rating of Kazakhtelecom JSC from BB/Positive to BB+/Stable. According to the national scale Kazakhtelecom JSC rating was upgraded from kzA+ to kzAA-.

In October 2017 Fitch Rating international rating agency confirmed the credit rating of Kazakhtelecom JSC at BB+/Stable.



FINANCIAL INDICATORS (CONSOLIDATED)

Unit	Revenues from sale of services	Net profit	EBITDA	EBITDA margin	Capital investments
	KZT mln	KZT mln	KZT mln	%	KZT mln
2017	210 225	24 718	76 445	36,4	29 109
2016	205 820	55 832**	73 718	35,8	15 014
2015	189 754*	24 388	66 745*	35,2*	38 699
2014	208 223	7 484	61 580	29,6	55 154
2013	190 867	19 614	65 829	34,5	61 503

EFFICIENCY INDICATORS

Unit	ROIC (Return on invested capital)	Average revenue per user (ARPU)	Number of employees (including subsidiaries)	Revenues, total, per employee
	%	KZT/month	people	KZT thousand
2017	8,6	4 623	23 610	8 904
2016	10,	3 605	25 117	8 194
2015	8,4*	3 582	28 343	6 912*
2014	6,0	3 413	29 000	7 180
2013	6,9	3 086	29 848	6 395

DATA ON ASSETS

Unit	Assets, total	Long term credits	Own capital
	KZT mln	*KZT mln*	*KZT mln*
2017	**471 314**	**24 968**	**359 108**
2016	**468 962**	**53 795**	**343 798**
2015	**436 494***	**27 300***	**292 421***
2014	**417 693**	**56 426**	**270 309**
2013	**416 135**	**36 029**	**265 503**

TECHNICAL INDICATORS

Unit	Number of fixed lines	Level of digitization of local network	Number of subscribers of fixed broadband data communication (BDC)	Number of Pay TV subscribers
	Lines	*%*	*Subscribers*	*Points*
2017	**3 425 559**	**100**	**1 736 970**	**735 419**
2016	**3 670 696**	**100**	**1 592 146**	**670 127**
2015	**3 878 584**	**100**	**1 502 632**	**607 762**
2014	**4 063 258**	**99,06**	**1 543 138**	**530 630**
2013	**4 085 811**	**98,2**	**1 467 520**	**455 378**

MACROECONOMIC INDICATORS

Unit	Population of Kazakhstan, total	GDP growth	Consumer price index	USD/KZT, year average exchange rate
	Thousand people	*%*	*%*	*KZT*
2017	**18 157,1**	**104**	**107,1**	**326**
2016	**17 918,2**	**101,1**	**108,5**	**342,16**
2015	**17 670,9**	**101,2**	**113,6**	**221,73**
2014	**17 417,4**	**104,3**	**107,4**	**179,19**
2013	**17 165,2**	**106,0**	**104,8**	**152,13**

** Financial performance of the Company in 2015 in accordance with the audited financial statements. On November 3, 2015, the Company announced its decision to conclude a joint venture agreement in the mobile segment with Tele2 Group on the basis of ALTEL JSC (ALTEL 4G brand) and Mobile Telecom-Service LLP (Tele2 brand). In this connection, the operations of ALTEL JSC were discontinued.*

***Net profit indicator in 2016 including the profit from the discontinued activity of ALTEL JSC in the amount of KZT 40,959.8 mln.*

ADDRESS OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear colleagues, clients and partners!

To date, telecommunications is not only a sector of the economy of Kazakhstan, but also an integral part of every person's life. Online technologies reduce distances, simplify the interaction between people and systems and, most importantly, allow to be in a trend and in the course of events. On a national scale, telecommunication technologies allow accelerating business processes, automating services, creating conditions for introduction of innovative technologies and solutions. Experts predict that in the coming years, not only the stable growth of the telecommunications market, but also a major breakthrough in this sector will be obvious.

In 2017 Kazakhtelecom JSC continued working on the implementation of the Orleu Modernization Program, launched in 2014. According to the results of 2017, the beneficial effect on free cash flow from the implementation of the Modernization Program amounted to more than KZT 29 bln.

At the same time, I would like to emphasize the fact that the Board of Directors pays special attention to optimizing the business structure of the Company. This approach, of course, helps to strengthen its position as one of the leaders in the telecommunications market. So, in 2017, as part of the strategic changes' implementation and improvements related to the structure of the Company, division of the Company's commercial direction into the retail and corporate segments occurred.

In addition, in order to increase the level of reliability of the services provided, important initiatives on the technical part were successfully implemented – the launch of the Single Network Management Center of Kazakhtelecom JSC.

Apart from that in order to develop the existing network infrastructure, Kazakhtelecom is actively exploring and developing modern systems, such as Smart Home, Smart City, Internet of Things for managing buildings, cities that provide the opportunity to optimize processes, improve the efficiency and safety of operation of facilities in cities. In 2017, work was continued to introduce innovative technological solutions, in particular, on the B2C segment for households the service named Cloud-hosted video surveillance was launched, on the B2G segment the service under the name Transport for video surveillance was introduced.

I think that Kazakhtelecom has all the necessary resources to implement the tasks set by the State to the Company and the expectations from it.

The efficiency of the Company's operation in 2017 was also confirmed by the upgrade of the Company's ratings by international rating agencies. Thus, the international rating agency Standard& Poor's upgraded Kazakhtelecom's credit rating from BB/Positiv to BB+/Stable. According to the national scale, the Company's credit rating was upgraded from kzA+ to kzAA-. Another international rating agency – Fitch Ratings – confirmed the credit rating of Kazakhtelecom JSC at the level of BB+/Stable. According to the national scale, the rating of Kazakhtelecom JSC was confirmed at the level of AA-(kaz).

All the indices and results achieved in the reporting year allow the Board of Directors to highly appreciate the activities of the Management Board, the entire top management, the heads of structural and regional divisions and, in fact, every employee of the Company. On behalf of the Board of Directors of Kazakhtelecom JSC I express my gratitude to all shareholders and partners – for supporting our aspiration for development and growth, for management – for conscientiousness in carrying out assigned tasks, to the whole team – for invaluable contribution to the stable operation of the Company, to clients – for choosing the Company and a constructive dialogue that stimulates the Company to improve further.

I am confident that Kazakhtelecom will continue to dynamically develop and introduce advanced technologies and services, as well as preserve the traditions and high level of social stability, technical reliability and customer care.

Yours faithfully,
Chairman of the Board of Directors of Kazakhtelecom JSC
N. Baidauletov

ADDRESS OF THE CHAIRMAN OF THE MANAGEMENT BOARD

Dear shareholders, investors, customers, partners!

I am honored to present to you the Annual Report, which covers the most important events and decisions adopted and made in 2017. On its pages you will find information about the key projects of the Company, on corporate governance, investments, changes in management and ensuring effective performance, partners and upcoming plans.

The past year was marked with the fact that our Company presented innovative products and services, opportunities for transit potential at international exhibitions, such as the International Specialized Exhibition Astana EXPO-2017, Web Summit 2017 in Lisbon, however, the priority direction of Kazakhtelecom was, and still remains, along with new businesses, traditional communication services – providing the urban population and residents of rural settlements with telephone communication and access to Internet, meeting the population's needs for telecommunications services. At the same time, our Company has always distinguished itself by demonstrating its ability to fulfil its obligations to customers, partners and the state.

Along with this, special attention was paid to transformation, renewal of organizational structure, development of corporate culture. In 2017, the implementation of, perhaps, the most ambitious projects to change the organizational structure of Kazakhtelecom JSC occurred. 14 regional branches are enlarged into 6 regional directorates, the commercial direction of the Company is divided into retail and corporate segments. This kind of functional division will enable to effectively continue the development of sales and service channels in each of the segments, which in turn means that changes will affect the quality of services and servicing customer.

I would also like to highlight one of the main tasks set for the entire state – the implementation of the Digital Kazakhstan Program. The program will be implemented in five key areas.

Kazakhtelecom JSC, having the necessary resources, takes an active part in the implementation of this State Program.

The Company invariably has a strong tradition of continuity and respect for the older generation. Annually the Company renders social support to pensioners and veterans of the communication industry. Particular attention is paid to the support and development of personnel, and the reforms carried out in 2017 clearly show that every employee is important for the Company, and a growing market and growing competition require a payoff and high involvement from each employee.

I especially want to emphasize the fact that the Company not only monitors changes in the market, responding to the requests of customers and partners, we also constantly study the international experience of the world telecommunications market's leaders, monitor trends and, as a recognized leader in the domestic telecommunications industry, demonstrate the best experience. Obviously, under the current circumstances, not only the face has changed, but also the internal structure of the Company and these changes have already brought the first result. About the indices and milestones that were overcome in 2017, you can also read the Annual Report.

Qualitative changes, the effectiveness of the measures taken and the activities of the Company were confirmed in the past year by the upgrade of the Company's ratings by the international rating agencies FitchRatings and Standard&Poors. Thus, the credit rating of Kazakhtelecom JSC is confirmed at the level of BB+/Stable. According to the national scale, the rating of Kazakhtelecom JSC is confirmed at the level of AA-(kaz).

Belonging to the large team of Kazakhtelecom is a source of pride for me and my colleagues. I would like to express my gratitude to the thousands of employees of our Company for their daily work, the invaluable contribution that each of them brings to our common goal. I am confident that in this report you will discover useful and necessary information, as well as get acquainted with the current projects of the Company.

Yours faithfully,
Chairman of the Management Board of Kazakhtelecom JSC
K. Yessekeyev

EVENT CALENDAR FOR 2017

JANUARY

On January 1, 2017 an updated line of tariff plans for the Internet access services for SOHO (middle business and individual entrepreneurs) and B2B (middle and large corporate customers) was introduced.

Kazakhtelecom JSC took part in a meeting with the Malaysian companies on the issues of cooperation in the field of social and labor relationships. Meeting between the representatives of HR and social sectors of Samruk-Kazyna JSC, Kazakhtelecom JSC, JSC NC KazMunayGas as well as the management of the Center of social partnership and Information and analytical center on employment problems of the Republic of Kazakhstan with CDC Malaysia (Corporate Development Centre Malaysia) Agency on cooperation issues in the field of social and labor relations was held during a working visit to Malaysia.
Kazakhtelecom JSC and National Chamber of Entrepreneurs of the RoK Atameken (hereinafter – Atameken NCE) announced the establishment of a unified digital platform for small and medium enterprises. The project offered by Kazakhtelecom JSC together with Atameken NCE basically represents the aggregator of services necessary for operating of business during all lifecycle.

FEBRUARY

Kazakhtelecom JSC office held meeting between Pavel Kazantsev, a member of Mazhilis of the RoK, and workforce of the Company. The key points of address of the President of the RoK on redistribution of powers between the branches of the state power were discussed during the meeting.

MARCH

The official launch of the Network Management Unified Center (hereinafter – Unified Center) of Kazakhtelecom JSC took place in Almaty. The objectives, tasks, technical capabilities of the Unified Center were presented during the presentation. The Center enabled centralization of monitoring and management functions of the telecommunication networks and operator equipment.

On the basis of Karaganda regional telecommunications administration Kazakhtelecom JSC implemented an innovative project – SMART DESK – based on the SDP-platform. This project enables a rapid deployment of new converged multimedia services: from general telephony services to complex audio- and video-conferences in multiplayer services.

APRIL

Kazakhtelecom announced the launch of the Shared Service Center (SSC) on payroll functions. The centralization of supporting functions, withdrawal of non-core auxiliary subdepartments and business processes into the SSC format will help optimize the organizational structure and increase the efficiency of the personnel at the central and regional levels.

Kazakhtelecom JSC together with Wargaming announced the launch of a joint lineup of game packages.

Kazakhtelecom JSC and SolarSecurity Company signed a memorandum of partnership and cooperation in the field of the cyber security services promotion. The partnership of the two companies stipulates establishment of a center monitoring and responding to the cyber attacks.

The Annual General Shareholder Meeting of Kazakhtelecom JSC resulted in approval of the dividend amount following the results of 2016. Dividend for 1 ordinary share amounted to KZT 404.57.

MAY

Kazakhtelecom reported the cancellation of the service fee since May 4, 2017 when paying for telecommunication services through information kiosks. This measure is accepted for the convenience of clients.

A meeting of the Astana Regional Public Council on support of entrepreneurship under the Nur Otan party was held in Astana. A joint project of Kazakhtelecom JSC and the Atameken NCE on implementation of the open service platform for SMEs was presented during the meeting.

Kazakhtelecom JSC summed up the results and awarded the winners of Let's improve client experience together Contest arranged with the purpose of identifying new progressive innovative projects as well as involving active and talented part of the staff in the processes on improvement of the Company's activity.

In Astana the members of the Eltaev labor dynasty from the Southern Kazakhstan RMT – branch of Kazakhtelecom JSC – participated in celebration of the Day of labor dynasties of the Samruk-Kazyna JSC companies group. The total work experience of 5 members of the family in the communication industry and Kazakhtelecom JSC is 131 years.

Kazakhtelecom JSC reported the increase of the guaranteed volume of traffic on some tariff plans on the LTE technology for the category of individuals since June 1, 2017.

Astana EXPO-2017 National Company and Kazakhtelecom JSC established a Unified Contact-center on issues relating to EXPO-2017 International Specialized Exhibition.

Kazakhtelecom held a joint meeting of the RCC Commission on Infocommunications and Council of Telecommunication operators and Infocommunications RCC.

Kazakhtelecom JSC together with Wargaming, developer of games, held a mini-tournament on WorldofTanks among schoolchildren.

JUNE

Kazakhtelecom announced the launch of the Parental Control service for mobile communication subscribers developed by Kazakhtelecom JSC and Altel JSC since June 1, 2017. Now the Company's subscribers are provided with security in Internet both in the computer and on the mobile phone.

On June 1, 2017 a new line of tariff plans for the Internet access and IP VPN services was introduced.

Kazakhtelecom JSC provided technical support in holding the meeting between the heads of the Shanghai Cooperation Organization member-states.

Kazakhtelecom held an autograph session with Nassim N. Taleb, world-famous economist.

A strategic session dedicated to the transformation of the corporate culture was held in Kazakhtelecom JSC office.

JULY

Kazakhtelecom JSC together with the Ministry of Healthcare of the RoK implemented a project on establishment of a unified electronic mail service for medical workers.

AUGUST

A pilot project of the Shared Service Center of Kazakhtelecom JSC on the function of legal support was launched on the basis of branches located in Almaty.

Kazakhtelecom presented a cloud video surveillance service. Available since September 1, 2017. This project aims to increase the comfortable accommodation level in households and ensure of the population safety. The service will be available for residents of apartment buildings and business clients in all regional centers of Kazakhstan as well as Astana and Almaty.

SEPTEMBER

Kazakhtelecom JSC and China Mobile International Limited (CMI) concluded a deal. The main purpose of the event was to acquire from Kazakhtelecom JSC a long-term lease of communication channels from Hong Kong to Frankfurt am Main and London route.

Kazakhtelecom provided technical support in hosting the Summit of the Islamic Organization of Cooperation on science and technologies started on September 10, in Astana.

OCTOBER

Kazakhtelecom held the 5th International scientific and practical conference dedicated to the influence of the artificial intelligence on technology.

Kazakhtelecom JSC together with Astana International Financial Center (hereinafter – AIFC) held a workshop with the participation of Anatoly Radchenko, a famous specialist in the field of the blockchain technology.

Standard & Poor's International Rating Agency upgraded the credit rating of Kazakhtelecom JSC from BB/Positive to BB+/Stable. According to the national scale Kazakhtelecom JSC rating was upgraded from kzA+ to kzAA-.

The Company made the complete early retirement of 12,136,865 bonds of KZ2COY10D612 indexed coupon bonds which are the sole currency obligation in the credit portfolio of Kazakhtelecom JSC. The total amount of the transaction was KZT 30,128,136,167.84. 100% of the Company's debt is indicated in the national currency as a result of the bonds redemption.

NOVEMBER

Kazakhtelecom took part in Websummit 2017 major technological conference where the program of development of the digital economy of Kazakhstan and new opportunities for the international IT community were presented.

Kazakhtelecom held the second IT tournament with 160 participants. The 6 teams included employees of the Ministry of Information and Communications of the RoK, Defense and Aerospace Industry of the RK, Zerde JSC, National Information Technologies JSC, Kazakhtelecom JSC and the capital branch of the Nur Otan party.

DECEMBER

Kazakhtelecom provided technical support in holding 100 New Faces of Kazakhstan Forum.

Meeting between Kuanyshbek Yessekeyev, the Chairman of Kazakhtelecom JSC Management Board, and Shukhrat Kadirov, General Director of Uzbektelecom SC.

During the meeting, the parties discussed issues related to further cooperation in the provision of telecommunications services and considered prospects for cooperation within the fintech and FDO (fiscal data operator) directions.

Kazakhtelecom with the support of the Ministry of Information and Communications of the RoK arranged IoT ForumAstana 2017. The leading national and foreign experts discussed trends in the development of Internet of things concept (IoT – Internet of Things) in Kazakhstan.

The primary party organization (hereinafter – PPO) of Kazakhtelecom JSC took the 1st place in the Best primary party organization of Nur Otan republican competition amid the PPOs of the state bodies, national companies and organizations.

Kazahtelecom JSC and IT-park technological cluster in the field of the high technologies of Russia signed a Memorandum of Understanding. The Parties agreed on cooperation in the field of the innovative services development, start-up projects and personnel training.

FitchRating international rating agency confirmed the credit rating of Kazakhtelecom JSC at BB+/Stable. Kazakhtelecom JSC rating according to the national rating is confirmed at AA- (kaz).

Digital transformation. Key tasks of the telecommunication operator internal corporate online-conference was held in Kazakhtelecom JSC.

Kazakhtelecom paid a guaranteed dividend on the preferred stocks for 2017 in the amount of KZT 300 per 1 stock.

PROFILE OF THE COMPANY

BASIC FACTS

The National joint stock company Kazakhtelecom was founded pursuant to the resolution of the Cabinet of Ministers of the Republic of Kazakhstan No. 666, as of June 17, 1994 On founding the national joint stock company Kazakhtelecom by transferring property of state enterprises, joint stock companies, and telecommunication entities to the charter fund of the founded national joint stock company set to provide a wide range of communications services across the whole territory of the country.

The initial state registration at the department of justice of the Republic of Kazakhstan was made on December 1, 1994.

In March 1996, the primary emission of shares equaling to the charter fund of was registered.

12,1 KZT bln.

Pursuant to the Law of the Republic of Kazakhstan as of May 13, 2003 On joint stock companies, the company was reregistered as joint stock company Kazakhtelecom (hereinafter – Kazakhtelecom JSC). Certificate of state re-registration of a legal entity No. 6924–1901–AO as of April 1, 2004 was issued by the Department of Justice of the city of Astana.

On January 26, 2012, due to establishment of the Administration of justice of the Saryarka district of the Department of justice of the city of Astana, a new certificate of registration of a legal entity No. 570–1901–01–AO was issued to the Company. Due to a change of the legal address of Kazakhtelecom JSC, the certificate on state re-registration of a legal entity was issued by the Department of justice of the city of Astana as of August 18, 2014.

The Company is acting upon the General License No. 14014826 as of 09.10.2014 issued by the Committee for Communication, Informatization and Information of the Ministry on Investment and Development of the Republic of Kazakhstan.

The Company's shares are included in the official list of Kazakhstan Stock Exchange (KASE).

The major shareholder of Kazakhtelecom JSC is Samruk-Kazyna JSC, a state-owned company, holding 51% of the Company's ordinary shares.

Kazakhtelecom JSC is a legal entity that has regional branches within its structure.

Subsidiary companies of Kazakhtelecom JSC also make part of the Company's assets. The Company is represented throughout the country, has a network of 248 service points, its own network of 15 data centers, contact centers.

The Company's central office is located in the city of Astana, the capital of Kazakhstan.

Kazakhtelecom JSC Group of Companies employs more than 23 thousand people.

MISSION, VISION, STRATEGIC INITIATIVES AND OBJECTIVES

MISSION OF THE GROUP OF COMPANIES OF KAZAKHTELECOM JSC (GROUP):

To become indispensable and habitual part of everyone's life changing itself and surprising and surpassing expectations!

Key notions of the mission:

To become –
to lay down the foundation for transforming the Company in accordance with its strategy;

indispensable –
to compete by offering a unique service in the market owing to its leadership in innovation, prices, geography and complex of services;

habitual –
convenience, affordability (availability), stability;

part of everyone's life –
creation of communication environment, receipt and exchange of information, management of knowledge, entertainment and social orientation;

everyone's (life) –
all segments, differentiated approach;

changing itself –
structure and processes of the Company oriented towards flexible and timely reaction to changes in technology, market, demand and competitive situation;

surprising –
achievement of a unique client experience;

surpassing expectations –
formatting and meeting demand, dominance in innovations.

Mission:

Become an indispensable and familiar part of everyone's life, changing, surprising and exceeding expectations!

Vision:

Leading Kazakhstan integrated operator on the infocomms market

Strategic initiatives:

Family Service Supermarket: choice number 1 for communications, information and entertainment

Integrated operator

Informational foundation for Kazakhstan business

Effective business–model

New businesses

THE OUTCOME OF SUCCESSFULLY IMPLEMENTED STRATEGY MAY BECOME AN INCREASE IN SHAREHOLDER VALUE OF THE COMPANY

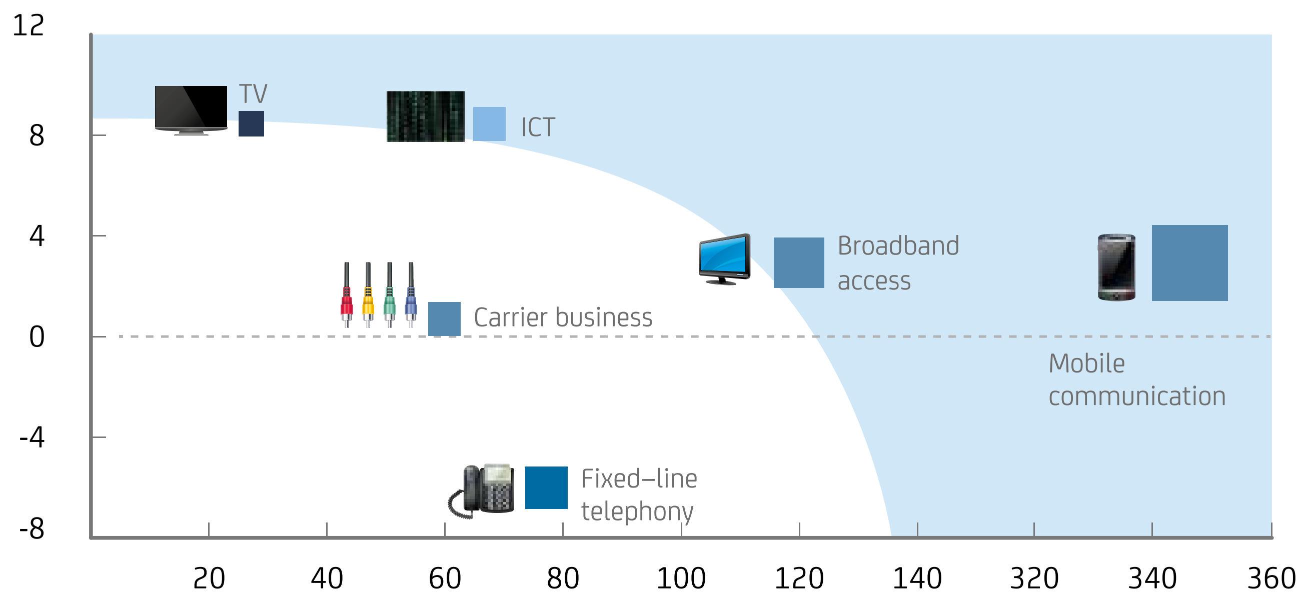
The strategy of Kazakhtelecom JSC Group of Companies is aimed at preserving the positions in the fixed business, developing the mobile business with the step-by-step development of an integrated operator, using synergies with the core business for point development in related sectors of the telecommunications industry. At the same time, the task is set to maintain the operational efficiency of the business at a level above the average for analogical companies and increase the efficiency of capital investments.

In order to maintain its positions in the infocommunication market, Kazakhtelecom develops its' presence at the mobile communications market by the means of a joint venture created on the base of ALTEL (ALTEL 4G brand) and Mobile Telecom-Service LLP (Tele2 brand).

Average annual rate of growth 2015–2025

Percentage

Priority fields for growth



Income of telecommunications market in Kazakhstan, 2015

KZT bln

Growing points of telecommunications market in Kazakhstan (2015–2025)

KAZAKHTELECOM HAS THE FOLLOWING ADVANTAGES:

wide coverage of Kazakhstan population with communication services – over 80% of households are connected to fixed telephony by Kazakhtelecom JSC

expansive wired communication infrastructure in the country – technical coverage of more than 80% of Kazakhstan households provided by Kazakhtelecom, of which:

- 30% of households are provided with access to the infrastructure of high-speed data transmission GPON;
- 60% of households have access to ADSL 2+ infrastructure, providing speeds up to 20 Mb / s;
- 10% of households have access only to the basic telephony service;

developed network of retail sales points of sales and customer service – more than 300 throughout Kazakhstan;

a recognizable brand that consumers trust.

In 2016, the Strategy the meets the trends and challenges of the market was updated to increase the shareholder value of Kazakhtelecom JSC. The updated Strategy identifies **5 strategic initiatives** that contribute to achievement of the set goals and successful resistance to possible challenges, and form the ***Group's vision*** and more than 70 strategic directions were emphasized:

- Family services supermarket: choice number 1 for communication, information, entertainment
- Information foundation for Kazakhstan business
- Construction of an integrated operator
- An effective business model
- New businesses

1. Family services supermarket group of initiatives provides the following:	provides the following: promotion of the package offer of telecommunications and other services to the household, which fully satisfies the needs of all members of the household in communication, information, entertainment; increase user experience and customer loyalty; development of a function aimed at increasing the overall efficiency of sales channels; improvement of the Company's brand and its positioning.
2. Information foundation for Kazakhstan business group of initiatives» includes the following:	protection of current positions through formation of packages and improvement of tariffs and price policy, development of access technologies; Strengthening of positions on the operator market; development of ICT business; development of a customer-oriented and segment-oriented sales approach.
3. Development of integrated operator group of iniatives provides for the need to take an active part in managing the established joint venture on the basis of the business of ALTEL JSC and Mobile Telecom-Service LLP in 2016 under the management of Tele2 within the framework of the rights agreed upon in Shareholders' agreement, in order to increase the efficiency and profitability of their investments within the framework of the accepted course of merging their mobile business with Tele2 and includes the following:	effective goal-setting at the level of the Board of Directors of JV; realization of synergies in incomes; realization of synergies in costs; maximizing the benefits of using the warrant.

4. Effective business model is a prerequisite for the Group to achieve its strategic goals, both in terms of direct impact on financial indicators, and in terms of providing the necessary conditions for implementing the most important strategic initiatives mentioned above. Modernization of the business model involves a set of initiatives to improve organizational efficiency and workforce productivity, improve the processes and corporate culture of the Group.

5. As the competition in the traditional telecommunications business is growing and the profitability is decreasing, an alternative source of growth for Kazakhtelecom may become related areas of activity. **New Business** group of initiatives will be directed to the development of new related areas of activity:	development of financial services; development of e-commerce; digitalization of the economy; commercialization of Big Data; development of e-learning.

EQUITY HOLDING STRUCTURE

The Company's stock capital makes up

12, 136, 529 KZT thousand

and is comprised of 10, 922, 876 ordinary shares and 1 213 653 preferred shares with the nominal value of KZT 1, 000 per share. The fraction of the Company's preferred shares out of the total number of issued shares totals 10%.

The Company's ordinary and preferred shares were included onto the official list of category «A» of the Kazakhstani Stock Exchange (KASE) as of October 16, 1997, and from September 1, 2008, they were transferred to the first category of the official list of KASE.

On April 28, 2006, the state block of shares of Kazakhtelecom JSC was transferred to JSC Kazakhstani holding for management of state assets Samruk, founded in accordance with the Enactment of the Government of the Republic of Kazakhstan as of February 23, 2006 No. 117 with a view to effectively managing the state shares in a number of the largest companies of Kazakhstan.

Following the Enactment of the Government of the Republic of Kazakhstan, No. 962, as of October 17, 2008, On measures for implementation of the Decree of the President of the Republic of Kazakhstan No. 669 as of October 13, 2008, Sovereign Wealth Fund Samruk-Kazyna (hereinafter referred to as SWF Samruk-Kazyna JSC, the Fund) was founded by merging JSC Kazakhstani holding for management of state assets Samruk with JSC Fund for sustainable development Kazyna. To date, the Fund is the Company's largest shareholder.

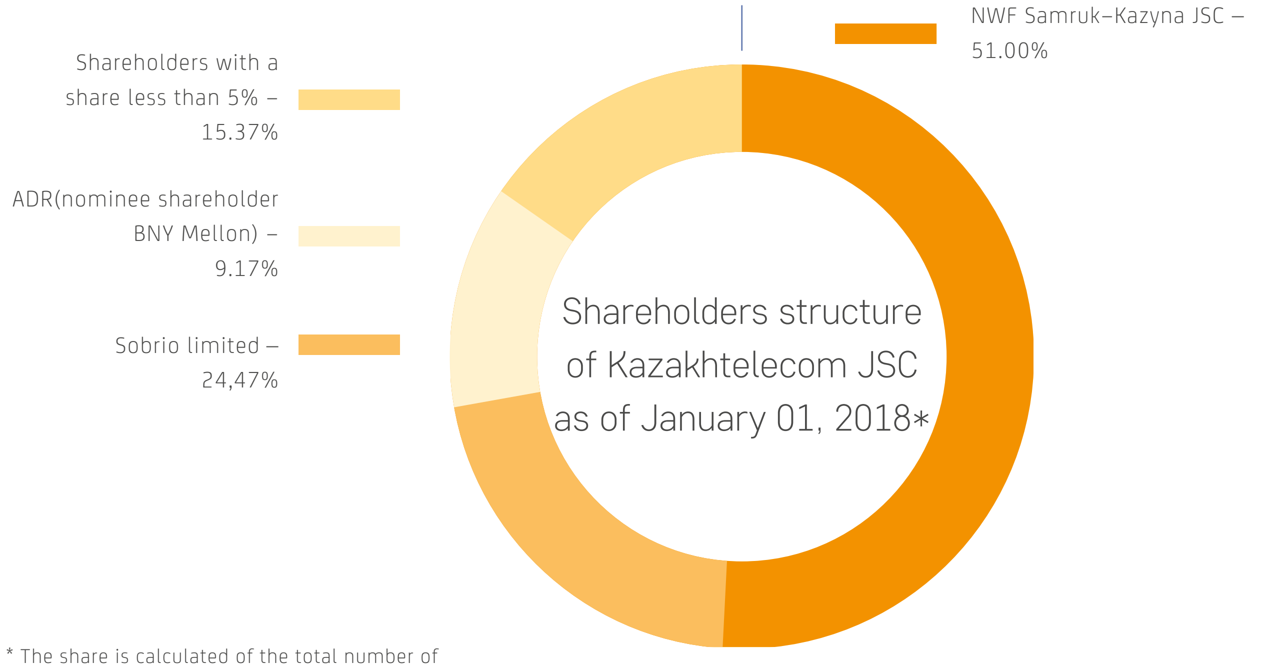
In July 2016, Sobrio Limited Company became the new major shareholder of Kazakhtelecom JSC, which acquired shares of JSC (24.47% of ordinary shares of the Company) from Bodam B.V. and Deran Services B.V. companies.

The interest in the charter capital of the main shareholders is almost without changes.

Currently, the Company's ordinary and preferred shares are included in the Premium category of the official list of Kazakhstan stock exchange JSC and are traded on the market of the exchange.

OWNERS OF ORDINARY SHARES OF KAZAKHTELECOM JSC, AS OF 01/01/2018

Shareholder	Number of shares	Share (%)*
NWF Samruk-Kazyna JSC	5 570 668	51,00
Sobrio Limited	2 672 592	24,47
ADR (nominee shareholder BNY Mellon)	1 001 276	9,17
Other shareholders with a share of less than 5%	1 678 340	15,37
Total announced ordinary shares	10 922 876	100



* The share is calculated of the total number of allotted ordinary shares.

As of 01.01.2018 the members of the Management Board and the Board of Directors of the Company are not the owners of ordinary shares of Kazakhtelecom JSC, there is no cross-shareholdings.

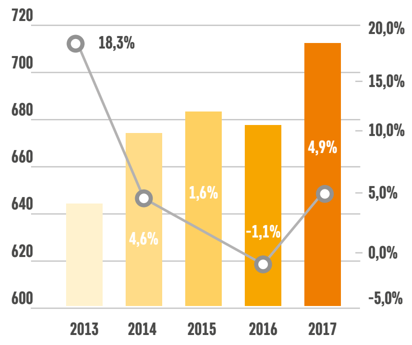
TELECOMMUNICATIONS MARKET REVIEW

In 2017 the volume of the telecommunications market of the RoK amounted to

710,9 KZT bln.

according to expert estimates Over the past 5 years since 2013 there has been a steady increase in revenue in the communications market except of a 1,1% decline in 2016. In 2017 the market began to gain momentum and grew by 4.9% against 2016..

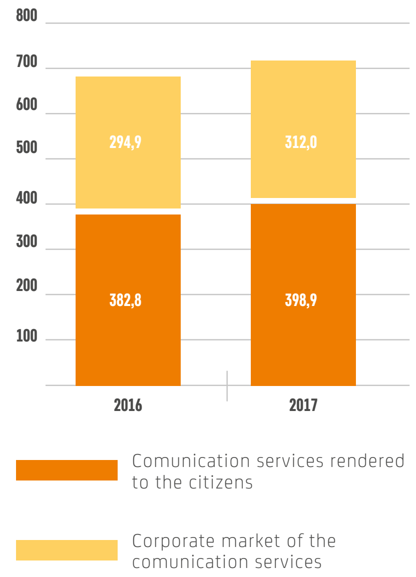
VOLUME AND GROWTH RATE OF THE TELECOMMUNICATIONS MARKET OF THE RoK, 2013-2017



Source: Data Committee on Statistics of the Ministry of the National Economy of the RoK

Nowadays the volume of the telecommunications market is represented by two major segments of B2C – services rendered to the population and B2B – services rendered to the corporate sector, including large enterprises and SMEs, public sector services, services to communication operators.

CHANGE OF VOLUME OF TELECOMMUNICATION MARKET OF RoK, 2016–2017



VOLUME OF THE COMMUNICATION SERVICES RENDERED IN 2017:

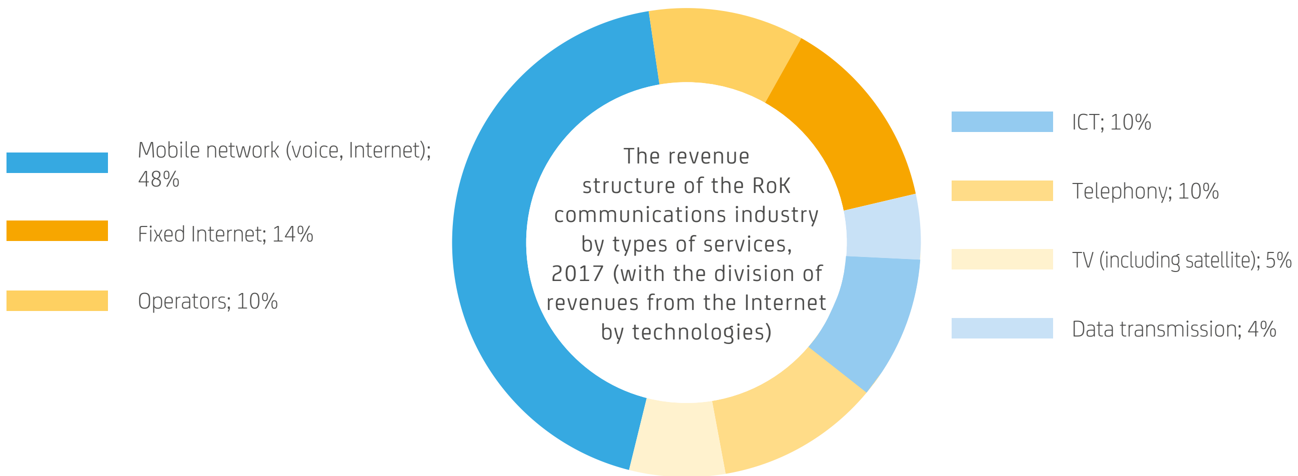
B2C amounted to	to KZT 398.9 bln which is 4.2% more than in 2016
B2C amounted to	KZT 312.0 bln which is 5.8% more than in 2016

The market of telecommunications in the context of its submarkets has different tendencies:

- The fixed telephony continues to decline since 2007, in 2017 the out flow of fixed lines made 220 thousand. Among them the outflow from the B2C segment amounted 150 thousand subscribers.
- In 2017 significant changes in the volume of the client base of mobile communication were not observed, the increase was about 1 million subscribers and amounted to 26.5 million people.
- The mobile internet is rapidly developing. In 2017 the client base of the Mobile Broadband access grew by 1.8 million subscribers and amounted to 13.8 million subscribers. This factor influenced the change/increase in the share of the mobile communication in total market incomes, which increased from 46 to 48%.
- In 2017 the Fixed Broadband Access showed significant a growth against the 2016 growth. The subscriber base increased by 11.1% and amounted to about 2.6 mln.
- The market of the Pay TV and services of ICT (telecommunication segment) is actively developing. But due to their small capacity, they do not have a significant contribution to the development of the entire communication market.
- In 2017 the cellular operator segment after a short slowdown also gained momentum and grew by KZT 2.2 bln.

ACCORDING TO THE RESULTS OF 2017
THE STRUCTURE OF THE TELECOMMUNICATION MARKET CONSISTS OF 7 SELECTED SEGMENTS:

1	Mobile Communication (voice communication, VAS, broadband access	48%
2	Broadband Internet (fixed)	14%
3	Fixed Telephony	10%
4	Cellular Operator Services	10%
5	ICT Services	10%
6	Pay TV	5 %
7	Data Transmission	3 %



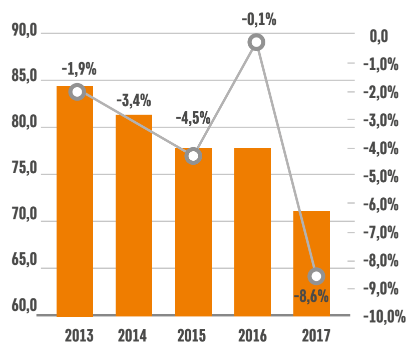
For 20 years of telecommunication market development the structure of the communication market has changed irreversibly and continues to change every 5 years. The fixed telephony market (up to 70% of the communication market) and cellular operator segment (9%) dominated till 2000. Nowadays the mobile market dominates (48%), mainly due to the mobile Internet service.

Let's have a closer look at the segments.

FIXED TELEPHONY.

The revenues from the fixed telephony services in January–December 2017 amounted to KZT 71 bln. Over the past five years the fixed telephony market has rapidly lost its position in total revenue. If in 2016 there was a certain stabilization of the decline in revenues from the fixed telephony services, the market showed a significant decrease in growth rates – 8.6% following the results of 2017. This value is a record value for the last five years.

DYNAMICS AND CAPACITY OF THE FIXED TELEPHONY MARKET, 2013–2017



Source: Committee on Statistics of the Ministry of the National Economy of the RoK

The decrease of the market volume in monetary terms is mainly connected with the significant reduction of subscribers of the fixed communication, by 220 thousand. subscribers (among them 150 thousand are subscribers) as well as decline of the revenues of the local communication. At the end of 2017 the total number of the fixed lines is 3.697 thousand.

At the current stage of development the outflow of the fixed telephony subscribers corresponds to the development scenario of the world's leading telecommunication markets and certifies the popularity and access to the mobile communication services. The latter is an inevitable substitute of the fixed telephony on the developed market

MOBILE COMMUNICATION.

In Kazakhstan following the results of 2017 the volume of the cellular communication market amounted to KZT 339 bln and grew by 7.6% against the previous year.

In 2017 the rapid growth demonstrated the income from the mobile Internet. Their share in the total structure of the cellular income increased from 30.1% to 38.8% against 2016. The density of the mobile subscribers reached 145 users per 100 people, and subscribers with access to Internet almost did not change, making up 76%.

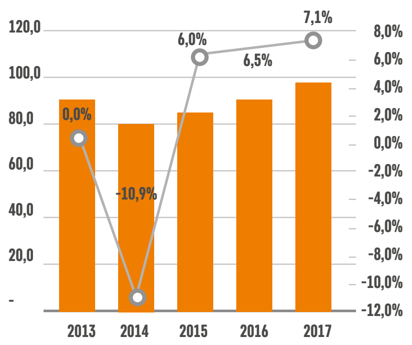
In Kazakhstan KCell JSC retains the top position in the mobile sector of the communication market. At the end of 2017 the subscriber base of the company stated at 10 million phone numbers, revenue from the services stated at KZT 147.3 bln.

The continued widespread of the client devices directly impacts the growth of the data transmission volume. In 2017 the national market of the mobile phones continued the volume of the smartphone sales after a break caused by inflation of the national currency in August 2015. Nowadays in Kazakhstan 83% of all subscribers of the mobile telecommunication operators use Internet on their smartphones according to the survey of 4Service company.

MARKET OF THE FIXED ACCESS TO INTERNET.

The total market capacity of the fixed broadband access to Internet according to the estimated data amounted to KZT 97.0 bln, while the revenue growth in 2017 amounted to 7.1% against 2016. Despite the rapid growth of subscribers of the mobile broadband access to Internet the base of the subscribers of the fixed access to Internet increased by 11.1% in 2017 and amounted to 2.5 mln subscribers. The spread rate was 48 subscribers per 100 households.

DYNAMICS OF THE MARKET INCOME OF THE FIXED BROADBAND ACCESS TO INTERNET, 2013–2017 (KZT BLN)



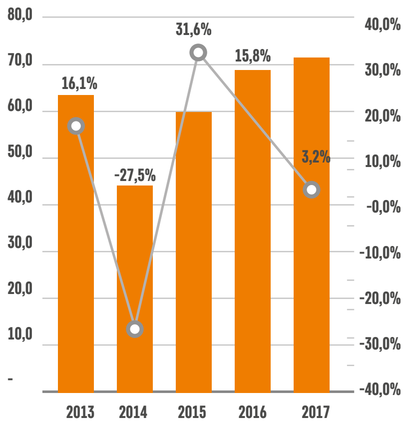
The main factors of impact on the Internet traffic consumption market were availability of the wireless Internet connection, widespread of the media traffic in the retail segment, reduction of the sales of the voice mobile network, development of lease of the cloud software and rapid deployment of the LTE subscriber base.

In 2017 ARPU of the fixed broadband access to Internet reduced by 4.3% and stated at KZT 3,141.

OPERATOR TELECOMMUNICATION SERVICE MARKET.

In 2017 the income volume of the cellular operator segment amount KZT 71.7 bln. The growth of the cellular operator segment compared to 2016 was 3.2%.

DYNAMICS OF THE REVENUES FROM THE CELLULAR OPERATOR SEGMENT, 2013–2017 (KZT BLN)



By 2021 the overall volume of the interoperater market will increase to KZT 117.7 bln according to J'son&Partners Consulting.

The RoK has the main drivers of the interoperator market development excluding the segment of the traffic transmission and grounding. The segments of international communication channels (mostly transition between China and Europe) and services of the data transmission networks such as access to the Internet and VPN will rapidly grow. The national communication channels development growth will be slightly reduced but stay at a high level. It explains why it's necessary to upgrade the IP networks. The mainline communication market consolidation may prevent such a growth.

ICT SERVICES MARKET.

There was fierce competition in rending services of the data-centers, hardware engineering and IT outsourcing services on the ICT services market provided by the telecommunication licensed companies.

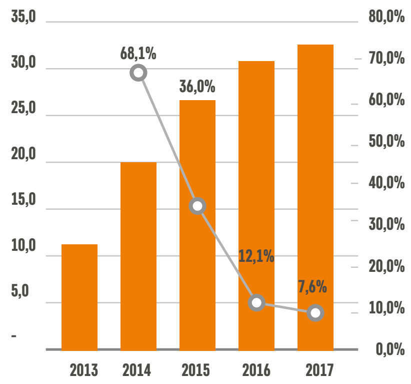
Despite the fact that the ICT services on the communication market don't play a major role its share in the entire structure of the income steadily grows. In 2017 the ICT income volume belonging to the entire income structure of the communication market was KZT 70.0 bln.

In 2017 the entire IT market of Kazakhstan according to analysts' estimates exceeded KZT 1 trln. This market consists of 80% of equipment sales, 10% of licensed software and 10% of IT services (consulting, implementation, operational service, monetization of Internet applications, electronic services). This volume includes both B2B sales and B2C segment for ICT services. The B2B segment (over 90%) prevails in the market.

PAY TV.

In 2017 the revenues from services amounted to KZT 32.7 bln. In 2017 the rate of the income growth against 2016 amounted to 7% or KZT + 2.2 bln.

DYNAMICS OF THE REVENUES FROM THE PAY TV, 2013–2017 (KZT BLN)



The main peak of the income growth was observed in 2014 due to the maximum number of connections to Pay TV. Since 2015 the rate of the income growth has been slowing down indicating a gradual saturation of the market. In 2017 the total number of subscribers of digital, satellite and cable television by preliminary calculation was about 1.7 mln.

The satellite TV and IPTV segments will rapidly grow according to J'son & Partners Consulting (its subscriber base will almost double by 2021). The cable TV share will reduce to 55% by 2021, the IPTV share will be at a stable level within next 5 years. By 2021 the overall volume of the Pay TV will be KZT 59.1 bln.

It should be noted that in recent years the economy of Kazakhstan has developed under the influence of complex foreign economic conditions, which affected all key macroeconomic indicators considering the impact of macroeconomic factors on the telecommunication market of the RoK.

Investments to the telecommunications sector continue to decline. The main reasons for the decrease in the volume of investments according to experts are the economic crisis related to the devaluation of the national currency in 2015 and 2016, decrease in the purchasing power of the population.

However, despite the decrease in the total volume of investments the State's attention to the industry is growing. In December 2017 the Government of the RoK approved Digital Kazakhstan State Program. The 120 planned activities of the program will form the basis of the digital sector as a new branch of the economy and be implemented in five directions:

- Industries Digitalization,
- Transition to Digital State,
- Implementation of the Digital Silk Road,
- Development of Human Capital,
- Establishment of Innovative Ecosystem.

Among the significant technological trends and trends of the telecommunication market of the RoK for the coming period it is possible to mention the following:

- Development of Big Data;
- Internet of Things (IoT) Implementation;
- M2M Technology Development (SMART City, Smart Homes);
- Development of Cloud Technologies and Services.

The market of M2M and Internet of Things is one of the main areas of the telecommunication operators growth in the near future. This area needs to be re-considered and transformed. It also requires new technological approaches as well as business models of the operators. In future the operators will transform their business-models in M2M towards a gradual refusal from provision of data channels only to the provision of additional services.

REVIEW OF THE REGULATORY ENVIRONMENT OF THE INDUSTRY

The main normative legal act regulating relations in the sphere of telecommunications is the Law of the Republic of Kazakhstan «On Communications», which establishes the legal basis for activities in the field of communications on the territory of the Republic of Kazakhstan, determines the powers of state bodies on regulation of this activity, the rights and obligations of individuals and legal entities, rendering or using communication services.

In 2017 the regulatory environment of the telecommunication industry witnessed changes related to the adoption of the legislative and normative legal acts (hereinafter – LNLA) of the Government and authorized state bodies and due to introduction of corresponding amendments/additions to these LNLAs.

Thus, the republican state institution Committee for State Control in the Field of Communications, Informatization and Mass Media of the Ministry of Information and Communications of the RoK was renamed to the republican state institution Committee of Telecommunications of the Ministry of Information and Communications of the RoK according to the Decree of the Government of the RoK On Issues of the Ministry of Information and Communications of the RoK No.773 as of November 25, 2017. Therefore, the branch department was once again modified. The branch department will perform the implementation and control functions and participate in executing the regulative and strategic functions of its Ministry in the sphere of communication and informational support according to the Provision on Committee of the telecommunication of the Ministry of Information and Communications of the RoK.

The amendment to the Rules of provision of telephone services approved in 2015 was introduced by the Order of the Minister of Information and Communications of the RoK No.403 as of November 21, 2017. According to this amendment the telephone service operators are obliged to charge no more than 30% from the subscriber fee for the service suspension period if this suspension is due to late payment of the subscriber fee by subscribers. This restriction didn't exist till this act adoption.

The amendments and additions were introduced to the following 46 legal acts of the Republic of Kazakhstan by the Law of the Republic of Kazakhstan No.49-VI as of February 27, 2017 On introduction of amendments and additions to several legal acts of the Republic of Kazakhstan on modernization of the civil and bank legislation and improvement of conditions for entrepreneurship (hereinafter – Law): amendments/additions to 8 Codes and 38 Laws including the following Codes and Laws applied in the daily activity of the Company: the Civil Code of the RoK (general and special part), Code of the RoK On taxes and other obligatory payments to the budget (Tax code), Law of the RoK On architectural, city planning and construction activity in the Republic of Kazakhstan, Law On joint-stock companies, Law of the RoK On stock market, Law of the RoK On permits and notifications. Law of the RoK On state registration of legal entities and record registration of branches and representative offices, Law of the RoK On limited and additional liability partnerships, Law of the RoK On registration of pledge movables, Law of the RoK On audit activity, Law of the RoK On obligatory insurance of employees from accidents when executing labor (employment) duties, Law of the RoK On state registration of rights to real estate property. As the name of the Law implies its provisions are aimed at improvement of the conditions for entrepreneurship run by the Company.

The following normative legal acts of the Government and authorized bodies adopted and officially published in 2017 are the most significant ones:

1) order of the Minister of the National Economy of the Republic of Kazakhstan No.153 as of April 12, 2017 On approval of the Provision on the Committee on Regulation of Natural Monopolies, Protection of Competition and Consumer Rights of the Ministry of the National Economy of the Republic of Kazakhstan and acknowledgement of some void orders of the Minister of the National Economy of the Republic of Kazakhstan who approved the Provision on the Committee on Regulation of Natural Monopolies Protection of Competition and Consumer Rights of the Ministry of the National Economy of the Republic of Kazakhstan. Thus, the authority to regulate natural monopolies, protection of competition and consumer rights has been concentrated in one body;

2) order of the Minister of the National Economy of the Republic of Kazakhstan No.95 as of February 28, 2017 On introduction of amendments to the order of the Minister of the National Economy of the Republic of Kazakhstan No.175 as of December 29, 2014 On approval of the Rules for granting equal conditions for access to regulated services (goods, works) in the field of natural monopolies;

3) order of the Minister of the National economy of the Republic of Kazakhstan No.96 as of February 28, 2017 On approval of methodology of formation and evaluation of investment program projects of natural monopoly entities and monitoring and evaluation of efficiency indicators of their implementation. The methodology approved by the specified order determines the formation of evaluation of investment program projects of natural monopoly entities and monitoring and evaluation of efficiency indicators of their realization;

4) order of the Minister of the National Economy of the Republic of Kazakhstan No.93 as of February 28, 2017 On approval of the Rules of publication of information on tariffs and tariff estimate on regulated services (goods, works) by natural monopoly entities, the Rules of annual publication of report on provision of regulated services (goods, works) by natural monopoly entities before consumers and other stakeholders, the Rules of annual publication of report on provision of regulated municipal services (goods, works) by natural monopoly entities before consumers and other stakeholders.

COMPANY'S POSITION IN THE INDUSTRY

The main parties of the national telecommunication market are Kazakhtelecom JSC, Kcell JSC, Beeline Group and JV Tele2/ALTEL, forming 78% of the income of the entire telecommunication market of the Republic.

MARKET SHARE OF OPERATORS, 2017

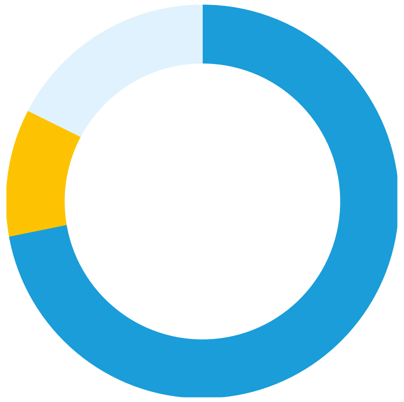
Source: Estimated figures according to the Committee on Statistics of the MNE RoK, 2017

Alma TV 3%
KazTransCom 4%
Transtelecom 5%
Other Operators 11%
GC Beeline 12%
Tele 2 and Altel 15%
«Kcell» JSC 21%
«Kazakhtelecom» JSC 30%

The share of the Group of Companies of Kazakhtelecom JSC on the general communication market remained at 30% according to the estimated data on the data base of the Committee on Statistics of the MNE RoK for 2017. Kcell's market share decreased slightly by less than 1%. Group of Companies of Beeline significantly decreased from 16% to 12%. Other operators share remained almost without changes.

The share of Kazakhtelecom JSC in the fixed broadband access market was 73%, the share of the Group of Companies of Beeline is 10%. The operators functioning in the corporate market and regional operators took approximately 17% combined.

STRUCTURE OF THE FIXED BROADBAND ACCESS MARKET INCOME, 2017



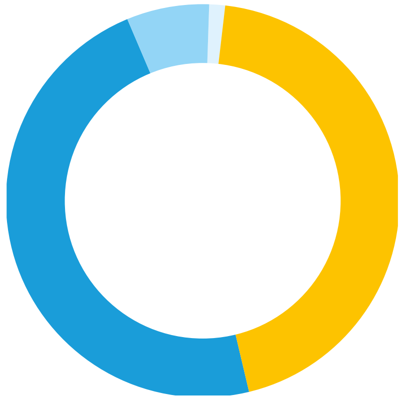
Other Operators 17%
Beeline 10%
Kazakhtelecom 73%

Kazakhtelecom JSC (65.7%) and KazTransCom JSC (23%) are two main parties in the data transfer market according to the results of 2017.

Through its share of 49% in the joint venture with Tele2 Kazakhtelecom is involved in the development of the mobile market. In 2017 the subscriber base increased to 400 thousand SIM-cards under ***the convernge of the fixed and mobile networks*** and partnership with Tele2/ALTEL. 400 thousand SIM-cards are a large proportion of the convergence market.

The Company occupies a significant position in the market of the Pay TV and serves more than 735 thousand subscribers. The share of Kazakhtelecom JSC in this market for 2017 increased and amounted to 43%.

PAY TV MARKET SHARE, 2017



Other 1%
OTAU TV 10%
Казахтелеком 43%
Алма ТВ 46%

INFLUENCE OF THE STATE ON THE COMPANY'S ACTIVITY

On the part of the state the activity of the Company is regulated and controlled by the authorized body – the Committee of Telecommunications, previously by the State Control Committee in the field of Communication, Informatization and Mass Media of the Ministry Information and Communications of the RoK (hereinafter – MIC Committee). The MIC Committee is also an authorized body in the field of natural monopolies in telecommunications ensuring control and regulation of the Company as a natural monopoly entity. The Committee on regulation of natural monopolies, protection of competition and consumer rights of the Ministry of the National Economy of the RoK executes its duties in the field of protection of competition in relation to the Company.

Kazakhtelecom JSC is presently included to the Republican section of the State register of natural monopoly entities.

The State register of market entities occupying a dominant or monopolistic position in regulated markets was cancelled since January 1, 2017 according to the Entrepreneurship code. According to the State register the Company had 16 services on which the Company's activity was subject to price regulation. Meanwhile since January 1, 2017 the price regulation is cancelled with the substitution to the tools of anti-monopoly regulation.

The activity of Kazakhtelecom JSC in 2017 in the part of the tariff formation was subject to the state regulation in three directions:

1. Services of the sphere of natural monopoly.

The state regulation of the natural monopoly entity's activity is executed by approving a tariff (prices, charge rates)or its ultimate level including the comparative analysis method of differentiated and investment tariffs (prices, charge rates) according to 15.1(1) of the Law of the Republic of Kazakhstan «On natural monopolies».

2. Telecommunication general services.

The following types of the services are included to the List of the telecommunication general services approved by the Decree of the Government of the Republic of Kazakhstan No.238 as of May 2, 2017:

» Local telephone communication services;
» Services of individual access to Internet with a connection speed of at least 1,536 kbps.

The authorized body regulates the ultimate level of prices for subsidized general communication services rendered in rural settlements according to the 20.2(2) of the Law of the RoK «On communication». The regulation of prices and tariff for the subsidized general telephone communication services rendered in the rural settlements is carried out according to the Rules of regulation of the prices ultimate level for the subsidized general communication services rendered in the rural settlements approved by the Order of the Minister of Information and Communications of the Republic of Kazakhstan No.215 as of October 20, 2016.

3. Services rendered to the law enforcement agencies and operator of e-gov information-communication infrastructure.

The authorized body approves the tariffs for the services specified in the Rules of prices (tariffs) regulation for the services of provision of communication links and channels, channels in the cable duct system and squares necessary to displace technical equipment for the above mentioned state bodies, military authorities, national security and internal affairs of the Republic of Kazakhstan as well as the operator of e-gov information-communication infrastructure. At the same time, starting from January 1st, 2017, new tariffs were introduced for leasing of digital communication channels at the channel and/or network data transmission level provided to such category of users.

The Company shall agree with the state bodies on the issues related to permissions to use radio frequency spectrum, numbering resource when completing works as part of implementation of new services, further modernization of the telecommunication networks.

For this purpose the Company prepares, with an authorized body, approval documents on using the radio-frequency spectrum of the RoK as well as works on approving the numeration resource use (Order of the Committee of telecommunications of the Ministry of Information and Communications of the RoK). The Company files up a corresponding application on elicense.kz state portal. The application shall be considered by the authorized body within 30 calendar days. A corresponding permission is issued upon expiration of this period.

STATE SUBSIDIES AND GUARANTEES IN THE FIELD OF TELECOMMUNICATIONS

43% of Kazakhstan's population lives in rural areas according to the statistics.

Despite the development of telecommunication networks and technologies in our country digital inequality in the availability of broadband access services between the cities and rural areas still remains. Nowadays there are rural settlements still with a limited access to Internet in Kazakhstan. To solve the above mentioned issues the legislation of the RK stipulates a mechanism of the universal service ensuring render of socially important services of a specified quality to any citizen wherever the citizen lives. Moreover, the price for such services is quite acceptable. Experience of the developed and developing countries demonstrates the possibility of an efficient combination of the universal service with the market-oriented policy of the telecommunication services market development. The duties on rendering the universal services for many years are entrusted to Kazakhtelecom JSC.

On subsidizing the cost of the universal telecommunication services in the telecommunication industry of the rural areas contract as of August 23, 2017 No.2/1 for the amount of KZT 7,169.4 mln between Kazakhtelecom JSC and authorized body in the field of communication had been concluded for 2017. In 2017 the Company provided 811,911 subscribers with the local telephone communication services and 43,887 with Wi-Fi Internet as part of rendering the universal telecommunications services.

BUSINESS PORTFOLIO OF THE COMPANY

The business portfolio of Kazakhtelecom JSC includes a full range of the telecommunication services presented almost in all regions of the Republic and abroad. The Company diversifies its product line trying to fully comply with the modern needs of users.

Kazakhtelecom JSC is primarily focused on clients providing various infocommunication products that will be of interest to both business and private users.

WHOLESALE MARKET OF COMMUNICATION SERVICES.

Kazakhtelecom JSC providing the connection of the telecommunication networks and transmission of the internetwork traffic, access to Internet and lease of communication channels ensures the networks interaction of the communication operators of the RoK strictly adhereing to the regulations of the current legislation and mutually beneficial partnership. The Company aspires to preservation and development of the factors of competitive advantage – presence of necessary quantity of network resources for connection of networks of the operators and transmission of all kinds of traffic, branched telecommunication network built on the modern digital equipment with a large capacity, providing high-quality and reliable service to the operators and their subscribers.

During the last years Group of Companies of Kazakhtelecom JSC constantly takes measures to ensure the competitiveness of Internet access services for ISP-providers of the RoK and lease of the baseline communication channels each year decreasing tariffs and improving reliability and quality as well as expanding the geography of the provision of transit services in Europe, Russia, Central Asia and China.

RETAIL MARKET OF COMMUNICATION SERVICES.

Kazakhtelecom JSC provides innovative high-tech telecommunication solutions for home and office for end users in the segments of B2C and B2B in the retail market of the communication services.

The telecommunication services **in the segment of B2C** are presented in the following directions:

- fixed-line services;
- pay TV;
- converged services;
- package solutions.

The fixed-line services include traditional telephony services and broadband Internet access on advanced technologies. The following brands are pointed out in this direction of the B2C mass market:

- **iD Phone –**

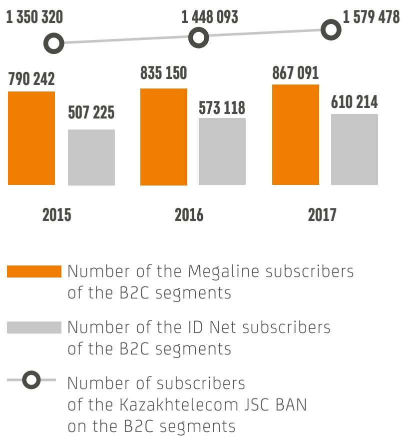
virtual telephony service. The service is launched in 2009. Nowadays 150 thousand subscribers across the country use this service.

- **Megaline –**

broadband internet access service. Aavailable since 2005. Today the tariff plans of this service include low-profit and high-profit tariffs depending on the service parameters. The service on the market is positioned as accessible internet for the whole family. More than 800 thousand households in all cities and towns of Kazakhstan are connected to this service according to the data of 2017.

- **ID Net –**

Service of access to Internet on the new high-speed technology FTTh with speed of access up to 1 Gbps that considerably surpasses possibilities of competitors.



Kazakhtelecom JSC also offers its subscribers a service of access to Internet on the basis of wireless solutions such as WLL CDMA EVDO in rural areas, Internet access via Wi-Fi technology in public places.

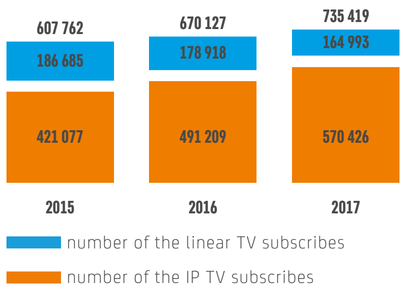
Nowadays the fixed telephony services of Kazakhtelecom JSC can be obtained with a package of unlimited calls in various directions of both the RoK and CIS countries.

In 2017 the client base of services of the broadband access to Internet of Kazakhtelecom JSC reached about 1.6 million subscribers taking into account the competitive environment where the migration of subscribers to the mobile network and in accordance with the trends of the world telecommunication market.

Kazakhtelecom JSC pays extra efforts to develop additional services and modernize existing ones in order to increase the ARPU, revenues of the Company and increase loyalty to the services.

Services of the Pay TV

In 2017 the Company continued to develop and promote the services of iD TV digital television including video on demand and subscription, karaoke, a package of HD-TV channels and online access (iD TV online). In 2017 the client base was more than 700 thousand. subscribers, of which 570 thousand are subscribers of digital television on IP TV technology.



Development of this direction of business on the one hand assumes the preservation of one of the leading shares in the market of the Pay TV, on the other - ensuring the implementation of the principle of Triple Play (sale of package services: High-speed internet access, IP TV and telephone connection) due to the wide offer of the service packages including iD TV/iD TV Online.

Increase of long-term competitive advantage by means of complex provision of content through different devices: SmartTV, mobile devices, personal computer, etc. with the provision of a wide selection of TV channels and video content.

Converged Services.

In 2017 the convergence of the fixed and mobile networks was actively developed. The partnership with Tele2/ALTEL provided the necessary technological base for the development of such services. The Generic Number and FMS services are the brightest representatives of the convergence of the fixed services with the mobile ones. In 2017 the number of subscribers connected to Generic Number service amounted to more than 36 thousand, to the FMS service – about 400 thousand.

Kazakhtelecom JSC puts emphasis on development of ***package offers*** according to tendencies of development of the telecommunication market and changes in preferences of users of the communication services.

Significant groups are identified for the services use in the B2C segment. The package solutions structure for these groups is developed considering the needs of each subscriber (household) and aimed at meeting the needs of households of different microsegments. The package structure contains basic fixed communication services with various technical parameters and additional services to them (VAS).

Until 2017 the Company actively promoted the Double and Triple Play packages. Double Play Package offers included services of the broadband access and telephony or broadband access and Pay TV. The packages were presented in the market under the brands Megaline and iD Net. Triple Play package offers included services on the basis of the broadband access, Pay TV and telephony.

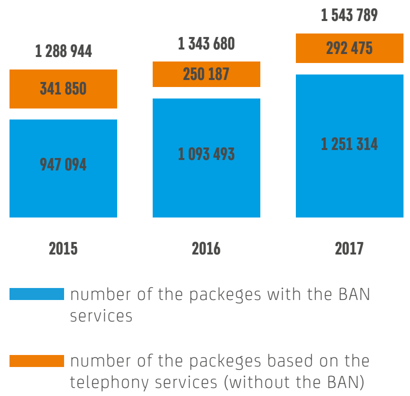
In 2017 the sales of services and products went beyond the provision of Double & Triple Play packages. A large number of additional services were added to the service packages such as Kaspersky Anti-Virus, Parental Control, Karaoke, Megogo etc.

On the B2B segment Kazakhtelecom JSC also develops information security services and expands the range and functionality of services. An additional agreement was concluded with LLC RentSoft regarding the inclusion into the existing tariff lines of the Society of the Complex Antivirus Kaspersky Internet Security at an exclusive price. The instructions for installation/ uninstallation and management of Kaspersky Lab Anti-Virus were developed in order to simplify the provision of the product and reduce the load on the technical support.

In 2017 one of the boosters in the package sales was the decision to include Safe Internet service providing 3 tier protection:

- Kaspersky Internet Security for all devices – reliable and convenient solution compatible with Windows, Mac and Android (664,000 licenses);
- protection at the level of GPON;
- protection at the network level – Parental control (593 thousand subscribers).

According to the results of 2017 the client base of subscribers connected to the service packages was about 1543.8 thousand subscribers including on the basis of the broadband access, TV and traditional telephony.



At the B2B segment Kazakhtelecom JSC strives to ensure that all solutions fully meet the customer's needs in professional communication solutions based on quality and convenience. The Company provides the following services in this segment:

- fixed services;
- converged services;
- infocommunication including the cloud services.

The fixed communication services includes services of traditional telephony and the broadband Internet access under the brands Megaline Business and ID Net Business.

According to the results of 2017 more than 20 thousand points are connected in the corporate networks within the RoK and abroad by means of services of virtual private networks (VPN) from Kazakhtelecom JSC. The VPN services are the basis for the creation of distributed corporate networks for a large volume of business organizations in the country and offer a wide range of possibilities for the organization of superimposed networks with the use of L2-and L3-technologies.

The intellectual services of Kazakhtelecom JSC are a universal solution for the B2B segment allowing to arrange prompt collection or provision of any information by phone in automatic or semiautomatic mode as well as provide your customers with other additional services: free call, paid information service, televoting.

The development of ready solutions for business included a large amount of preliminary work including segmentation of the market of the legal entities. Such large segments as **state organizations, large corporate clients, medium business, small business, individual businessmen** are pointed out.

Kazakhtelecom JSC is important to be at the forefront of the development of technologies and new services. We have created product offers for different categories of our clients – legal entities and state institutions consisting of both classical basic telecom services and additional digital services: for business: it can be all kinds of services on the basis of IP-technologies, cloud services, video surveillance services, etc.

The telecommunication services offers for the corporate segment under the segmented model are concentrated on providing complex solutions for a client. These solutions are developed taking into account the characteristics of a legal entity instead of offering mono-services to this entity. For this purpose have been developed the following solutions for each segment : from large corporate clients to individual entrepreneurs:

- package solutions for individual entrepreneurs including the broadband access, telephony, unlimited long-distance calls within the RoK and to ALTEL/Tele2 networks;
- Video Surveillance Service: transport and data storage system – connecting client cameras to a secure communication channel and cloud storage with possibility to store it for up to 30 days;
- Generic Number for Business package – SIM-card with two phone numbers: mobile and landline phone numbers. The package includes unlimited calls and Internet access via 4G technology;
- Wi-Fi for business allows managers and owners of business centers, restaurants, cafes, universities, schools, parks and rotational villages to provide their visitors with high-speed Internet increasing the flow of the clients and their own revenue;
- IT solutions for business with the following services: cloud webinar, cloud video conference, data storage, virtual phone number, Colocation.

Kazakhtelecom JSC provides infocommunication services to governmental bodies of all levels, various state departments and institutions.

For public authorities Internet access services provide a centralized exit through a single gateway with the maximum coverage of the territory: availability of the services in more than 100 inhabited localities of the RoK.

The result of further development of the converged products is the launch of the FMC solutions on the B2B and M2M projects segment. These services for the corporate segment include telephony services, data transmission for the SMEs and M2M-based solutions on the basis of the fixed and mobile networks. The services such the Mobile Office and Cash Register are developed and implemented. By the Decree of the Government of the Republic of Kazakhstan Kazakhtelecom JSC is defined as a legal entity providing the transmission of information on monetary settlements in the operational regime to the tax authorities through the public telecommunications networks Since 2015 the Company has been connecting Cash Registers to the data transmission medium. Under this project Kazakhtelecom JSC ensures reception and processing of data from the Cash Register coming online via communication channels to the specialized data-center. At the end of 2017 the number of subscribers of the Cash Register service was about 83 thousand points.

Since 2015 the Company has launched Mobile Office service. This service provides secure wireless access at the client's points to the information resources of its corporate network. In 2017 the number of users reached 534.

The Company has implemented a mechanism for the formation of product offers using the module of automated discount system which allows to take into account the interests of both the clients and society in order to implement a flexible tariff policy for large corporate and medium business clients. The ready-made package product offers of SOHO Line are developed and actively implemented for small business clients and SOHO segment.

Kazakhtelecom JSC actively develops the cloud services and works to increase spread of the cloud technologies, development of the IT-infrastructure and network of the data-centers.

Nowadays its own network consists of 15 data-centers with a total area of 11,310 m2 allowing to place 22,732 units of equipment. The key data-center is the Data-center of the international level in Pavlodar with the level of reliability TIER-III, the total area of the server premises is 1,000 m2, where can be easely placed 11,000 units of equipment. The fault tolerance ratio of this object is 99.982%.

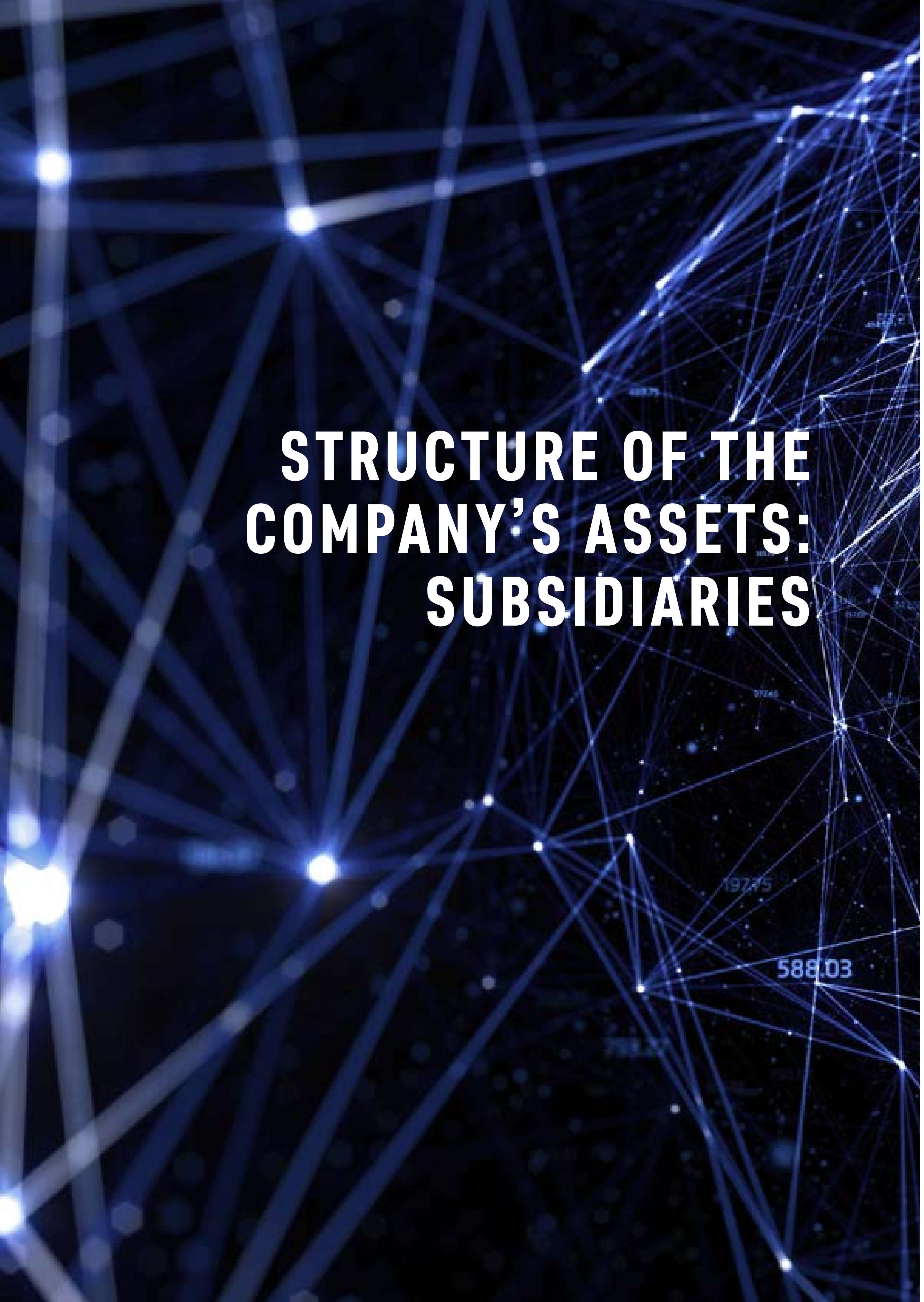
All data-centers have established favorable conditions to place client equipment – favorable both in price and quality of the services rendered:

Colocation – server allocation;

Dedicated – lease and allocation of dedicated servers;

Rent a rack – rental of server racks.

The virtual hosting services, Data Storage System, DPC Protection System, Cloud Webinarm Dynamic Cloud Server, VPS, Dedicated, cloud solutions of the Microsoft Hosted Exchange and Microsoft Hosted SharePoint are provided on the basis of the Company's data-centers. More than 11 thousand companies of the B2B and B2G segments have used the services of the data centers of Kazakhtelecom JSC.



STRUCTURE OF THE COMPANY'S ASSETS: SUBSIDIARIES

Activities of subsidiaries contribute to the development of Kazakhtelecom JSC in the traditional market of telecommunications services and in new business areas.

THE STRUCTURE OF KAZAKHTELECOM JSC GROUP OF COMPANIES AS OF 31.12.2017

	STRATEGIC ASSETS		ASSET TO BE DISPOSED
Mobile telecommunication	**«Khan Tengri Holding B.V.» (51%)** » **Mobile Telecom-Service LLP (100%))** СП с Tele2 в мобильном сегменте		**Nursat JSC (100%)** Telecommunications operator
Corporate infocommuni cation services	**KT Cloud Lab 100%** Contact Center Service Provider, Data Center (TIER II), IT services	**QazCloud LLP (49%)** JV with subsidiary companies of Samruk-Kazyna JSC –single service provider for infrastructure solutions	
Fixed communications	**VOSTOKTELEKOM LLP (100%)** Technical resource for the provision of KT services in rural areas	**KT–IX LLC (100%)** Peer-to-Peer Center, a communication center in the territory of the Russian Federation (Moscow)	
E- Commerce and Financial services	**NURSAT+ LLP (100%)** Startup in the field of E-commerce and Fintech services		
Other assets	**Info-Net Wireless LLP (100%)** Wireless connection		

In the reporting year, in order to implement the strategic initiative to build an integrated operator, the Company continued to develop mobile phone business on the basis of a joint venture with Tele2 Group in the mobile segment – JV Tele2/ALTEL, which provides services under the brands ALTEL and Tele2. JV Tele2/ALTEL successfully operates and following the results of 2017 achieved the basic planned operational and financial and economic indicators. At the end of 2017, the market share of JV Tele2/ALTEL in the «subscriber base» parameter reached 26%.

As part of the strengthening of Kazakhtelecom JSC's position in the IT services market, work continued on the development of the joint venture QazCloud LLP as a provider of infrastructure services. In 2017, QazCloud LLP concluded agreements on outsourcing of DC and provision of services related to the management of IT infrastructure.

Due to a slowdown in the growth of the more traditional telecommunications business, Kazakhtelecom JSC is developing new strategic business lines - financial services and e-commerce - in order to preserve and increase the profitability of the Group of companies. Realization of these objectives is carried out on the basis of the subsidiary company NURSAT + LLP, which allows the Group of Kazakhtelecom JSC companies to react quickly to changes in the market and the needs of customers.

The activities of subsidiaries in traditional spheres are continued: corporate infocommunication services (KT Cloud Lab LLP), fixed communication (VOSTOKTELEKOM LLP, KT-IX LLC).

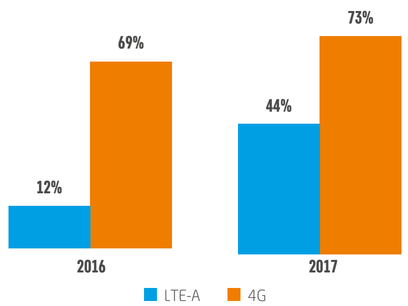
JOINT VENTURE IN THE MOBILE SEGMENT – JV TELE2/ALTEL

Mobile telecommunication	Khan Tengri Holding B.V. (51%) »	Mobile Telecom-Service LLP (100%)

JV with Tele2 Group in the mobile segment

JV Tele2/ALTEL, whose subscriber base is estimated at 7 million numbers, has earned more than KZT 104.0 bln in 2017 which is 18% more than in 2016. In the spring of 2017, the joint venture launched into commercial operation LTE Advanced/4G + technology, which allows downloading data at up to 225 Mbit/s.

COVERAGE OF MT-S NETWORK (BY POPULATION)



In 2017, Kazakhtelecom JSC together with JV Tele2/ALTEL provided FMS services – various converged packages, including a full range of telecommunication services: mobile and fixed telephony, broadband Internet access.

In 2017, the main activities of QazCloud LLP were defined, the business plan was approved by the investment committee of Samruk-Kazyna JSC and the name was changed (earlier – KT IES LLP).

Corporate Infocommunication services	QazCloud	Joint Venture with subsidiary companies of Samruk-Kazyna JSC to create a single service provider for infrastructure solutions (IaaS, SaaS, IT outsourcing, etc.)

The preliminary industrial perimeter on which the provision of services in the field of infocommunication services will be concentrated to the Samruk-Kazyna JSC Group of companies includes the following services:

- IaaS - Infrastructure as a service;
- Services of the Information Management and Development Center;
- SaaS (Microsoft Services, 1C Cloud);
- Outsourcing of IT services;
- Outsourcing of print service;
- Outsourcing of user equipment.

In 2017, the IT services business was launched within the framework of the Samruk-Kazyna Group of Companies.

DEVELOPMENT OF NEW BUSINESSES

NURSAT+ LLP	Startup in the field of E-commerce and Fintech services

2017 is the period of active development of new businesses and the implementation of business plans in the field of e-commerce and Fintech services.

Alpha prototypes of electronic trading platform and a platform of financial payments were created.

In December 2017, the existing online store was purchased and integrated into NURSAT + LLP.

TRADITIONAL SERVICES

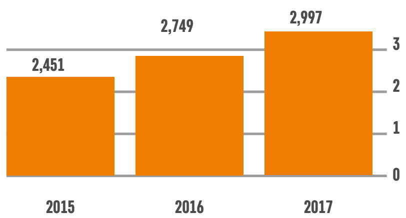
KT Cloud Lab LLP	Contact Center Service Provider, Data Center (TIER II), IT services

The Company is expanding its activities by implementing new projects. In 2017 KT Cloud Lab LLP implemented a large-scale project - the organization of a contact center for the International Specialized Exhibition EXPO-2017.

Work was continued on the implementation of the contact center project 111 on the protection of children's rights (114 children were saved from suicide, 46 cases of child abuse were prevented, and psychological assistance was provided to 8 victims of sexual violence).

A number of new projects were implemented: 24 hour emergency service «Life Line», mobile applications for 169 service and quality control system.

REVENUES FROM SALE OF SERVICES, IN KZT BLN



VOSTOKTELEKOM LLP	Technical resource for the provision of Kazakhtelecom's services in rural areas

In 2017 VOSTOKTELECOM LLP provided operation of the wireless access network WLL in the rural area of Kazakhstan, which allows Kazakhtelecom JSC to provide voice communication and Internet access in rural settlements.

The antenna-feeder devices of the base stations of Mobile Telecom-Service LLP are maintained within the framework of intra-group cooperation.

KT–IX LLC	Peer-to-Peer Center, a communication center in the territory of the Russian Federation (Moscow)

In 2017, the operation of the telematic services node and the data transmission network on the backbone multi-service transport network no. 9 was provided, 500 Gbit/s or 83% of the design capacity was loaded.

As a result of negotiations with Russian and foreign rights holders of TV channels and media content providers, the expenses of Kazakhtelecom JSC for content have been reduced, filling with content has been improved («Set Movies» packages (10 channels), «Elite HD» (11 channels in HD quality), VOD studios «Disney»), new channels (HCTB, VH1 Classic, Spike, Cinema) were added.

RESULTS OF ACTIVITY

MANAGEMENT REPORT ON THE RESULTS OF FINANCIAL AND ECONOMIC ACTIVITY

The Company achieved positive results in the implementation of the Long-Term Strategy in 2017. The commercial function was divided into segment divisions, management levels were optimized, management of networks in the Main telecommunication network control center (MTNCC) was centralized, administrative and support functions were centralized, 14 branches were merged into macroregions.

According to the results of work of Kazakhtelecom JSC for 2017:

- number of fixed lines in the network of Kazakhtelecom JSC amounted to 3,425,559 lines, or 93% of the 2016 level. The decrease in the number of fixed lines is explained by the users' refusal from fixed telephony services in favor of mobile communications, which is in line with world trends;
- the number of broadband access subscribers amounted to 1,736,970 ports, which is 9% higher than the same indicator in 2016, this is the result of active promotion of Megaline services, Id Net on the B2C segment, including through package offers;
- the number of Pay TV subscribers amounted to 735 419 points, or 109.7% of the last year level, including iD TV – 570 426 points.

Consolidated revenues from the sale of services by Kazakhtelecom JSC amounted to KZT 210,225 mln, which is 2% higher than last year. The plan is 100.5% complete.

Consolidated net income amounted to KZT 24,718 mln, which is 85% higher than planned one.

Pre-tax income, interest on loans and depreciation charges – **EBITDA** is 14.7% higher than the planned indicator. As a result, the EBITDA according to the results of 2017 amounted to KZT 76,445 mln with a planned one of KZT 66,620 mln.

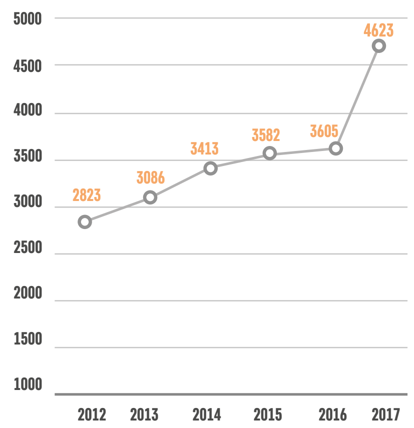
The **EBITDA margin** was 36.4%, was higher than the planned indicators by 14.5%, which was became possible through the implementation of a strategy aimed at improving operational efficiency and costs optimization.

Consolidated operating costs of Kazakhtelecom JSC Group of companies in the reporting period amounted to KZT 184,757 mln.

The volume of capital investments in Kazakhtelecom JSC Group of companies for 2017 amounted to KZT 29,109 mln, or 193.9% compared to the last year. Execution of the plan amounted to 89.4%.

ARPU (average revenue per user) reached KZT 4,623, which amounted to 106.5% of the plan.

DYNAMICS OF CHANGES IN ARPU (2012–2017)



In the run-up to the growing demand for capacity between Europe and Asia, Kazakhtelecom JSC implemented the first stage of the project to create a new transit network based on DWDM, allowing transmission of up to 500 Gbit/s of transit and with the possibility of further expansion to 4 Tb/s (this is about 1% from all international bandwidth rate).

In 2017, measures were taken to increase the amount of operator caching to 895 Gbit/s, including. Google – 580 Gbit/s, Akamai – 85 Gbit/s, Megogo – 20 Gbit/s and vk.com – 40 Gbit/s, facebook.com – 160 Gbit/s, WarGaming – 10 Gbit/s.

In the reporting year, the provision of cloud video surveillance services in the entrance halls of multi-storey apartment buildings began in the regional centers of Kazakhstan, on the basis of optical access networks FTTH. Cameras connected to a single network of video surveillance record entrance lobbies in the entrance halls and courtyards in front of them. Connection of video cameras to the server platform allows users to remotely access video streams online. A mobile application was developed for users. Each of the residents of the multi-storey building, if necessary, can monitor the situation from the mobile application or the website of the platform in their user account. 800 entrance halls were connected, 1 600 cameras were installed during 2017.

In 2017, security has become a key lever for the development of broadband access products. In this regard, it was decided to distribute the product Kaspersky Lab's anti-virus for the B2C segment as part of the broadband access packages and the Gamer product as part of B2C packages. For families with children, we offer obscenity filtering, a categorized protection from unwanted websites. Since March 2017, Kaspersky Internet Security has been included in the new line of packages with broadband access.

On an ongoing basis, the work is in progress to increase the reliability of the process of rectification of faults and increase of the share of service operations performed in the self-service mode. For example, the number of appeals of subscribers through interactive channels in 2017 increased by 11% compared to 2016. In 2017, the number of repeated (for the same reason) appeals from subscribers to the central repair bureau 165 decreased by 5% compared to the beginning of the year.

DYNAMICS OF CREDIT RATINGS

The long-term positive credit history of Kazakhtelecom JSC is evidenced by the dynamics of the Company's credit ratings set by international agencies Standard & Poor's and Fitch Ratings.

From 2005 to 2016, the credit rating level of the Company did not fall below the level of the BB, and in December 2016, for the first time in its interaction with international rating agencies, the credit rating of Kazakhtelecom JSC was upgraded from BB/Positive to BB+/Stable by **Fitch Ratings** agency. According to analysts of the agency, the rating upgrade was justified by the improvement of the Company's credit and liquidity indicators on the background of positive cash flow. Also, the increase in the rating was facilitated by the strengthening of a number of factors and positive changes in the activities of the Company. In December 2017, Fitch Ratings confirmed the level BB+/Stable, which was secured by maintaining the Company's leading positions in the segment of traditional telephony and fixed broadband access, significant achievements in the mobile segment and improvement of its financial profile.

Standard & Poor's In October 2016, Standard & Poor's rating agency improved the outlook to Positive and confirmed Kazakhtelecom's credit ratings at BB, which was due to an improvement in the assessment of the financial profile of Kazakhtelecom JSC to the highest possible level in Standard & Poor's corporate methodology.

The positive outlook on the Company's credit rating reflected the possibility of raising the rating over the next 12 months and already in October 2017, Standard & Poor's upgraded the credit rating of Kazakhtelecom JSC from BB/Positive to «BB+/Stable. According to the national scale Kazakhtelecom JSC rating was upgraded from kzA+ to kzAA-. The upgrade of the Company's ratings according to the corporate methodology of Standard & Poor's agency is due to the Company's significantly improved financial results: the growth of revenues and profitability exceeded expectations of analysts of the agency, positively influencing the level of financial leverage. Along with this, the agency also noted improvements in the mobile segment of business.

Improvement of Kazakhtelecom JSC credit rating to BB+ level is a positive development reflecting the Company's high level of creditworthiness, effective risk management and the successful retention of the position of the Company as a leader in the telecommunications market in the country.

FINANCIAL OVERVIEW

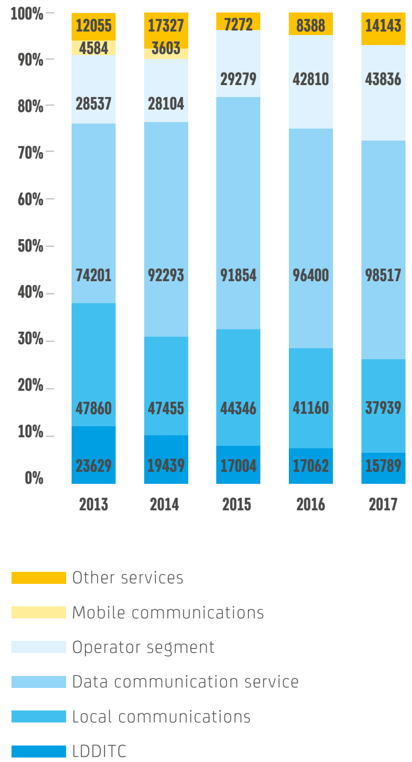
Consolidated revenues from the sale of services by Kazakhtelecom JSC for 2017 amounted to KZT **210,225** mln.

STRUCTURE OF INCOME ON KAZAKHTELECOM JSC GROUP OF COMPANIES

The largest share in 2017 is occupied by the following revenues:

- from data communication network services, the share in the total revenue structure of Kazakhtelecom JSC was 46.9%;
- from the provision of local telephony services, the share in the total revenue structure was 18.1%;
- from leasing the channels of the transport network, the share in the total revenue structure was 8.8%;
- under agreements with international operators, the share in the total revenue structure was 4.8%;
- from the provision of long-distance domestic and international telephone communications, whose share in the total revenue structure was 4.5%;
- when providing data communication network services to telecom operators was 4.5%.

DYNAMICS OF THE MOST SIGNIFICANT INCOME ITEMS FOR 5 YEARS, IN KZT MLN



The last few years there has been a decrease in the volume of fixed telephony connections and a decrease in voice traffic. As a consequence, there was a slowdown in the growth of revenues from LDDITC services in the subscriber segment, due to:

High level of penetration of mobile communication, low tariffs of mobile operators;

Growth in the popularity of alternative types of dial-up and substitute services (VoIP, Skype, etc.).

There is also a slowdown in the growth rates of fixed broadband access, which is associated with increased competition, including through the development of mobile broadband access.

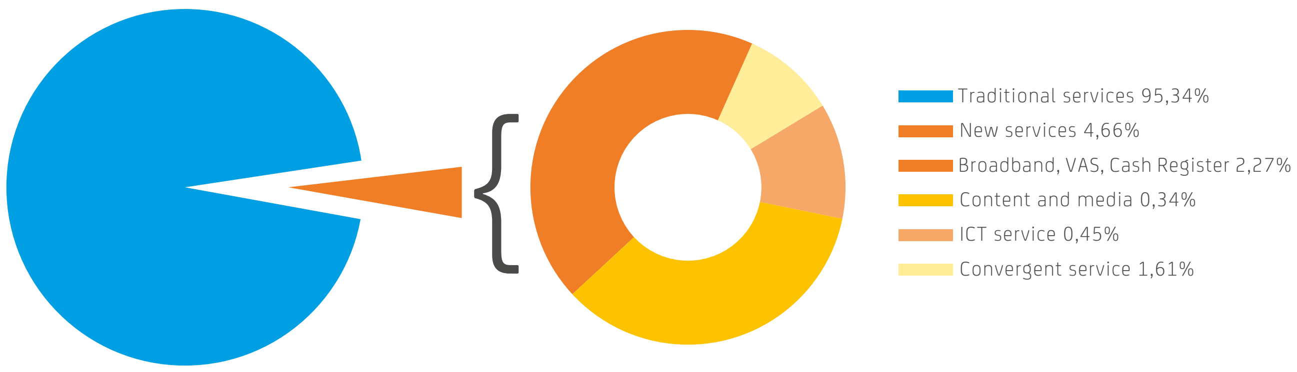
In order to compensate for the fall in revenues from «mature» services and create a balanced Product Portfolio, Kazakhtelecom JSC:

1. Follows the strategy of active growth and increase of market share in segments where extensive growth is still possible, namely:

- Pay TV;
- new services.

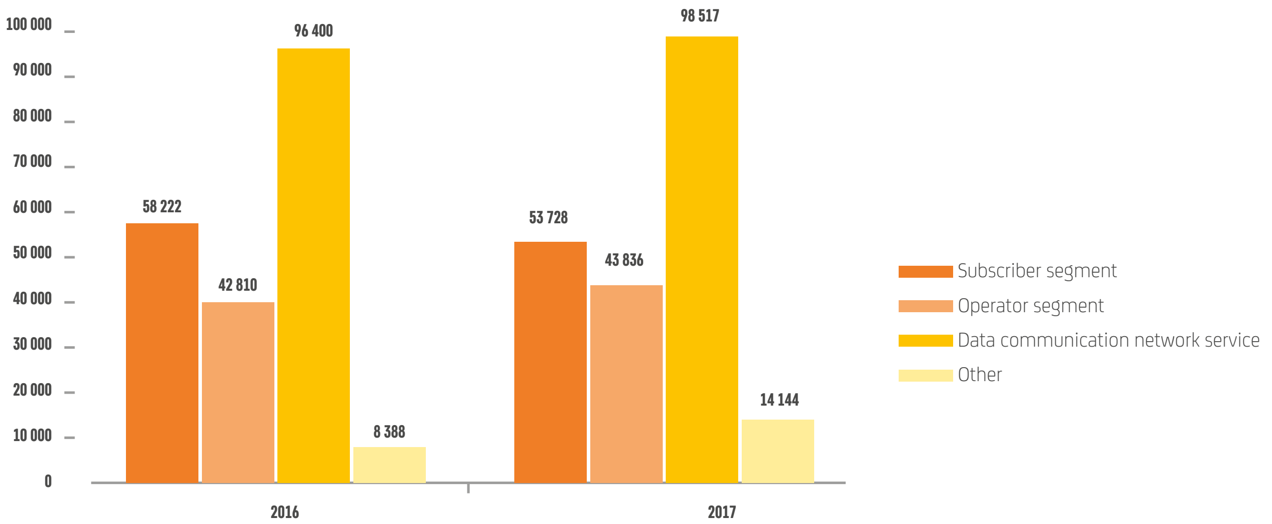
2. Timely introduces additional services. These are, first of all, converged services, data processing center (DPC) services, system integration, Cloud Computing (SaaS, PaaS, etc.), content services for a wide range of users (thematic web portals, mobile commerce, mobile marketing, multimedia content etc.).

REVENUES FROM SALE OF NEW SERVICES, 2017



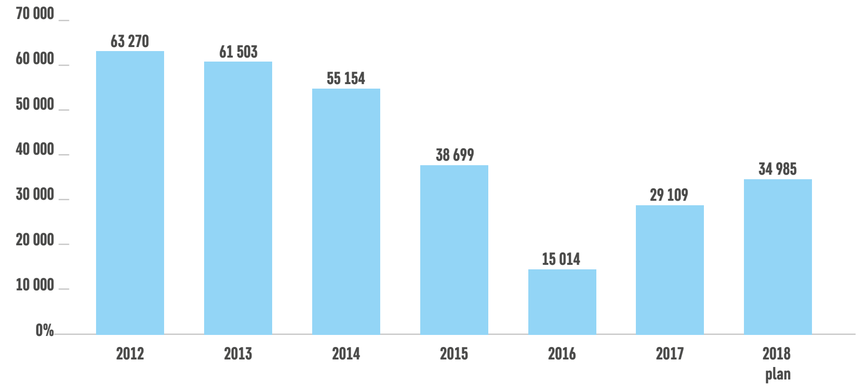
With the growth of penetration of broadband Internet services to the Internet and the development of IT technologies, the style of consumption of services has changed. More and more consumers are inclined to consume voice services, using VoIP technology via Internet communication applications (Skype, agents, messengers), which affected the consumption of traditional telephony services. Among leaders – data communication network services.

CHANGES IN THE STRUCTURE OF REVENUES IN 2017 RELATIVE TO 2016, IN KZT MLN



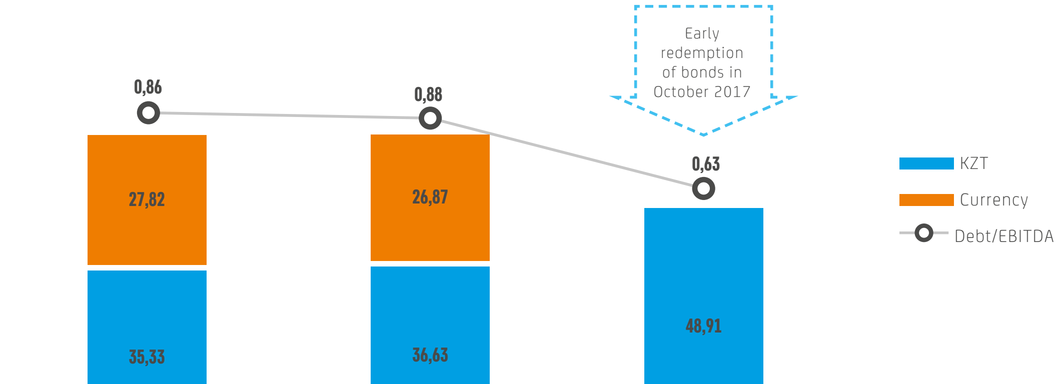
INVESTMENT ACTIVITY OF KAZAKHTELECOM JSC

In 2017 the Committee on strategic planning of the Board of Directors of the Company approved the Regulation on management of the entire cycle of capital deposits of Kazakhtelecom JSC. In 2017, capital investments in Kazakhtelecom JSC, excluding S/As, amounted to KZT 28.90 bln, including subsidiaries – KZT 29.11 bln.



BORROWED CAPITAL

The Company maintains an acceptable level of debt load, financial stability indicators are within established limits and have an appropriate margin of safety. Also, when planning the debt load for the current time, the Company takes into account expectations for major events for five upcoming years, among other things, in order to maintain a high level of financial stability of the company. As part of ongoing work to optimize the Company's loan portfolio, in October 2017, there was made an early repayment of bonds indexed to the rate of the US dollar – the only exchange commitment in the Company's loan portfolio. After retirement of bonds, the Company's financial liabilities are 100% expressed in national currency.



* taking into account guarantees issued for third-party commitments that are not consolidated in the financial statements in accordance with IFRS

CORPORATE ACCOUNTING POLICY

In 2017, the Board of Directors of Samruk-Kazyna JSC approved the Corporate Accounting Policy of Samruk-Kazyna JSC in a new wording. In the reporting year, the Corporate Accounting Policy of Kazakhtelecom JSC, approved with the decision of the Board of Directors of Kazakhtelecom JSC in 2013, was brought in line with the Fund's Corporate Accounting Policy and approved with the Decision of the Board of Directors of Kazakhtelecom JSC (Minutes No. 4 dated 31.03.2017). .

KAZAKHSTAN CONTENT IN PROCUREMENT

In order to ensure procurement transparency in 2017, Kazakhtelecom JSC Group of companies made purchases through open tender methods and requests for quotations, using reverse auction in the electronic procurement information system. At the same time, the plan of procurements for the forthcoming period and long-term plan of procurements, as well as information about ongoing procurements and their results are posted on the Company's e-procurement portal (www.tender.sk.kz) and on the Company s corporate website.

The Company on a regular basis monitors the share of local content in procurements by means of the Electronic Procurement Plan and Automated Reporting System. The results of monitoring are clearly showed on the Local Content Monitoring Map (www.kmks.kz).

In total in 2017, Kazakhtelecom JSC Group of companies concluded 12,600 contracts amounting to KZT 70,911 bln, while the share of local content was 69.2% (goods amounting to KZT 26,030 bln (the share of LC – 33.6%), work – KZT 7,957 bln (the share of LC – 82,0%), services – KZT 36,923 bln (the share of LC – 94,3%).

The share of goods in general purchases of the Group of companies amounts to 36.71%, the share of work – 11.22%, the share of services – 52.07%.

In order to achieve local content indicators, the Company conducts work on the development of intercompany cooperation, provision of procurement priority to organizations belonging to the Holding, to the producers of the purchased goods, which are in the Register of Producers of the Holding.

In 2017, Kazakhtelecom JSC Group of Companies continued to support previously concluded long-term contracts for a total amount of over KZT 8,400 bln, while the average level of local content in long-term contracts amounted to 61.4%. The purpose of concluding long-term contracts is to develop relationships with domestic producers in terms of purchase of goods produced in Kazakhstan, assist in the development of new domestic substitutes of goods, works and services.

REVIEW OF OPERATING ACTIVITY

ICT INFRASTRUCTURE DEVELOPMENT

To increase the range of the services rendered and develop new services of the company it is necessary to constantly work on the expansion of the bandwidth of the transport network as well as a significant improvement in the quality characteristics of the broadband channels access. In 2017 Kazakhtelecom JSC significantly expanded ***the throughput capacity of the baseline network.*** The total capacity of the external Internet channels is increased to 890 Gbps, the border crossings are expanded to 240 Gbps, the throughput with the transit channels is 2.5 TB/s, the number of connections with international communication operators is increased to 24.

16*100 Gbps and 2*200 Gbps channels are established to meet the transit requirements of a total capacity of 26*10 Gbps and pass the traffic of the baseline data transmission network capacity of 13*10G. The management system has updated the software version providing such additional functionality of the system as launching the new generation 100/200G channels and using the mTera multifunctional switch with full integration with the existing network. An additional I/O structure is organized at the nodal stations of ROADM in the cities of Astana, Aktobe, Almaty, Atyrau, Uralsk, Mackay, Kyzylorda, Shymkent, Kordai and Zharkent to ensure the protection of traffic.

In 2017 the works on translating the affected TDM network capacity to NGN network using available resources of GPON network were begun to improve the quality of the services provided and increase the speed of the data transmission . As a result, more than 40 thousand subscribers are switched from TDM Network to NGN Network and ALDE in Taldykorgan is decommissioned.

In the reporting year the throughput of the caching platforms was increased: Google Global Cache and Akamai AANP are expanded by 160 Gbps and 60 Gbps, respectively. The Facebook Network Appliance is expanded by 160 Gbps.

In 2017 ***the capacity of the FTTH network*** increased by 63,798 ports in the cities of Astana, Almaty, Aktobe, Pavlodar, Atyrau, Aktau, Kyzylorda, Uralsk. The networks of the fiber-optic access in cities of Astana, Almaty, Stepnogorsk, Ust-Kamenogorsk, families, Zaisan, Kurchatov are also expanded. Preparation for the network transfer to the SDN/NFV technology has been started.

In 2017 the Company continued its work on the construction and expansion of the fibre-optic access networks as part of the project adopted in May 2016. It resulted in the possibility of connecting 5,122 clients.

In 2017 in the Kyzylorda Oblast Kazakhtelecom JSC started the construction of the network based on the equipment of the wireless access system with installation of switches in nodal points in order to ensure the possibility of providing access to the Internet to schools in rural settlements. It allowed to provide the organization of education of the given area with the services of protected high-speed access to the Internet within the project of Ministry of Education and Science of the Republic of Kazakhstan – e-learning. Further, the works will be continued in the North-Kazakhstan region. In 2017 the equipment to connect more than 79 thousand subscribers with the Broadband Access Network (hereinafter – BAN) using the ADSL technology were purchased and supplied to expand the BAN in inhabited localities with the landline wired networks.

In 2017 the works on implementation of ***Construction of the fibre-optical communications lines in inhabited localities*** project were started according to Digital Kazakhstan State Program as part of the Public Private Partnership (hereinafter – PPP). The PPP concept of this project is developed and protected.

As of January 1, 2018 ***the local telecommunication network of Kazakhtelecom JSC*** is represented by 6,077 points of commutation including 2,919 points of commutation in rural settlements (hereinafter – RS).

The mounted capacity was 5,330,021 phone numbers, of them 1,349,528 in the RS. The capacity involved was 3,289,997 phone numbers, of them 891,720 in the RS.

As of January 1, 2018 7,091 schools out of 7,095 (including 5,387 schools out of 5,391 in rural ares) were equipped with the telephone.

6,462 schools including 4,872 schools in rural areas are connected to the Internet excluding other providers. 6,043 schools including 4,462 schools in the rural areas are connected to the BAN (with access speed from 256 Kbps).

As of January 1, 2018 237,289 phones including 68,235 units in the RS were installed.

As of January 1, 2018 the number of the fixed lines was 3,425,559 units. The density of phones per 100 inhabitants as of January 1, 2018 was 19.96 units including 26.57 per the Urban Telephone Network (hereinafter – UTN) and 11.85 per the Rural Telephone Network (hereinafter – RTN).

In 2017 Kazakhtelecom JSC continued implementation of ***Development of iD TV Interactive Television Network project.*** The network capacity for 57,000 subscription licenses has been expanded as a result of the work.

The total number of ID TV/OTT license was 639,645.

IPTV units have been upgraded and expanded in the cities of Astana and Almaty with an increase of up to 100 channels of ID TV Online.

New services – Multiscreen, statistics formation, diagnosing connection parameters to the ID TV Online for iOS and Android – are introduced. Redesign of iD TV Online mobile application and web-portal.

INFORMATION TECHNOLOGIES

CORPORATE INFORMATION SYSTEMS

Centralized directories for the Company's branches were developed and implemented, and a methodology for calculating volume indicators was automated as part of the processes automation of Kazakhtelecom JSC in 2017. There were automated processes for the following services: Gamer, Video surveillance for the B2C segment, transfer of subscriber number between mobile operators. The modernization of the perimeter protection system of the Corporate Information System with the organization of an auxiliary gateway to the Internet in Astana was carried out.

A step-by-step transfer of all branches of the Company to Management of work on the elimination of damages on the subscriber access network single automated process implemented on the basis of the Remedy Central Maintenance Office Module was performed.

A replication of the mobile personnel management system for all branches of the Company in order to increase the efficiency and productivity of technical personnel was carried out.

DEVELOPMENT OF THE INFORMATION AND COMMUNICATION BUSINESS OF THE COMPANY. ICT SERVICES

In the reporting year, IT infrastructure was provided for large corporate customers – KazMunayGas JSC, OLX LLP, AsiaCredit Bank JSC. There were implemented Cloud accounting for state institutions pilot projects on the basis of two schools in Taldykorgan city and Medical services for hospitals for 8 nationally significant clinics.

International Specialized Exhibition EXPO-2017 Contact Center and the Contact Center for Protection of Children's Rights «111» were organized on the basis of KT Cloud Lab LLP.

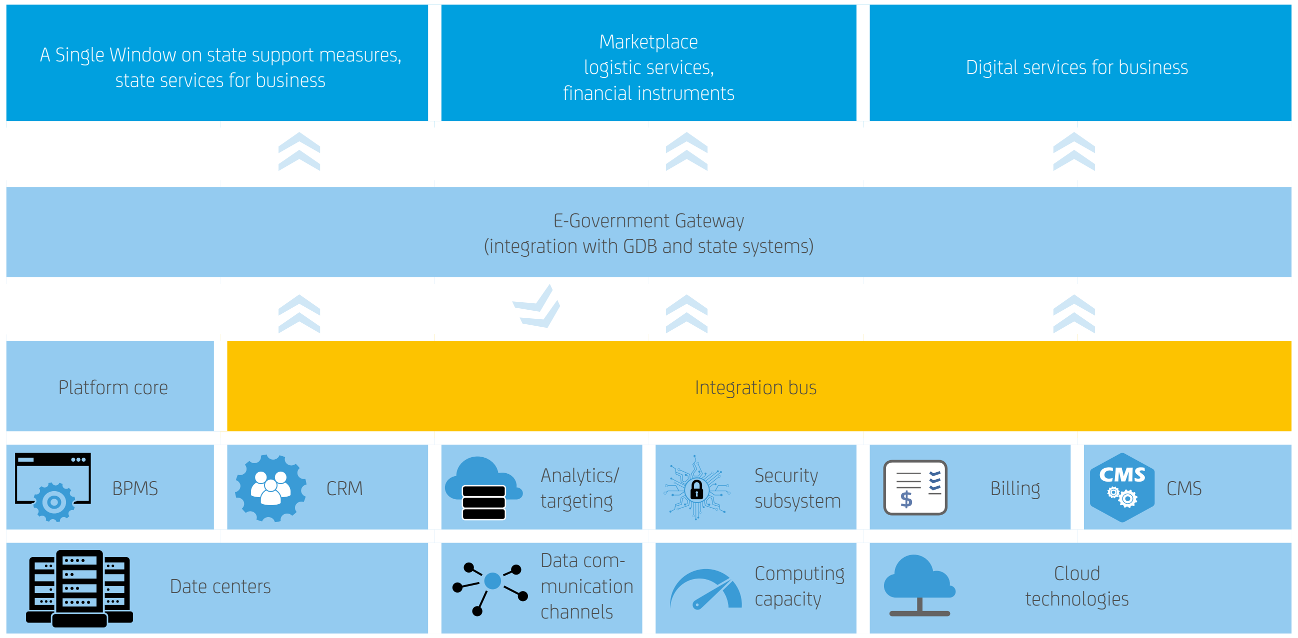
QazCloud LLP, 49% of the stake in the authorized capital of which belongs to Kazakhtelecom JSC, started operating activities, concluded the first contracts for IT infrastructure services and IT outsourcing within the Group of Companies of Samruk-Kazyna JSC.

OPEN DIGITAL PLATFORM FOR BUSINESS

Kazakhtelecom JSC implements the Creation and implementation of an open digital platform for small and medium businesses project in accordance with the Digital Kazakhstan State program, approved by Decree of the Government of the Republic of Kazakhstan No. 827 dated December 12, 2017.

The purpose of the Open Digital Platform (hereinafter - ODP) is to support entrepreneurs at all stages of the business life cycle by providing a Single Window tool for interaction with the state and business entities on the basis of a digital platform.

The ODP provides small and medium-sized businesses with the opportunity to use ICT in solving daily business management tasks, increasing sales, reducing costs and many other issues.



In 2017, the architecture was developed and the technological core of the ODP was deployed.

The ODP architecture provides such components as a single web resource for business, an analytics system, a platform for digital sales channels, communication channels, development of mobile applications, integration with electronic services of the electronic government portal and Atameken National Chamber of Entrepreneurs.

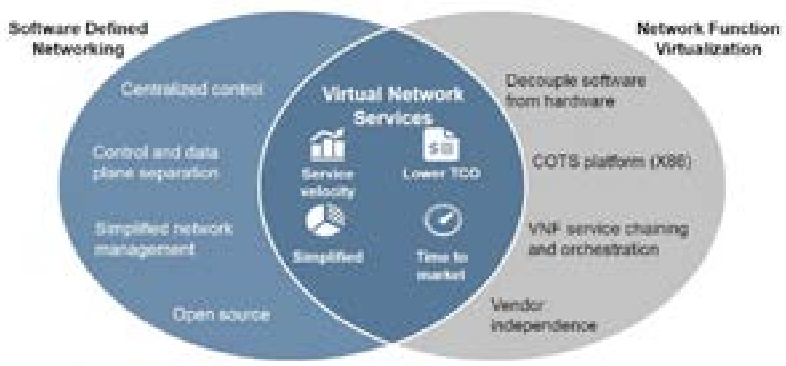
As of March 2018, Adobe AEM licenses were purchased, basic components were installed and configured, and integration with BSS-systems of Kazakhtelecom JSC was implemented.

INNOVATIVE DEVELOPMENT

The technological and managerial innovations are a significant factor in the competitiveness of a telecommunication company as they ensure the efficiency and reliability of their services.

The strategic vision of the Company implies the introduction of technological and management decisions at the level corresponding to the best world standards.

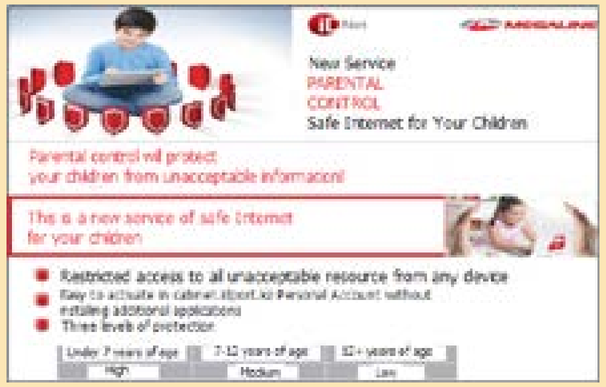
Today it is obvious that the success of the telecommunication operator in the digital age is impossible without the flexibility, dynamism and scalability of its ICT ecosystem. This is what solves the network function virtualization (NFV) and software-defined networks (SDN). And for these purposes in 2017 the company adopted the master plan for the digital transformation of Kazakhtelecom JSC for 2018 – 2021.



The operators should not just innovate but do so at the Internet speed getting rid of legacy heritage and dynamically responding to how customers use new technologies and interact with each other.

IN 2017 THE FOLLOWING NEW SERVICES WERE INTRODUCED:

1) *Parental control (filtering of unwanted content for the fixed BAN subscribers)*

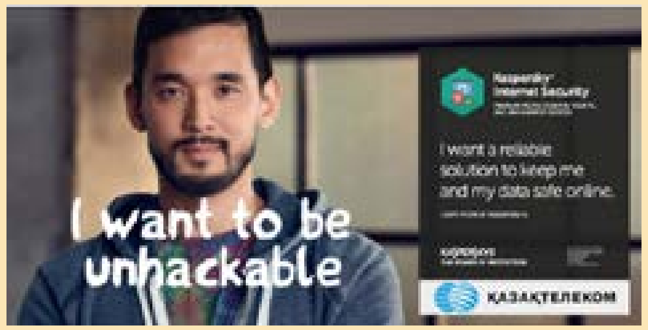


Functionality:
a.Categorized protection against unwanted websites;
b.More than 30 categories, 4 age profiles;
c.Black and white lists;
d.Manage and view of the statistics through your personal account.
Volumes – **647,000** subscribers are connected to the service;

2) *Secure Internet on the B2B segment*

This product was introduced without additional investments. The volumes state at 3,500 B2B clients;

3) *Kaspersky Internet Security Antivirus as part of a new package line with the broadband access*



Since March 2017 Kaspersky Internet Security has been included in the new line of packages with the BAN. The volumes – 664,000 licenses in packages. The product is provided in partnership with Kaspersky under the scheme of revenue sharing;

4) *A special line of VIP Gamer packages* was launched in conjunction with the Wargaming game content manufacturer

The new packages provide the subscribers of Kazakhtelecom JSC with an opportunity to get access to modern communication services and include high-speed internet access at speeds of up to 500 Mbps, digital television services, fixed and mobile telephony and other services as well as a premium account in World of Tanks (on-line game). The client also receive increased speed of downloading updates of World of Tanks (hereinafter – WoT). The WoT players are given the opportunity to access the servers of Wargaming installed on the technical sites of Kazakhtelecom JSC.

5) *Smart TV application launch*

Smart TV applications for Samsung and LG TVs (not older than 2014) are launched. Redesign of iD TV Online application (Android/iOS/Web) has been conducted. Almost 200,000 downloads of the iD TV online applications were recorded (applications for Android/iOS);

6) *Connection to the Megogo library*

207,000 subscribers were connected to the Megogo library with more than 7,000 movies, TV series and cartoons.

Investments in the development of Telecommunication network made by Kazakhtelecom JSC over a number of years allowed to increase the competitiveness and increase the Company's income in 2017 implement the projects on expansion and development of new business directions.

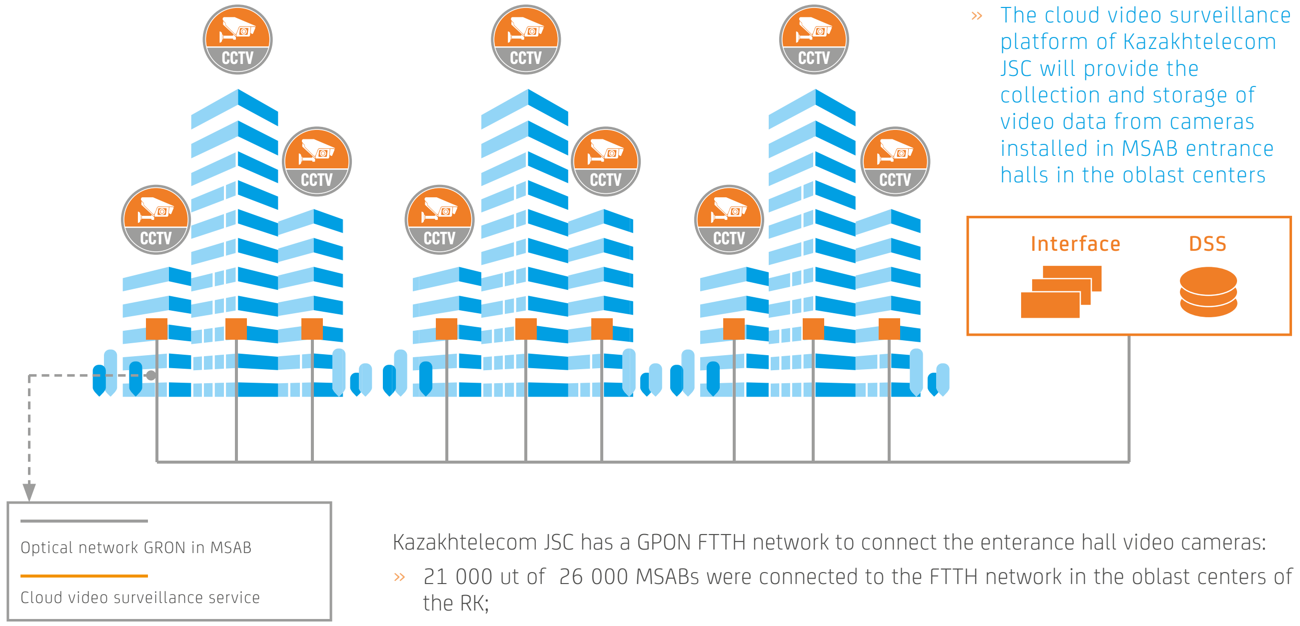
As part of the Development Strategy Kazakhtelecom JSC began active development of new business projects:

1) Cloud video surveillance. The project was launched on September 1, 2017. The project provides the coverage of the multi-family sector in all regional centers and cities of Astana, Almaty, and families. It will provide the subscriber with an opportunity for on-line surveillance of events in his driveway by means of a smartphone or other mobile device.

In 2017 as a result of the work on the expansion of the platform and capacity of the video surveillance network it is possible to connect 13,600 pairs of camcorders including 10,740 on the segment B2C and 2,860 on the B2B segment in the cities of Astana, Almaty, regional centers and cities of regional significance.

ҚАЗАҚТЕЛЕКОМ

- The cameras will be connected to the Kazakhtelecom JSC's optical infrastrukture in the entrance haii's multi-storey apartment buildings (MSAB);
- Investments in and implementation of the project by Kazakhtelecom JSC;
- Kazakhtelecom JSC's 100% coverage of MSAB with optical access networks.

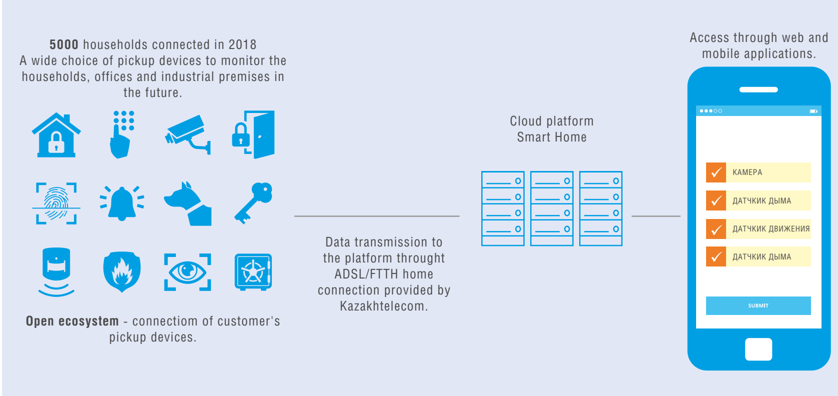


- The cloud video surveillance platform of Kazakhtelecom JSC will provide the collection and storage of video data from cameras installed in MSAB entrance halls in the oblast centers

Kazakhtelecom JSC has a GPON FTTH network to connect the enterance hall video cameras:

- 21 000 ut of 26 000 MSABs were connected to the FTTH network in the oblast centers of the RK;
- The video surveillance network will be roll out in 28000 entrance halls (approx. 7000 MSABs in the oblast centers in 2017-2018).

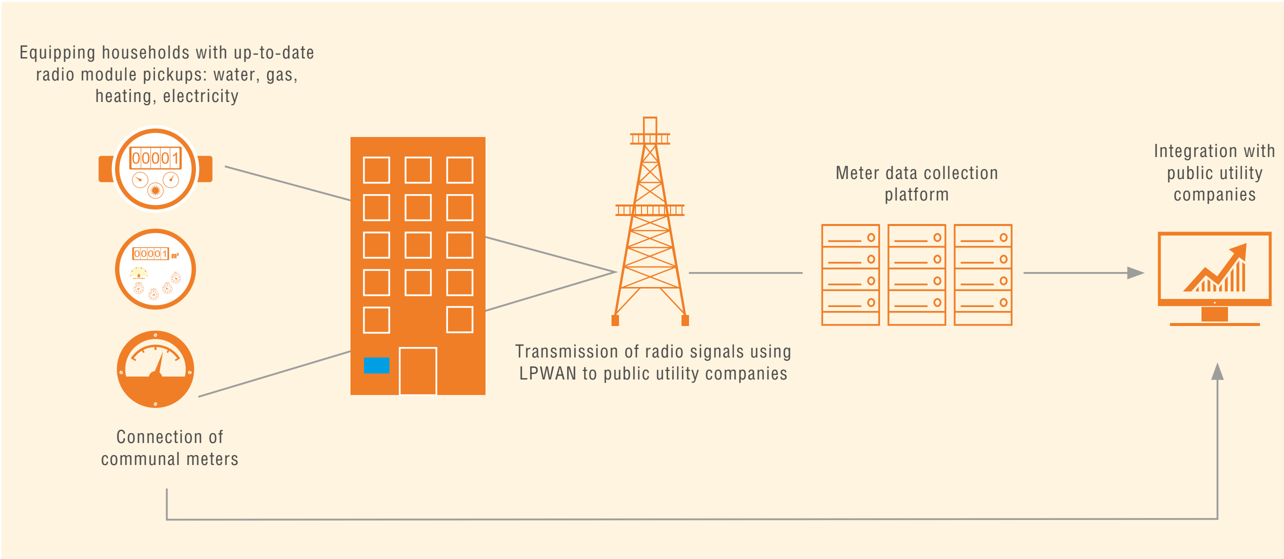
2) Smart House. It includes a wide range of sensors for the household, offices and production facilities monitoring. It is also possible to connect your own consumer sensors. Sending data to the platform through the home connection of the subscriber of ADSL/FTTH from Kazakhtelecom JSC;



3) Wireless networks with low power consumption (based on LoRa). To date, 90 base stations LoRa have been delivered for installation in Almaty, Astana, Shymkent. The main consumers of services are energy operators, municipal services (lighting, garbage removal, etc.);

4) The payment system KT Pay is developed. Integration with Bank for processing bank cards and payment system allowing to accept payment for more than 900 kinds of services was carried out within the framework of this product. All the necessary interfaces were also created to connect third-party companies to the system;

5) The site for sellers of the Goods (marketplace) – KT Store – is developed. The integration with electronic shops – Chocomart and Intermarket (placed as merchants) – was carried out within the framework of this product. This allowed subscribers to buy goods from more than 20,000 product categories. Registered users – 180,000, audience – more than 300,000 people. The average monthly traffic is 210,000 connections



DEVELOPMENT PRIORITY AREAS

The telecommunication operators are required to modernize and drastically change their business due to the growing demand for last-generation services, competitive environment, rapidly evolving innovations

In the digital transformation era the communication operators face this question: how to maximize the benefits of its unique position rather than step back becoming an outsider and turning into a secondary mediator. The telecommunication operators are at the heart of the digital value chain and different organizations rely on their communication networks and computing power necessary for critical components of these organizations' services.

In accordance with the long-term strategy of Kazakhtelecom JSC one of the new strategic business directions is the Ddigitalization of the Economy – Development of the Internet of Things (IoT), introduction of M2M-type machine-to-machine services. Kazakhtelecom JSC has completed the first phase of the project. The Company constructed the IoT/M2M Network with coverage of different segments based on LORA, Zigbee and LTE technologies. The project covers all segments of the IoT market: Apartments, private houses and entrances on the B2C segment; street area of cities, apartment houses, administrative buildings, production facilities and highways on the segment B2B/B2G.

Under the first stage in 2017 the construction of the most large-scale in the CIS energy-efficient network LPWAN on the basis of LoRa technology with coverage of all apartment buildings, buildings and city territory in the cities of Astana, Almaty and Shymkent was started.

This M2M network is ready to become the basic infrastructure for realization of solutions of hte smart city, in particular on automation of gathering of indications from the devices of resources recording (Smart Metering) and on smart Illumination (smart Lightning). The advantages of the LoRa network are high scalability due to the large coverage radius (up to 25 km), long service life from the battery of the final devices (up to 10 years), and the openness of the LoRa protocol for a wide range of devices.

Also under the first stage the Smart Home platform implemented as a cloud solution with horizontal extensibility and the ability to implement various solutions of the smart house on the basis of Zigbee technology is deployed. It is possible to connect IP-cameras, motion sensors, opening doors and windows, sensors of smoke, temperature and humidity. The platform expands to 5 million devices and 1 million users. In this case mobile applications on iOS/ Android are available for subscribers to control the camera, sensors and other sensors.

At the present stage the telecommunication services sector is one of the most important and perspective directions of economy, development of which is cardinally necessary for the strategic development of all branches.

In this context Kazakhtelecom JSC has taken the initiative to implement the project of establishing an open digital platform for business in Kazakhstan. The main idea of the project is to make ICT accessible for the SMEs, enable business to use ICT in solving daily business management tasks, increase sales, reduce cost and many other issues.

In 2017 Kazakhtelecom JSC launched the implementation of Fintech project to develop electronic payment services named KT Pay. Entering the financial services market will enable us to provide services for our customers on the payment for services in favor of a large number of suppliers, transfer of money between customers, and subsequently provide microlending services. Currently, the payment platform is working in a test mode.

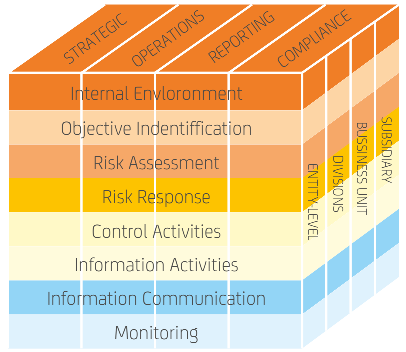
RISK MANAGEMENT AND INTERNAL CONTROL

UNCERTAINTY AND RISK ARE THE MAIN DIFFICULTY AND THE MAIN CHANCE OF BUSINESS.

David Hertz, American mathematician and analyst

The corporate risk management system of Kazakhtelecom JSC (hereinafter – CRMS) implies development of an integrated system providing the Company's bodies with timely information on risks necessary to make decision taking into account these risks and distribution of resources on priority spheres to ensure an acceptable level of the risks.

The process of the risk management constitute basis of ensuring success, continuity and security of business of any organization. During the transformation processes periods the risk management system in Kazakhtelecom JSC increasingly acquires characteristics of a proactive impact and becomes an integral part of the corporate culture of the Company. The risk management system is an efficient tool to achieve ambitious and strategic objectives (aims).



RISK MANAGEMENT SYSTEM STRUCTURE

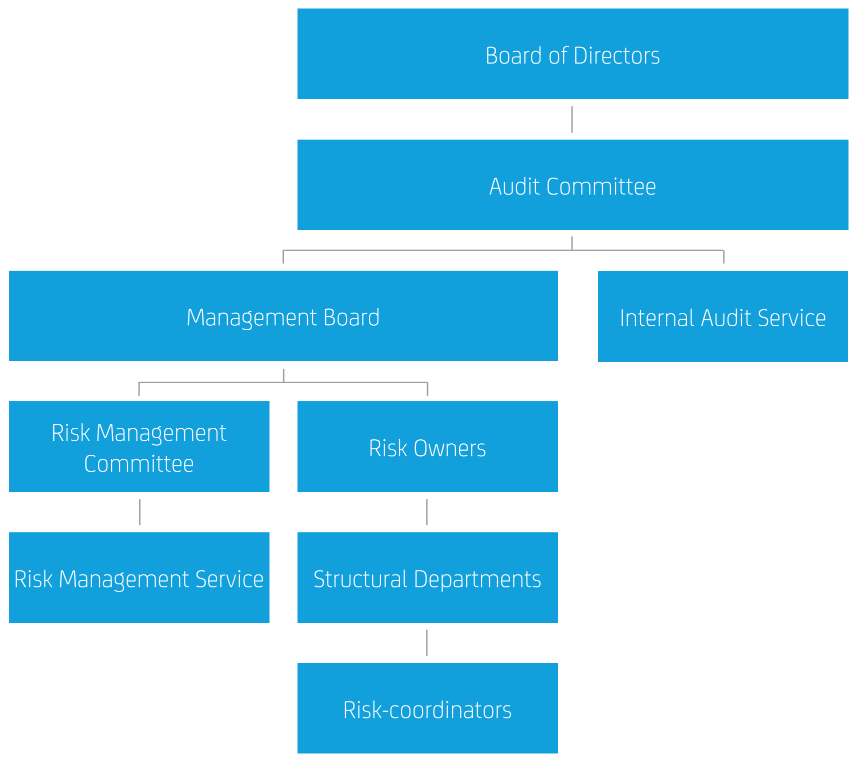
The structure is represented by the risk management at several levels involving the following bodies, subdepartments and employees of the Company:

The Board of Directors is responsible for the strategic development of the Company taking into account risks, taking appropriate decisions and executing many functions in the field of the risk management.

The Audit Committee is established to facilitate efficient execution of the functions of the Board of Directors, review the most important issues and prepare recommendations.

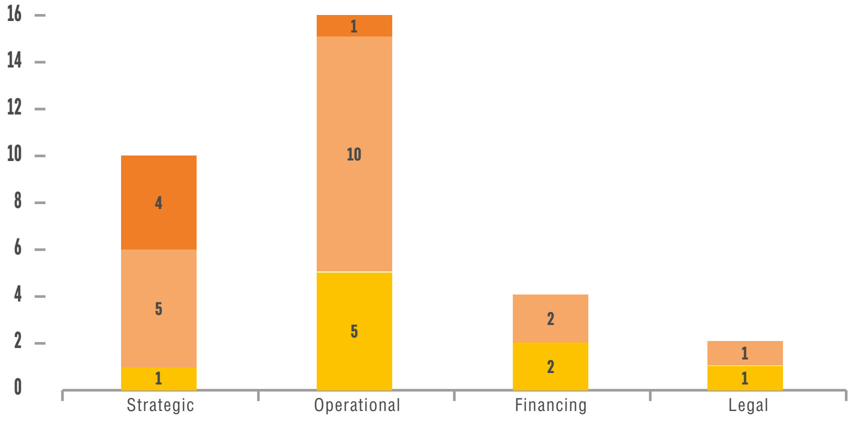
The Risk Management Committee is an advisory and consultative body to the Management Board on all risk management issues.

The Internal Audit Service is responsible for the analysis (evaluation) of the risk management system in the Company to provide information on the evaluation of the Company's CRMS to the Audit Committee at the Board of Directors and directly to the Board of Directors of the Company.



EVENTS OF 2017

During 2017 the management risk service monitored the Risk Register, updated data on risks, control of measures on risk minimization. At the end of 2017 the Corporate Risk Register of the Company has 32 risks:



Kazakhtelecom JSC pays increased attention to the assessment and control of the strategic risks influencing the achievement of the strategic objectives (aims) reflected in the Long-term strategy and fulfillment of the target values of efficiency specified in the Development plan.

A number of measures on the *operational risks* aimed at eliminating the risk implementation reasons and minimization of consequences in case of the risk implementation are approved. Responsible managers are appointed for each measure. A persistent monitoring and control over execution of measures aimed at risk mitigation are conducted.

Monitoring of statutory and regulatory requirements of the state bodies and Government directly impacting the Company's profitability is conducted.

Following the results of 2017 the risks of Kazaktelecom JSC are within an acceptable level of deviations (tolerancy) of the key indicators of the Company's activity. The Company implements measures on the proactive management of the significant risks to mitigate their impact on the objectives (aims) of a corresponding period.

In 2017 PricewaterhouseCoopers LLP conducted an independent evaluation of efficiency and maturity of the CSRM of Kazakhtelecom JSC. The Company was assigned with BB rating following the results of the CRMS's efficiency evaluation. This rating implies that the Company's CRMS corresponds to a highly established criteria.

Considering the accepted process management practice in the Company the IAS developed a reference process model of implementation of New business projects in the Company. It's based on the project management cycle (Project Management Body of Knowledge).

FURTHER INTEGRATION OF THE RISK MANAGEMENT AND INTERNAL AUDIT SYSTEMS IN THE BRANCHES AND SUBSIDIARIES

Improvement of the efficiency applied in the Risk management practice group implies a better functioning and interaction of the risk management process entities. The information on potential risks collected and updated at the level of the branches and subsidiaries allows to cover and evaluate the factors influencing both at the local level and whole Group level. It allows to better conduct preventive measures on the risk management at the local level and take comprehensive decisions based on the integrated data from all entities.

The registers and risk maps are quarterly re-assessed and updated by the branches and subsidiaries. The branches prepared and defended the projects, aimed at implementation of the measures for following year, on the significant risks impacting not only on the local indicators but the corporate level risks and requiring financial investments to their mitigation.

FURTHER IMPLEMENTATION OF THE BEST PRACTICES AND STANDARDS OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

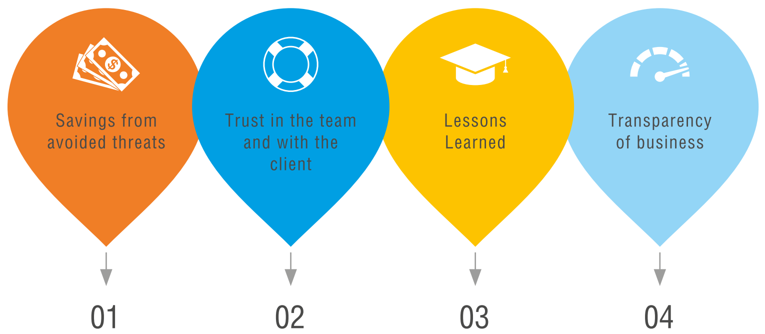
The Company constantly monitors relevant changes of global best practice risk management standards for companies in the real sector of the economy. Approaches to the risk assessment of the Company's investment projects. Though the regulation development is in progress the results of awareness improvement and sub-departments competence developing investment projects of different directions in the field of the risk management of separate projects and all investment portfolio are already seen.

There are no significant changes in the main processes of the CRMS and internal control system, i.e. the systems were developed on the basis of the best practices and standards. All risks of the Company are classified in the strategic, financial, operational, legal/compliance directions. As part of the risk management process, the Company maintains a corporate risk register reflecting the risks that can affect the achievement of the long-term strategic objectives and key performance indicators of the Development plan approved by the Board of Directors.

The Corporate Risk Register is annually updated. In 2017 data considering risk information from the branches and subsidiaries is updated. The risk management activities are updated quarterly and the risk assessment is reviewed on qualitative and quantitative parameters both at the corporate level and in the group's subjects. The dynamics of the risk migration by severity zones is monitored in the risk map. Timely identification of the risk in the «disturbing» zone gives an opportunity to take preventive measures to mitigate risks. In 2018 the work on introduction of the risk management culture in the Company will be continued.

According to the current risk management policy the Board of Directors quarterly reviews the reports of the risk management service, informs about the annual evaluation of the efficiency of the CRMS and IAS conducted by both the internal and external audit. For example, the activities carried out in 2017 increased the efficiency final rating of the IAS and risk management for the last year. Following the results of the Internal Audit Service (hereinafter – IAS) the CRMS's rating at the end of 2017 was 97.1% (in 2016 the aggregate efficiency rating of the CRMS was 96%).

WHAT IS THE VALUE OF RISK MANAGEMENT?



CORPORATE GOVERNANCE

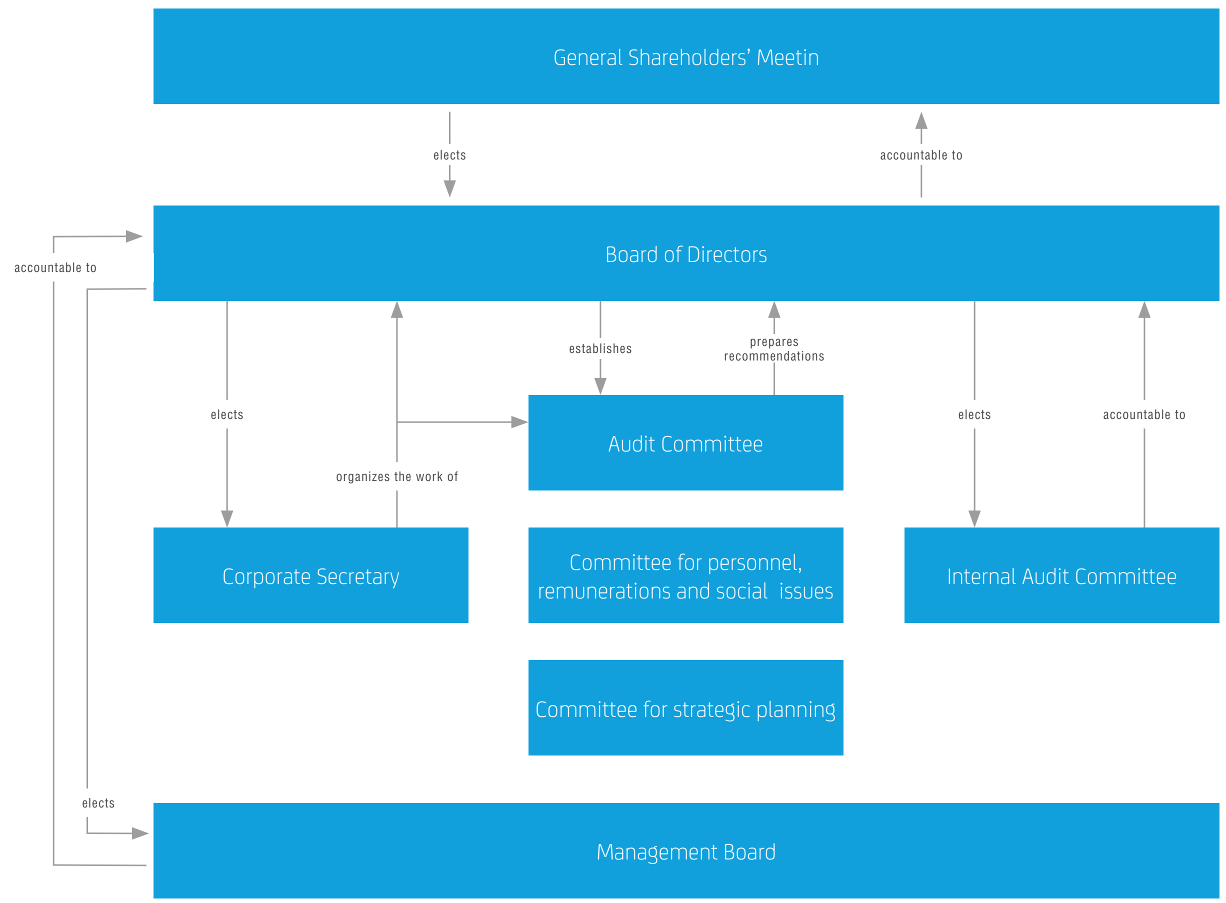
CORPORATE GOVERNANCE STRUCTURE

Samruk-Kazyna JSC as a national managing holding performs the role of a strategic holding in relation to Kazakhtelecom JSC. Effectiveness, operational efficiency and transparency are the basis of corporate governance.

The corporate governance system of Kazakhtelecom JSC is a set of processes providing management and control over the activities of Kazakhtelecom JSC as well as the system of relations between the executive body, Board of Directors, shareholders and stakeholders based on the observance of the rights and fair treatment of each of them. The competence of the bodies and decision making procedure are clearly defined and enshrined in the Charter of Kazakhtelecom JSC.

The main element of the evaluation of the efficiency of the Executive Body of Kazakhtelecom JSC is the system of the key performance indicators. The list and target values of the Company's efficiency are approved by the Board of Directors. In order to achieve efficiency the Company develops appropriate development plans.

CORPORATE GOVERNANCE STRUCTURE



REPORT ON COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

This Report is prepared in accordance with paragraph 15 of chapter 5 of the Corporate Governance Code of Kazakhtelecom JSC Efficiency of the Board of Directors and Executive Body.

The activities of Kazakhtelecom JSC and its corporate practice show compliance with the principles and provisions of the Corporate governance code.

PRINCIPLES OF THE CORPORATE GOVERNANCE OF SOVEREIGN WELFARE FUND SAMRUK KAZYNA JSC

CHAPTER 1. GOVERNMENT AS A SHAREHOLDER OF THE FUND

Despite the name of the chapter of the Code it contains a number of the provisions which should and guide the Company in its activities. In particular, it is stipulated that the main strategic objective (aim) of the Fund's organizations is to increase the long-term value and sustainable development. All decisions and actions taken shall be consistent with the development strategies.

The bodies of the Company are completely independent and independent in making decisions and carrying out any actions within their competence. The relations (interaction) between the shareholders and Company is carried out through the Board of Directors according to the principles of the proper corporate governance.

Disclosure of information about the Company's activities is carried out according to the Law On joint-stock companies and Charter of the Company by publishing necessary information in the media (printed editions, Internet resources).

The Internal Audit Service functions in the Company, exercises the powers of the Corporate Secretary executing the tasks stipulated by the legislation and internal documents of the Company.

These provisions are described in more detail below in this report.

CHAPTER 2. INTERACTION BETWEEN THE FUND AND ORGANIZATIONS. THE ROLE OF THE FUND AS A NATIONAL MANAGING HOLDING

The corporate governance system is a set of processes providing management and control over the activities of the Company as well as a system of relationships between the Management Board, Board of Directors, shareholders and stakeholders. These issues are clearly regulated in the Charter, provision on the General Shareholder Meeting, Board of Directors, Management Board and other internal documents.

Samruk-Kazyna (hereinafter – Fund) JSC participates in the management of the companies through the implementation of the functions of a major shareholder as well as through the Board of Directors. The Fund annually provides the Chairman of the Board of Directors and representatives of the Fund to the Board of Directors of the Company with the expectations of the shareholder for the coming financial year.

The Board of Directors of the Company has full autonomy, within its competence, in decision-making. The Fund's position on separate issues is disseminated through the Fund's representatives on the Board of Directors.

Governance of the Company is carried out by its bodies according to the legislation and Charter.

CHAPTER 3. SUSTAINABLE DEVELOPMENT

Coordination of sustainable development activities is carried out by the Corporate Governance Service. In 2017 those functions were transferred from the Department of personnel management and development. In May 2017 the Board of Directors approved the Report in the field of the corporate social responsibility within the framework of the Company's activity. The main events for the implementation of the relevant measures are scheduled for 2018 due to change of the coordinator for the sustainable development.

Implementation of activities in the field of the sustainable development will be further monitored on a permanent basis.

CHAPTER 4. RIGHTS OF SHAREHOLDERS (PARTICIPANTS) AND FAIR TREATMENT OF SHAREHOLDERS (PARTICIPANTS)

The observance of the rights of the shareholders is a key obligation of the Company. The rights of the shareholders enshrined in the legislation and internal documents are strictly observed in the Company. The Company also ensures a fair treatment to the shareholders.

CHAPTER 5. EFFICIENCY OF THE BOARD OF DIRECTORS AND EXECUTIVE BODY

The Board of Directors is a management body reporting to the General Shareholder Meeting and providing strategic management of the organization and control over the activities of the Management Board.

The Management Board is accountable to the Board of Directors, administers the daily activities of the organization and ensures its compliance with the strategy, development plan and decisions adopted by the General Shareholder Meeting and Board of Directors.

The powers of the Board of Directors and Management Board are clearly fixed and delineated.

The Board of Directors and its committees observe the balance of skills, experience and knowledge ensuring the adoption of independent, objective and efficient decisions in the interests of the Company and taking into account a fair treatment to all shareholders and principles of the sustainable development.

The Board of Directors of the Company is represented by specialists in various fields of knowledge (finance, marketing, technical sphere, etc.) having extensive experience including international experience. The number of independent directors complies with the recommended number according to the legislation (at least 30%) and even exceeds it.

The election of the Board of Directors shall take place only within the framework of the procedures established by the legislation and the Charter of the Company. The procedure of election, term of office, activity of the Board of Directors are regulated by the internal documents of the Company. There is a program of introduction to the position for newly elected members of the Board of Directors.

The Chairman of the Board of Directors is responsible for the general management of the Board of Directors, ensures full and efficient implementation of its core functions by the Board of Directors and a constructive dialogue between the members of the Board of Directors, Major Shareholders and Management Board.

The role and functions of the Chairman of the Board of Directors and head of the executive body are clearly delineated and fixed in the Charter of the Company, provisions on the Board of Directors and Management Board.

The Committees of the Board of Directors facilitate a deep and thorough consideration of the issues within the competence of the Board of Directors and improvement of the quality of the decisions made especially in such areas as audit, risk management, strategic planning, personnel issues. There are three committees in the Company: on audit, personnel, remuneration and social issues, strategic planning. Their role is clearly regulated in their provisions. They consider a wide range of issues and provide the necessary recommendations to the Board of Directors.

The preparation and holding of meetings of the Board of Directors contribute to the maximum effectiveness of its activities. To perform their duties the members of the Board of Directors have access to full, relevant and timely information.

The Board of Directors holds regular meetings to perform its functions efficiently. The meetings of the Board of Directors shall be held in accordance with the work plan approved before the beginning of the calendar year. The meetings of the Board of Directors and its committees shall be carried out by means of full-time or absentee forms of voting and the number of the meetings with the absentee form of voting is minimized. Consideration and decision-making on the important and strategic issues are carried out only at the meetings of the Board of Directors with the full-time form of voting.

The meetings of the Board of Directors and its committees are duly logged by the Corporate Secretary containing the outcome of the discussions and decisions taken.

The Corporate Secretary is appointed by the Board of Directors in order to effectively organize the activities of the Board of Directors and interaction of the Board of Directors, Management Board with the shareholders. The Corporate Secretary carries out its functions in accordance with the legislation, Charter and other internal documents.

The Company has a collegial executive body – the Management Board. The Management Board is accountable to the Board of Directors and manages the daily activities of the Company, bears responsibility for the implementation of the strategy, development plan and decisions adopted by the Board of Directors and General Shareholder Meeting.

The Board of Directors elects the head and members of the Management Board, determines the terms of office, size of the official salary and conditions of payment for their work. The recommendation to elect the head and members of the executive body for a period of up to three years is observed.

The motivational efficiency of the head and members of the executive body shall be annually approved by the Board of Directors.

In case of corporate conflicts the participants seek ways to solve them through negotiations in order to ensure effective protection of the interests of the organization and stakeholders. The document in the field of the corporate conflicts, approved by the Board of Directors is applied.

CHAPTER 6. RISK MANAGEMENT, INTERNAL CONTROL AND AUDIT

The system of the risk management and internal control is implemented in the Company. The Board of Directors plays an active role in the risk management.

The risk management reports are quarterly reviewed by the Audit Committee and the Board of Directors. They adjust the activities and processes in this field, if necessary.

The Internal Audit Service, which is accountable to the Board of Directors, effectively functions in the Company.

CHAPTER 7. TRANSPARENCY

In order to meet the interests of the stakeholders the Company promptly and reliably discloses information on all important aspects of its activities including financial status, performance, ownership and management structure. The relevant information is published on various resources.

The Company annually conducts audit of financial statements by means of involving an independent and qualified auditor. The results of the audit are approved by the General Shareholder Meeting.

The Company annually approves the annual report disclosing all activities in the past year.

BOARD OF DIRECTORS OF KAZAKHTELECOM JSC

The Board of Directors is a management body that exercises general management of the Company's activities, with the exception of resolving issues referred by the Law of the Republic of Kazakhstan On Joint-Stock Companies and (or) the Company's Charter to the exclusive competence of the General Shareholders' Meeting, and supervises the activities of the Company's Management Board.

Members of the Board of Directors of Kazakhtelecom JSC are elected by the decision of the General Shareholders' Meeting of Kazakhtelecom JSC.

Candidates and members of the Board of Directors shall have relevant work experience, knowledge, qualifications, positive achievements necessary for the performance of their duties, and an impeccable reputation in the business and industry environment and for the effective functioning of the entire Board of Directors in the interests of shareholders and the Company.

The qualification requirements for candidates for independent directors, the management scorecard of a candidate for the position of an independent director and the application-consent to be included in the Board of Directors of Kazakhtelecom JSC as an independent director were approved by the decision of the General Shareholders' Meeting of Kazakhtelecom JSC in 2011.

As of 01.01.2018 the Board of Directors of Kazakhtelecom JSC consists of the following persons:

Members of the Board of Directors:
Nurzhan Baidauletov
Kuanyshbek Yessekeyev
Dmitry Prikhozhan
Adilbek Sarsenov
Serik Saudabayev

Members of the Board of Directors, independent directors:
Alexey Buyanov
Garrett Martin Johnston
Dmitry Zaika

NURZHAN BAIDAULETOV

Date of birth:	September 01, 1960
Citizenship:	Republic of Kazakhstan
Date of the first election to the Board of Directors:	May 08, 2012
Date of the current election to the Board of Directors:	June 30, 2015
Status:	Chairman of the Board of Directors Representative of Samruk-Kazyna JSC (5 570 668 ordinary voting shares)
Share ownership:	none
EDUCATION:	
09.1977 – 06.1986	Moscow Institute of Railway Engineering Specialty: Management of Railway Transportation Processes
PLACES OF EMPLOYMENT AND POSITIONS OCCUPIED OVER THE LAST FIVE YEARS:	
2017 – till present	Samruk-Kazyna JSC Representative of Samruk-Kazyna JSC in the Board of Directors of Kazakh Air JSC
17.04.2016 – till present	Samruk-Kazyna JSC Representative of Samruk-Kazyna JSC in the Board of Directors of Air Astana JSC and Kazakhtelecom JSC
02.06.2014 – 17.04.2016	Samruk-Kazyna JSC Chief Asset Management Officer
01.04.2014 – 01.04.2016	Kazpochta JSC Member of the Board of Directors
24.01.2012 – 11.04.2016	KTZ NC JSC Chairman of the Board of Directors
26.12.2008 – till present	Air Astana JSC Chairman of the Board of Directors
27.11.2008 – 01.06.2014	Samruk-Kazyna JSC Managing Director

KUANYSHBEK YESSEKEYEV

Date of birth:	June 10, 1975
Citizenship:	Republic of Kazakhstan
Date of the first election to the Board of Directors:	December 16, 2006
Date of the current election to the Board of Directors:	June 30, 2015
Status:	Member of the Board of Directors Chairman of the Management Board of JSC Kazakhtelecom
Share ownership:	none

EDUCATION:

1991 – 1995	Kazakh State University named after Al-Farabi Specialty: applied mathematics Candidate of Mathematical sciences
2001 – 2002	Kazakh State Academy of Management Specialty: management
2015 – 2017	Hult Business School, London, GB Specialty: Finance Degree: Executive MBA

PLACES OF EMPLOYMENT AND POSITIONS OCCUPIED OVER THE LAST FIVE YEARS:

15.03.2010 – till present	Kazakhtelecom JSC Chairman of the Management Board, member of the Board of Directors

DMITRY PRIKHOZHAN

Date of birth:	December 10, 1973
Citizenship:	Republic of Kazakhstan
Date of the first election to the Board of Directors:	December 6, 2016
Date of the current election to the Board of Directors:	December 6, 2016
Status:	Member of the Board of Directors Representative of shareholder – Sobrio Limited (2 672 592 ordinary voting shares)
Share ownership:	none

EDUCATION

1990 – 1995	Kazakh State National University named after Al-Farabi Specialty: Jurisprudence Qualification: Lawyer

PLACES OF EMPLOYMENT AND POSITIONS OCCUPIED OVER THE LAST FIVE YEARS:

19.04.2010 – till present	Eximbank Kazakhstan JSC Chairman of the Management Board
12.05.2004 – 18.04.2010	Eximbank Kazakhstan JSC Deputy Chairman of the Management Board
05.04.2004 – 11.05.2004	Eximbank Kazakhstan JSC Adviser to Chairman of the Management Board

ADILBEK SARSENOV

Date of birth:	August 28, 1973
Citizenship:	Republic of Kazakhstan
Date of the first election to the Board of Directors:	December 24, 2007
Date of the current election to the Board of Directors:	June 30, 2015
Status:	Member of the Board of Directors Representative of shareholder – Sobrio Limited (2 672 592 ordinary voting shares)
Share ownership:	none
EDUCATION:	
1991 – 1996	Almaty Institute of Power Engineering Specialty: radio engineering
2005 – 2006	International Business School (Cambridge, USA) under the Bolashak scholarship, MBA program. Specialization: General management in international companies
PLACES OF EMPLOYMENT AND POSITIONS OCCUPIED OVER THE LAST FIVE YEARS:	
10.12.2010 – 10.12.2013	ERA TV Broadcaster Member of the Supervisory Board
01.08.2010 – 31.03.2016	Amun Capital Advisors KZ LLP Director for Telecom Assets Management
09.12.2008 – 06.09.2010	National Company Kazsatnet JSC Chairman of the Board of Directors
06.11.2008 – 06.09.2010	National Information Technologies JSC Member of the Board of Directors
06.11.2008 – 02.08.2010 06.11.2008 – 21.02.2011	National Information and Communications Holding Zerde JSC Chairman of the Management Board Member of the Board of Directors
19.10.2007 – 30.07.2010	Kazakhstan Holding for Management of State Assets Samruk JSC Director for Telecom Assets Management Group

SERIK SAUDABAYEV

Date of birth:	December 8, 1977
Citizenship:	Republic of Kazakhstan
Date of the first election to the Board of Directors:	July 12, 2010
Date of the current election to the Board of Directors:	June 30, 2015
Status:	Member of the Board of Directors Representative of the Company's shareholder – Sovereign Welfare Fund Samruk-Kazyna JSC (5 570 668 ordinary voting shares)
Share ownership:	None
EDUCATION:	
1995 – 1999	The Almaty State University named after Abai Specialty: Jurisprudence
2004 – 2006	The Kazakh University of Economics named after T. Ryskulov Specialty: Economics
PLACES OF EMPLOYMENT AND POSITIONS OCCUPIED OVER THE LAST FIVE YEARS:	
26.10.2016 – till present	Kazpochta JSC Member of the Board of Directors
11.07.2016 – till present	Samruk-Kazyna JSC Director of Communications Directorate
11.05.2014 – 10.07.2016	Samruk-Kazyna JSC Deputy Director General for Asset Management
17.06.2010 – 10.05.2014	National Welfare Fund Samruk-Kazyna JSC Director for Telecom Assets Management
13.08.2010 – 31.03.2014	Kazpochta JSC Member of the Board of Directors
14.08.2007 – 16.04.2008 17.04.2008 – 18.05.2010	Kazakhtelecom JSC Deputy Director of Legal Department Corporate Secretary

ALEXEI BUYANOV

Date of birth:	August 15, 1969
Citizenship:	Russian Federation
Date of the first election to the Board of Directors:	June 30, 2015
Date of the current election to the Board of Directors:	June 30, 2015
Status:	Independent Director
Share ownership:	None
Independence criteria	Meets the criteria specified in sub-paragraph 20, Article 1 of the Law of the Republic of Kazakhstan On Joint Stock Companies
EDUCATION:	
1986 – 1992	Moscow Institute of Physics and Technology (MIPT) Specialty: Applied Physics & Mathematics Qualification: Physical Engineer
PLACES OF EMPLOYMENT AND POSITIONS OCCUPIED OVER THE LAST FIVE YEARS:	
Since January 2016 – till present	Investment Company Bengala Investments SA, Director

GARRET MARTIN JOHNSTON

Date of birth:	July 22, 1968
Citizenship:	Ireland, Russian Federation
Date of the first election to the Board of Directors:	June 30, 2015
Date of the current election to the Board of Directors:	June 30, 2015
Status:	Independent Director
Share ownership:	None
Independence criteria	Meets to the criteria provided for in subparagraph 20) Article 1 of the Law of the Republic of Kazakhstan On Joint Stock Companies
EDUCATION	
1985 – 1990	Dublin University Specialty: Economics
1990 – 1991	Specialty: International Trade TMI degree (Postgraduate Diploma International Commerce)
PLACES OF EMPLOYMENT AND POSITIONS OCCUPIED OVER THE LAST FIVE YEARS:	
15.06.2015 – till present	Macroscope Consulting Owner and CEO
01.10.2014 – till present	appselekt.com Chief Marketing Officer
15.01.2014 – 30.09.2014	Digicel Caribbean and Central America CEO Enterprise Solutions
27.12.2011 – 11.01. 2014	Rosnano MedInvest (RMI Partners) Vice-President for Marketing & Strategy
30.03.2011 – 22.12.2011	Tus Group Strategy & Restructuring Adviser to President and Owner
20.06.2010 – 28.03.2011	X5 Retail Group Strategic Marketing Adviser to President
03.09.2007 – 11.06.2010	MTC Director of Strategic Marketing Group
01.02.2006 – 02.09.2007	MTC, Russia Marketing Director

DMITRIY ZAIKA

Date of birth:	April 27, 1975
Citizenship:	Republic of Kazakhstan
Date of the first election to the Board of Directors:	June 30, 2015
Date of the current election to the Board of Directors:	June 30, 2015
Status:	Independent Director
Share ownership:	None
Independence criteria	Meets the criteria specified in sub-paragraph 20, Article 1 of the Law of the Republic of Kazakhstan On Joint Stock Companies
EDUCATION:	
1992 – 1998	Almaty Institute of Energy and Communications Specialization: Radio engineering Qualifications: Radio Engineer
2003 – 2005	Kazakh State Economic University Specialization: Financial Management Qualification: Economist (diploma with distinction)
PLACES OF EMPLOYMENT AND POSITIONS OCCUPIED OVER THE LAST FIVE YEARS:	
20.04.2012 – 15.08.2016	ALTEL JSC Independent Director
29.08.2011 – till present	Khimfarm JSC Independent Director

In 2017, the following 4 independent directors – members of the Board of Directors worked in full compliance with the requirements of the legislation of the Republic of Kazakhstan applied to the notion of «independent director»:

Members of the Board of Directors, independent directors:

- Alexey Buyanov,
- Garrett Martin Johnston,
- Dmitry Zaika,
- Yermek Kudabayev (on 27.11.2017 terminated his powers by his own volition).

According to paragraph 5 of Article 54 of the Law of the Republic of Kazakhstan On Joint-Stock Companies, at least thirty percent of the composition of the Board of Directors of the Company shall be independent directors. Kazakhtelecom JSC meets this requirement and even exceeds the minimum threshold, and it makes up 44%.

COMMITTEES OF THE BOARD OF DIRECTORS

For the preliminary consideration of the most important issues of the competence of the Board of Directors, as well as to enhance the effectiveness of the Board of Directors of Kazakhtelecom JSC, the following committees have been established and are actively working:

1. Audit Committee,

2. Committee for Personnel, Remunerations and Social Issues,

3. Strategic Planning Committee

The Board of Directors makes decision on the establishment of committees, determines their personal and numerical composition, the chairmen, the term of office, as well as the functions and work procedures.

Each Committee of the Board of Directors consists of at least 4 members who are appropriately qualified and have substantial experience in the relevant committee's profile.

The Audit Committee is a consulting and advisory body of Kazakhtelecom JSC's Board of Directors and carries out its activity in accordance with the Provision on the Audit Committee approved by the decision of the Board of Directors No. 2 as of 01.03.2010 (as amended on 28.06.2013).

In accordance with the Corporate Governance Code of Kazakhtelecom JSC, the Committee consists entirely of independent directors who meet the criteria for recognizing the independence of directors provided for by subparagraph 20) of Article 1 of the Law of the Republic of Kazakhstan On Joint-Stock Companies.

Members of the Audit Committee under the Board of Directors of Kazakhtelecom JSC:

Chairman of the Committee:

- Yermek Kudabayev – independent director *(on November 27, 2017 terminated his powers on his own initiative).*

Members of the Committee:

- Alexey Buyanov – independent director;
- Garrett Martin Johnston – independent director;
- Dmitry Zaika – independent director.

The Audit Committee holds regular in-person meetings at least once a quarter and extraordinary meetings – as required.

In 2017, the Audit Committee held 10 meetings, one of which was in absentia. They considered 23 issues and made appropriate recommendations to the Board of Directors of the Company, including: the activities of the Internal Audit Service, Internal Control Service and Risk Service, financial reporting, external audit and other important issues.

PARTICIPATION IN THE AUDIT COMMITTEE'S MEETINGS IN 2017:

Members of the Board of Directors:	№1 31.01	№2 10.03	№3 27.03	№4 17.04	№5 17.05	№6 29.05	№7 24.07	No.8 25.08 in absentia	№9 13.09	№ 10 27.10	Reason for absence	Participation percentage
Yermek Kudabayev	+	+	+	+	+	+	+	+	+	+		100
Alexey Buyanov	+	+	+	+	+	+		+	+	+	business trip	90
Garrett Martin Johnston		+	+	+		+	+	+	+	+	business trip	80
Dmitry Zaika	+	+	+	+	+	+	+	+	+	+		100

The Audit Committee in its work is strictly guided by the Charter of Kazakhtelecom JSC, the Corporate Governance Code of the Company, the Provision on the Audit Committee.

When assessing the work of the Audit Committee under the Board of Directors of Kazakhtelecom JSC, it should be noted that the Committee during the performance of its duties acted in good faith and in a reasonable manner in the interests of the Company. The objectives, tasks and functional responsibilities established for the Audit Committee by the Corporate Governance Code of the Company, the Provision on the Audit Committee, decisions of the Board of Directors of the Company, instructions of the Board of Directors, as well as the operating plan of the Committee for 2017 were fulfilled.

The ***Strategic Planning Committee*** of the Board of Directors of Kazakhtelecom JSC was established by the decision of the Board of Directors in 2010. The Strategic Planning Committee is a consulting and advisory body of the Board of Directors of KazakhtelecomJSC and operates according to the Regulation on the Strategic Planning Committee approved by the Decision of the Board of Directors No. 14 of 19.11.2010.

The structure of the Committee for Strategic Planning of the Board of Directors of Kazakhtelecom JSC as follows:

The Chairman of the Committee:

- Alexey Buyanov – Independent Director.

Members of the Committee:

- Dmitry Zaika – independent Director,
- Dmitry Prikhozhan – member of the Board of Directors *(elected to the Committee March 14, 2017),*
- Adilbek Sarsenov – member of the Board of Directors,
- Serik Saudabayev – member of the Board of Directors.

The Strategic Planning Committee meets according to annual plan approved by the decision of the Committee, but at least once a quarter, extraordinary meetings, as necessary under paragraph 15 of the Regulation.

The Strategic Planning Committee held 6 face-to-face meetings in 2017 where 22 issues were considered and recommendations were given to the Board of Directors of the Company. The questions are: business planning, changes in the Company's Strategy, attraction of consulting services, the Company's Development Plan, adoption of strategic documents, optimization of subsidiaries and other important issues of the Company's activities.

PARTICIPATION IN THE MEETINGS OF THE STRATEGIC PLANNING COMMITTEE IN 2017

Members of the Board of Directors	№1 16.05	№2 29.05	№3 25.07	№4 25.09	№5 02.11	№6 13.12	The reason for absence	Percentage of partici-pation
Alexey Buyanov	+	+	+	+	+	+		100%
Dmitry Prikhozhan	+	+	+	+	+	+		100%
Adilbek Sarsenov	+	+	+	+	+	+		100%
Serik Saudabayev	+	+	-	+	+	+	business trip	83,33%
Dmitry Zaika	+	+	+	-	+	+	business trip	83,33%

Assessing the work of the Strategic Planning Committee of the Board of Directors of Kazakhtelecom JSC it should be noted that this Committee acted in the interests of the Company, in good faith and reasonably in the performance of its duties.

The Committee in full volume solves the tasks of identifying and submitting recommendations to the Board of Directors of the Company on the identification of priority areas of the Company's business and its development strategy, including development of measures that improve the efficiency of the Company in long-term prospect.

Thus, in 2017, the Strategic Planning Committee fulfilled the objectives, tasks and functional responsibilities established by the Regulation on the Strategic Planning Committee, the decisions of the Board of Directors of the Company, the instructions of the Board of Directors, and the work plan of the Committee for 2017.

The Committee for Personnel, Remuneration and Social Issues in its activity is fully accountable to the Company's Board of Directors and carries out its activities in accordance with the Provision on the Committee for Personnel, Remuneration and Social Issues of the Board of Directors of Kazakhtelecom JSC approved by the decision of the Board of Directors, Minutes No. 2 dated 18.03.2015.

The composition of the Committee for Personnel, Remunerations and Social Issues under the Board of Directors of Kazakhtelecom JSC is as follows:

Chairman of the Committee:

- Dmitry Zaika – independent director.

Members of the Committee:

- Dmitry Prikhozhan – member of the Board of Directors *(elected to the Committee on March 14, 2017),*
- Serik Saudabayev – member of the Board of Directors *(elected to the Committee on March 14, 2017)*,
- Alexey Buyanov – independent director,
- Garrett Martin Johnston – independent director.
- Yermek Kudabayev – independent director *(on November 27, 2017 terminated his powers on his own initiative).*

The Committee for Personnel, Remunerations and Social Issues held 11 in-person meetings in 2017, where 25 issues were considered and appropriate recommendations were given to the Board of Directors of the Company. In particular, the issues related to: election of employees to the Management Board of the Company, appointment of chief executive officers of subsidiaries, approval of executives' KPIs, salary payment, personnel management and other issues.

PARTICIPATION IN MEETINGS OF THE COMMITTEE FOR PERSONNEL, REMUNERATION AND SOCIAL ISSUES IN 2017

Members of the Board of Directors:	№1 26.01	№2 06.02	№3 09.03	№4 13.03	№5 29.03	№6 17.05	№7 29.05	№8 12.07	№ 9 28.08	№ 10 18.09	№ 11 25.09	Reason for absence	Participation percentage
Dmitry Zaika	+	+	+	+	+	+	+	+	+	+	-	business trip	90,91%
Dmitry Prikhozhan	was elected to the Committee on March 14, 2017				-	-	+	-	-	+	+	business trip	42,86%
Serik Saudabayev	was elected to the Committee on March 14, 2017				+	+	+	+	+	-	+	business trip	85,71%
Alexey Buyanov	+	+	+	+	+	+	+	+	-	+	+	business trip	90,91%
Garrett Martin Johnston	+	-	+	+	+	-	+	-	+	-	+	business trip	63,64%
Yermek Kudabayev	+	+	+	+	+	+	+	+	+	-	+	business trip	90,91%

In 2017, the Committee for Personnel, Remuneration and Social issues accomplished the objectives, tasks and functional responsibilities established for the Committee for Personnel, Remuneration and Social Issues by the Company's Corporate Governance Code, the Provision the Committee for Appointments and Remuneration, the decisions of the Board of Directors of the Company, instructions of the Board directors, as well as the operating plan of the Committee for 2017.

With a view to effective organization of the activity of the Board of Directors and interaction of the Board of Directors, the executive body, with the shareholders, the Board of Directors appoints a Corporate secretary.

The Corporate secretary is accountable to the Board of Directors and ensures effective interaction between the Company and the shareholders, along with effective interaction between the Company's bodies pursuant to the provisions of the Charter and other internal regulatory documents of the Company.

The Corporate Secretary also acts as the Ombudsman, who is responsible for clarification of the provisions of the Code of Business Conduct.

Mr B. K. Abdykalykov, the Corporate Secretary of Kazakhtelecom JSC, is a holder of state awards and the Uzdik bailanysshy honorary title. He is regarded as one of the best corporate secretary of past years, a permanent member of working groups on further improving of corporate governance and the Institute of Corporate Secretaries.

INFORMATION ON THE EVALUATION POLICY OF THE BOARD OF DIRECTORS OF KAZAKHTELECOM JSC

In 2017 the evaluation of the Board of Directors was regulated by the Rules of evaluation of the activities of the Board of Directors and members of the Board of Directors of Kazakhtelecom JSC approved in 2015. The evaluation allows to determine the contribution of the Board of Directors and each of its members to the growth of the long-term value and sustainable development of the Company and identify directions and recommend measures for improvement.

The Corporate Governance Code of Kazakhtelecom JSC stipulates an annual evaluation within the framework of the structured process approved by the Board of Directors of the Company. At least once every three years the evaluation is carried out with the involvement of an independent professional organization.

According to the results of its activity in 2017 the committees of the Board of Directors of the Company received a positive rating from the Board of Directors.

INTERNAL AUDIT OF THE COMPANY

The Company has the Internal Audit Service (IAS), which assesses the effectiveness of the system of risk management and internal control.

The activity of IAS is based on the Regulations on the Internal Audit Service of Kazakhtelecom JSC, the Internal Audit Policy in Kazakhtelecom JSC, approved by the Board of Directors of the Company.

IAS in its activity reports to the Board of Directors of Kazakhtelecom JSC. IAS provides the Board of Directors with reports on its activity (quarterly, annual), previously considered by the audit Committee on a regular basis.

Audits are performed according to the Annual audit plan approved by the Audit Committee and approved by the Board of Directors.

19 scheduled audits according to the approved annual audit plan were carried out by IAS in 2017. The main directions of audits concerned areas evaluation of efficiency of risk management processes, internal controls and corporate governance. The work was performed by 8 employees of IAS.

Recommendations were made and approved by the Decision of the Board of Directors of the Company according to the results of audits of IAS.

The budget for 2017 was utilized in the amount of KZT 4.1 million what stated at 105% of the planned amount.

THE MAIN ISSUES CONSIDERED BY THE BOARD OF DIRECTORS IN 2017

The Board of Directors of Kazakhtelecom JSC holds meetings in accordance with the annual work plan, and as necessary. During 2017, the Board of Directors of Kazakhtelecom JSC held 11 meetings, 8 of them in-person and 3 in the form of absentee voting.

103 issues were submitted for consideration of the Board of Directors of the Company in 2017, including: additions to the Shareholder Value Improvement Strategy of Kazakhtelecom JSC, the Road map of Privatization of Kazakhtelecom JSC, various material contracts, the election of members of the Management Board and chief executive officers of subsidiaries, and others.

On a regular basis (quarterly), considers reports of the Management Board of Kazakhtelecom JSC on the implementation of large investment projects of Kazakhtelecom JSC, on the implementation of the Development Plan, on risks, on the implementation of the Corporate Governance Code of Kazakhtelecom JSC, on concluded related-party transactions, decisions on which were made by the Management Board of Kazakhtelecom JSC, the Internal Audit Service. As part of the ongoing work to optimize the structure of assets of Kazakhtelecom JSC, the decisions were made on the liquidation of NURSAT JSC, as well as on approval of the liquidating balance of Online.kg LLC.

PARTICIPATION OF MEMBERS OF THE BOARD OF DIRECTORS IN IN-PERSON MEETINGS OF THE BOARD OF DIRECTORS IN 2017

Members of the Board of Directors:	№1 08.02	No.2 24.02 in absentia	№3 14.03	No.4 31.03 in absentia	№5 31.05	№6 25.07	No.7 04.09 in absentia	№8 26.09	№9 05.10	№10 03.11	№11 13.12
N. Baidauletov	+	+	+	+	+	+	+	+	+	+	+
D. Prikhozhan	+	+	+	+	+	+	+	+	+	+	+
K. Yessekeyev	+	+	+	+	+	+	+	+	+	+	+
A. Sarsenov	+	+	+	+	+	+	+	+	+	+	+
S. Saudabayev	+	+	+	+	+	+	+	+	+	+	+
A. Buyanov	+	+	+	+	+	+	+	+	+	+	+
Garrett Martin Johnston	+	+	+	+	+	+	+	+	+	+	+
D. Zaika	+	+	+	+	+	+	+	-	- (did not participate because of a conflict of interest)	+	+
Ye. Kudabayev	-	+	+	+	+	+	+	+	+	On 27.11.2017 terminated his powers by his own volition	

REPORT ON REMUNERATION OF THE BOARD OF DIRECTORS' MEMBERS

The terms of remuneration of independent directors are reflected in contracts concluded with them. Members of the Board of Directors of Kazakhtelecom JSC, with the exception of independent directors, carry out their work on a non-reimbursable basis.

Members of the Board of Directors who are independent directors receive an annual fixed remuneration and extra remuneration for participation in meeting of the Committee under the Board of Directors of Kazakhtelecom JSC. An independent director is compensated for costs (travel, accommodation, daily subsistence allowance, telephone communication in the Republic of Kazakhstan, scanning, photocopying, faxing, printing, typing of documents, access to the Internet in the Republic of Kazakhstan, courier and postal services) associated with participation in in-person meetings of the Board of Directors and its Committees, to attend the annual General Shareholders' Meeting, as well as meetings convened at the initiative of shareholders or the Company, held outside the place of permanent residence of an independent director.

Payment of remuneration for the performance of the functions of a member of the Board of Directors of Kazakhtelecom JSC is performed only to independent directors elected to the Board of Directors of the Company.

The amount of annual fixed and extra remuneration for participation in each in-person meeting of the Committee under the Board of Directors is determined in accordance with the decisions of the General Shareholders' Meeting of Kazakhtelecom JSC, Minutes No. 39 of September 4, 2009 and No. 46 of December 29, 2011.

PAYMENTS TO INDEPENDENT DIRECTORS FOR 2017

№	BD members	Currency	Amount of fixed annual remuneration	Amount of extra remuneration for participation in Committees' meetings	Total for 2017
1	A.	Buyanov	45 000	12 000	57 000
2	Garrett Martin Johnston	USD	45 000	7 000	52 000
3	D. Zaika	KZT	6 660 000	1 800 000	8 460 000
4	Ye. Kudabayev	KZT	6 042 338,71	1 425 000	7 467 338,71

Kazakhtelecom JSC discloses information on the amount of remuneration of members of the Board of Directors to all interested parties in accordance with the legislation of the Republic of Kazakhstan, the Charter of Kazakhtelecom JSC.

MANAGEMENT BOARD OF KAZAKHTELECOM JSC

The Management Board is a collegial executive body that manages the day-to-day operations in order to fulfill the tasks and implement the Company's strategy.

The activities of the Management Board are based on the principle of maximum compliance with the interests of Shareholders and fully accountable to the decisions of the General Shareholders' Meeting and the Board of Directors.

The Management Board consists of 8 members - the Chairman of the Management Board and other persons elected by the Board of Directors of the Company.

Composition of the Management Board (as of 31.12.2017)

MR. KUANYSHBEK YESSEKEYEV

Date of birth: June 10, 1975
Citizenship: Republic of Kazakhstan
Date of the first election to the Management Board of Kazakhtelecom JSC: 15.03.2010
Date of the current election to the Management Board of Kazakhtelecom JSC: 05.02.2016
Status: Member of the Board of Directors, Chairman of the Management Board of Kazakhtelecom JSC
Education: higher, Candidate of Mathematical Sciences

1991 – 1995 Kazakh State University named after Al-Farabi
Specialty: Applied Mathematics, Candidate of Mathematical Sciences
2001 – 2002 Kazakh State Academy of Management
Specialty: Management
2015 – 2017 Hult Business School, London, GB
Specialty: Finance
Degree: Executive MBA

Places of employment and positions occupied over the last five years:
15.03.2010 – till present Kazakhtelecom JSC
Chairman of the Management Board, Member of the Board of Directors.

Outside employment and membership in the Boards of Directors of other companies:
Member of the Board of Directors Khan Tengri Holding B.V., Member of the Supervisory Council of Mobile Telecom-Service LLP

Ownership of the Company's shares, shares of the Company's suppliers and competitors: none.

MR. MARAT ABDILDABEKOV

Date of birth: October 13, 1967
Citizenship: Republic of Kazakhstan
Date of the first election to the Management Board of Kazakhtelecom JSC: 08.06.2007
Date of the current election to the Management Board of Kazakhtelecom JSC: 14.03.2017
Status: Member of the Management Board of Kazakhtelecom JSC, Chief Information Officer of Kazakhtelecom JSC
Education: higher

1984 – 1991 Kazakh State University named after S. Kirov
Specialty: Mechanics and Applied Mathematics

Places of employment and positions occupied over the last five years:
05.2007 – till present Kazakhtelecom JSC Vice-President – Chief Information Officer,
Chief Information Officer of Kazakhtelecom JSC.

Outside employment and membership in the Boards of Directors of other companies: Chairman of the Supervisory Council of KT Cloud Lab LLP, Member of the Supervisory Council of Qazcloud LLP

Ownership of the Company's shares, shares of the Company's suppliers and competitors: none.

MR. ALEXANDER LEZGOVKO

Date of birth: September 15, 1961
Citizenship: Republic of Kazakhstan
Date of the first election to the Management Board of Kazakhtelecom JSC: 26.03.2007
Date of the current election to the Management Board of Kazakhtelecom JSC: 14.03.2017
Status: Member of the Management Board of Kazakhtelecom JSC, Chief Technical Officer of Kazakhtelecom JSC
Education: higher

1978 – 1983 Almaty Institute of Power Engineering
Specialty: Automated Telecommunications
Places of employment and positions occupied over the last five years:
03.2007 – till present Kazakhtelecom JSC
Vice-President – Chief Technical Officer,
Chief Technical Officer of Kazakhtelecom JSC.

Outside employment and membership in the Boards of Directors of other companies: none

Ownership of the Company's shares, shares of the Company's suppliers and competitors: holds shares of Kazakhtelecom JSC.

MR. BATYR MAKHANBETAZHIYEV

Date of birth: March 12, 1972
Citizenship: Republic of Kazakhstan
Date of the first election to the Management Board of Kazakhtelecom JSC: 07.06.2010
Date of the current election to the Management Board of Kazakhtelecom JSC: 17.03.2017
Status: Member of the Management Board of Kazakhtelecom JSC, Chief Strategy Officer of Kazakhtelecom JSC
Education: higher

1989 – 1994 Moscow State University named after M. Lomonosov
Specialty: Economic Cybernetics, Mathematical Economist
2015 – 2017 Hult Business School, London, GB
Specialty: Finance
Degree: Executive MBA

Places of employment and positions occupied over the last five years:
04.2010 – till present Kazakhtelecom JSC Chief Administrative Officer,
Chief Strategy Officer of Kazakhtelecom JSC.

Outside employment and membership in the Boards of Directors of other companies: none

Ownership of the Company's shares, shares of the Company's suppliers and competitors: none.

MR. DARYN TUYAKOV

Date of birth: May 25, 1969
Citizenship: Republic of Kazakhstan
Date of the first election to the Management Board of Kazakhtelecom JSC: 24.07.2009
Date of the current election to the Management Board of Kazakhtelecom JSC: 14.03.2017
Status: Member of the Management Board of Kazakhtelecom JSC, Chief Officer – Head of Administration of Kazakhtelecom JSC
Education: higher

1986 – 1990	Leningrad High Military and Political School of Air Defense named after Y. Andropov Specialty: Military and Political Air Defense (teacher of history and philosophy)
1991 – 1997	Kazakh State University named after Al-Farabi Specialty: Jurisprudence (Lawyer)
2005 – 2007	International Academy of Business Degree: Master of Business Administration (MBA)
2011 – 2014	Russian Academy of the National Economy and State Service of the President of RF (doctorate) FSBEI HPE Degree: Ph.D of Business Administration

Places of employment and positions occupied over the last five years:

01.2012 – till present	Kazakhtelecom JSC Chief Officer – Head of Administration.

Outside employment and membership in the Boards of Directors of other companies: none
Ownership of the Company's shares, shares of the Company's suppliers and competitors: none.

MR. ASKHAT UZBEKOV

Date of birth: June 18, 1980
Citizenship: Republic of Kazakhstan
Date of the first election to the Management Board of Kazakhtelecom JSC: 27.09.2016
Date of the current election to the Management Board of Kazakhtelecom JSC: 14.03.2017
Status: Member of Kazakhtelecom JSC's Management Board, Chief Financial Officer of Kazakhtelecom JSC
Education: higher

2002 – 2006	Turan University Specialty: International Economy (Economist)

Places of employment and positions occupied over the last five years:

02.2012 – 12.2014	KazMunayGas Exploration Production JSC, Financial Director of KMG EP International;
01.2015 – till present	Kazakhtelecom JSC, Managing Director – Head of Treasury, Managing Director – Financial Controller, Chief Financial Officer of Kazakhtelecom JSC.

Outside employment and membership in the Boards of Directors of other companies: none
Ownership of the Company's shares, shares of the Company's suppliers and competitors: none.

MR. RAFAEL ABYKHANOV

Date of birth: June 7, 1971
Citizenship: Republic of Kazakhstan
Date of the first election to the Management Board of Kazakhtelecom JSC: 09.09.2013
Date of the current election to the Management Board of Kazakhtelecom JSC: 14.03.2017
Status: Member of the Management Board of Kazakhtelecom JSC, Chief Director of Corporate Segment – General Director of the Corporate Business Division – Kazakhtelecom JSC Branch
Education: higher

1990 – 1996	The Kazakh National Technical University Specialty: Radio Engineering

Places of employment and positions occupied over the last five years:

07.05.2009 – 08.09.2013	Kazakhtelecom JSC Operator Relations Managing Director;
09.09.2013 – till present	Kazakhtelecom JSC Chief Commercial Officer, Chief Director of Corporate Segment – General Director of the Corporate Business Division – Kazakhtelecom JSC Branch.

Outside employment and membership in the Boards of Directors of other companies: Chairman of the Supervisory Board of KT-IX LLC
Ownership of the Company's shares, shares of the Company's suppliers and competitors: none.

MR. KASPARS KUKELIS

Date of birth: November 03, 1971
Citizenship: Republic of Latvia
Date of first election to the Management Board of Kazakhtelecom JSC: 01.06.2017
Date of current election to the Management Board of Kazakhtelecom JSC: 01.06.2017
Status: Member of the Management Board of Kazakhtelecom JSC, Chief Director of Retail Segment – General Director of the Retail Business Division – Kazakhtelecom JSC Branch
Education: Higher

1989 – 1994	Almaty Technological University Specialty: Economist
2001 – 2004	Harvard Business School, Boston, USA EMBA (Marketing strategy, General management, Accounting and control, Leadership and organizational efficiency, Information Technology)

Place of work and positions in the organizations for the last five years:

01.09.2013 – 01.02.2014	Kcell JSC, Almaty, Commercial director;
01.09.2015 – 20.03.2016	ALTEL JSC, Almaty, Independent director, Member of the Board of Directors;
01.02.2017 – 01.06.2017	Kazakhtelecom JSC, Chief Director of Retail Segment;
01.06.2017 – till present	Chief Director of Retail Segment – General Director of the Retail Business Division – Kazakhtelecom JSC Branch.

Outside employment and membership in the Boards of Directors of other companies: none
Ownership of the Company's shares, shares of the Company's suppliers and competitors: none.

REPORT ON THE MANAGEMENT BOARD'S ACTIVITY IN 2017

The Management Board of Kazakhtelecom JSC holds face-to-face meetings once a week, if necessary, and schedules additional meetings.

In 2017 the Management Board of Kazakhtelecom JSC held 51 face-to-face meetings, 222 decisions of the Board were adopted at. There were no decisions taken by way of absentee voting.

During the reporting period, the Management Board reviewed and adopted decisions on the following main issues:

The preliminary annual financial statements of Kazakhtelecom JSC and subsidiaries, the report of Kazakhtelecom JSC in the field of the corporate social responsibility for 2016, there were considered quarterly reports on the risk management, introduction of additions to the Strategy of shareholder value increase etc.

A number of documents were approved: Operating budget, draft of the Capital investment budget and draft of the Development plan for 2018–2022, Plan of measures for improvement of the corporate governance system and implementation of the Corporate governance code for 2016–2020, Sustainable development policy, etc.

The decisions on centralization of the administrative and supporting functions, optimization of the management levels, procurement process, management reporting, redistribution of sales channels and service in favor of digital services, optimization of interaction with clients, management of networks, approval of the new organizational structure of the branches and their consolidation were approved under the Orleu modernization program: Six regional directorates of telecommunications were established on the basis of the existing 14 regional directorates.

REPORT ON REMUNERATION OF THE MANAGEMENT BOARD'S MEMBERS

The conditions and procedure of remuneration of members of Kazakhtelecom JSC's Management Board are determined in the Provision on Kazakhtelecom JSC's Management Board, Provision on Kazakhtelecom JSC's Central Administration Office Employee Salary, and Rules for Remuneration of Executives and Head of the Internal Audit Service of Kazakhtelecom JSC at the end of a year, which are developed in accordance with Samruk-Kazyna JSC's Policy for Assessment and Remuneration of Executives.

In accordance with the aforementioned documents the Board of Directors, following recommendations of the appropriate Committee of the Board of Directors determines the amount of official salaries and terms of remuneration and bonuses of the Chairman and members of the Management Board.

The major condition for paying remuneration is the availability of the consolidated cumulative profit for the reporting period. On the results of 2016, the consolidated cumulative profit amounted to KZT 24,717.8 million.

The executives, Corporate secretary and head of the Internal Audit Service are remunerated at the end of a year subject to motivating key performance indicators (hereinafter KPI) approved by the Company's Board of Directors. Personal contribution of each member of the Management Board resulted in over-fulfillment of target values of corporate KPIs. The effectiveness of motivating KPIs on the results of 2017 made up 125%.

The remuneration payable to the members of the Management Board must be limited to a triple annual salary of this employee. The amount of remuneration payable to the members of Kazakhtelecom JSC's Management Board for 2017 results totaled to KZT 231,943 thousand.

MATERIAL TRANSACTIONS OF THE COMPANY

According to subparagraph 33) paragraph 1 Article 33 of Kazakhtelecom JSC's Charter, decisions on entering into interested party transactions are referred to the exclusive competence of the Company's Board of Directors, except for the cases stipulated by the Company's Charter.

According to paragraph 1 article 73 of the Law of the Republic of Kazakhstan On Joint Stock Companies and paragraph 5 article 42 of Kazakhtelecom JSC's Charter, decision on entering into interested party transactions shall be taken by the simple majority of votes of those members of the Board of Directors who are not interested in the transaction.

In 2017 the Board of Directors of Kazakhtelekom JSC adopted the pre-approved by the management of the Board of Kazakhtelecom JSC decision on conclusion of transactions in which the company is interested, including:

1. On concluding of the transaction in the commission of which Kazakhtelecom JSC has interest – Contract of the joint activity with NURSAT+ LLP.

Kazakhtelecom JSC and Nursat+ LLP concluded a contract No. 104-27-JSJ as of 28.03.2017 On the joint rendering and promotion of e-commerce and payment services in accordance with the decision of the Board of Directors.

2. On conclusion of the transaction, in the commission of which Kazakhtelecom JSC has an interest, with Samruk-Kazyna Business Service LLP.

According to the decision of the Management Board Kazakhtelecom JSC and «Samruk-Kazyna Business Service» LLP concluded a contract No.87-11 KB as of 15.02.2017 On procurement of the services for the provision of infrastructure.

3. On conclusion of separate deals.

<u>In accordance with the decision of the Board of Directors:</u>

- Kazakhtelecom JSC, Halyk Bank of Kazakhstan JSC and Mobile Telecom-Service LLP have concluded an additional agreement to the Agreement on the provision of a credit line, On reduction of the remuneration rate to 13% per annum;
- Kazakhtelecom JSC and Kazkommertsbank JSC concluded the Agreement on termination of the indemnity contract in connection with the expiration of the period of availability by credit line.

4. On approval of the conclusion of transactions in which Kazakhtelecom JSC has an interest.

In accordance with the decision of the Board of Directors the following agreements have been concluded:

- Additional Agreement No.1 to the Contract for maintenance of the communication facilities between ALTEL LLP, Mobile Telecom-Service LLP and Kazakhtelecom JSC;
- Additional Agreement No.1 to the Contract for maintenance of the communication facilities between VOSTOKTELECOM LLP and Kazakhtelecom JSC;
- Contract for maintenance of the communication facilities of Mobile Telecom-Service between Kazakhtelecom JSC and VOSTOKTELECOM LLP.

5. On approval of the conclusion of the transaction in the commission of which Kazakhtelecom JSC has an interest – Contracts with Nursat JSC.

In accordance with the decision of the Board of Directors Kazakhtelecom JSC and NURSAT LLP signed a contract and carried out measures to transfer the assets of Nursat JSC to the balance sheet of the branches of Kazakhtelecom JSC.

6. On approval of the conclusion of the transaction in the commission of which Kazakhtelecom JSC has an interest – Contracts of the gratuitous transfer of the assets of NURSAT+ LLP.

In accordance with the decision of the Board of Directors Kazakhtelecom JSC and NURSAT+ LLP signed a contract and carried out measures to transfer the assets of Nursat JSC to the branches of Kazakhtelecom JSC.

7. On approval of the conclusion of transactions in which Kazakhtelecom JSC has an interest.

In accordance with the decision of the Board of Directors Mobile Telecom-Service LLP, Kazakhtelecom JSC and Halyk Savings Bank of Kazakhstan JSC have concluded Agreement On termination of the agreement on granting the credit line as of December 20, 2016.

8. On approval of the conclusion of transactions in the commission of which Kazakhtelecom JSC has an interest – Additional agreement to the shareholder agreement in relation to Khan Tengri Holding B.V. (Khan Tengri Holding B.V.) as of February 29, 2016.

In accordance with the decision of the Management Board On conclusion of transactions in the commission of which Kazakhtelecom JSC has an interest – Additional agreement to the shareholder agreement in relation to Khan Tengri Holding B.V. (Khan Tengri Holding B.V.) issue as of February 29, 2016 was submitted and considered at full-time meeting of the Board of Directors of Kazakhtelecom JSC.

DIVIDEND POLICY

The purpose of the Dividend Policy of Kazakhtelecom JSC is to ensure the balance of interests of the Company and shareholders, predictability and transparency of the approach in determining the size of the dividends, conditions and order of their payment.

The regulation On the Dividend Policy of Kazakhtelecom JSC was approved by the extraordinary General Shareholder Meeting as of 18.01.2013, Minutes No.49. In accordance with the approved Regulation the following approach to the determination of the amount of dividends as the maximum value is stipulated: (i) 15% of the net profit and (ii) calculation by formula taking into account the financial and economic state of the Company (indicators of sustainability and liquidity). The procedure of payment of the dividends and settlements with shareholders on unpaid dividends are regulated by the Regulation On the Dividend Policy of Kazakhtelecom JSC.

The dividends in the amount of KZT 404.57 per one ordinary share of the Company was paid in May 2017 following the results of 2016 according to the decision of the annual General Shareholder Meeting (Minutes No.59 as of 21.04.2017). The guaranteed amount of the dividends on the preferred stocks is KZT 300 per one preferred stock. The payment of the guaranteed dividends for 2017 was carried out in December 2017 according to the Decision of the Management Board No.46/195 as of 27.11.2017.

Kazakhtelecom JSC complies with the decisions of the General Shareholder Meeting of the Company and fully fulfills its obligations to transfer dividends to the persons entitled to receive them.

INFORMATION POLICY

The informational policy of JSC Kazakhtelecom is directed at raising the level of awareness of the public, both within and outside Kazakhstan, of the Company's activity which tends to contribute to formation of a favorable image of the Company and strengthen investors' and public's confidence in the Company.

Kazakhtelecom JSC provides, on a timely basis, disclosure of reliable information about the Company, including its financial position, economic indicators, performance results, ownership structure and management. When disclosing and publishing any information, provisions of the legislation of the Republic of Kazakhstan on commercial and other secret-protected secrets, as well as internal documents' provisions are taken into account.

The information is posted on the official portal of Kazakhtelecom JSC www.telecom.kz in Kazakh, Russian, English languages at the same time in republican periodical, electronic and Internet media by observing the list of information constituting the official, commercial secret of the Company. The Company's web-site is well structured, convenient for navigation and contains information for stakeholders to understand the Company's activity. This resource is a key instrument in promoting the services and self-presentation of the Company in the market and provides transparency and information accessibility.

The policy of promotion of Kazakhtelecom JSC in social media is based upon the transparency and credibility principles of information disclosure provided in the corporate governance code. Presence on social media is focused on creating an image of a client-oriented company and an advanced infocommunication operator, and increasing the demand for services due to the increase in awareness.

The underlying principles of the promotion in social media are the creation of a unique content and feedback. The effectiveness of the promotion of Kazakhtelecom JSC in social media is analyzed through the Internet space monitoring.

The presence in popular social networks, forums, and blogs (vkontakte, Facebook, My World, Twitter, Instagram) enables to solve the following tasks:

- to form a positive information field;
- to communicate with subscribers, raising awareness about the Company's services;
- to inform about the Company's news;
- to create useful content for the audience and educational content (destruction of myths, overcoming of barriers, market reviews, clarification of market nuances and nuances of services);
- to create unique entertainment content;
- to generate feedback.

In 2017 a methodical work on public opinion, information analysis, awareness raising of a target audience on the Company's activity and obtaining of a feedback through all accessible communication channels was conducted.

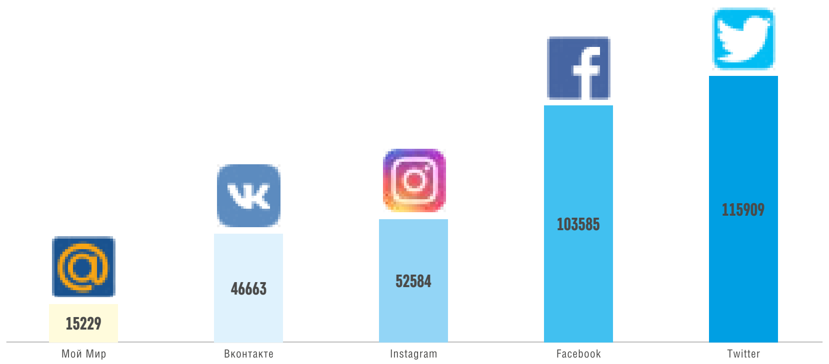
For the accounting year 123 PR-events were conducted, 4,556 articles were covered through the mass media.

The priority topics covered in the mass media in 2017:

- Fintech
- E-commerce
- M2M (cloud video surveillance, Big Data, smart city, smart home)
- International rating agencies survey results
- Transformation
- Organizational structure change
- Company participation in international events
- Current activity of subsidiaries

In 2017 the main attention was paid to SMM considering the modern tendencies - daily work with accounts (official pages) of the Company in social media, feedback with clients through *Мой мир, Facebook, Instagram, vk.com, Twitter.*

In 2017 the number of subscribers of Kazakhtelecom JSC in the social media stated at 333,970 which is 59% bigger than in 2017.



INFORMATION ON SETTLEMENT POLICY OF CONFLICT OF INTERESTS

The policy on settlement of the conflict of interests in Kazakhtelecom JSC (hereinafter – Policy) was approved by the decision of the Board of Directors of Kazakhtelecom JSC No.10 as of 24.10.2011.

The Policy was developed in accordance with the legislation of the Republic of Kazakhstan, the Charter of the Company, the Corporate Governance Code of the Company. The Conflict of interest management policy in Kazakhtelecom JSC determines the procedure for preventing, identifying and regulating conflicts of interest; procedures for interaction and coordination of the Company's bodies in the event of occurrence or likelihood of occurrence of a conflict of interest.

The purpose of this Policy is to achieve the appropriate degree of regulation of the conflict of interests in Kazakhtelecom JSC excluding the possibility of any negative consequences.

In accordance with the decision of the Board of Directors of Kazakhtelecom JSC (Minutes No. 13 of 26.11.2013), the Policy is supplemented with section 5-1 CONFLICT OF INTERESTS SITUATION, which lists the situations of conflict of interests or situations that may lead to a conflict of interest.

When hiring to the Company each new employee signs the List of the procedures on settling the conflict of interests in Kazakhtelecom JSC and obligation to comply with the requirements of the Policy and apply them in their professional activities.

QUALITY MANAGEMENT SYSTEM

The Company has successfully implemented and now operates the Quality management system (hereinafter – QMS), certified for compliance with the requirements of ISO 9001:2015 international standard and its national analogue of ST RoK ISO 9001-2016. The QMS stimulates continuous improvement of all business processes, reduction of production and other risks as well as effective interaction with stakeholders involved in the supply chain. The high quality of the management processes is a key factor in achieving and retaining high quality products and services.

In 2017 the full transition of the QMS to the new version of ISO 9001:2015 standard and its national analogue of ST RoK ISO 9001-2016 is carried out according to the approved Plan of measures on transition of the existing QMS to the new version of the standard implementation of which was started in 2016.

Kazakhtelecom JSC has the Quality policy establishing uniform requirements and principles for all structural subdepartments of the Company. Each year the objectives in the field of quality are set, the achievement of which is assessed through the KPI of the functional subdepartments. The management procedures within the QMS affect the following stages of the product life cycle:

- analysis of consumer requirements;
- development of new and improvement of existing production processes;
- purchase of raw materials;
- production.

The function of maintenance and improvement of the QMS in the branches of the Company is centralized and managed in the Central Office of the Company: 12 regional directorates of telecommunications and functional branches are certified under a single certificate ensuring unification of approaches to the quality assurance.

Learning of the international standards requirements and modern quality tools is conducted on a regular basis.

All subdepartments of the Company including the branches regularly pass both the internal audits and independent external audits during which the evaluation of the QMS status is carried out and areas for improvement are identified.

ASMK automated system is introduced and maintained in the Company with the help of which planning, documenting and control during audits are carried out.

Development of the QMS

As one of the largest players in the telecommunication industry Kazakhtelecom JSC interacts with a large number of suppliers, partners, contractors. Every year, consumers are increasingly demanding not only on the quality of the services rendered but also on the Company's compliance with the obligations, norms, legislative and other requirements.

The management of the Company decided to implement the health protection management system, work safety and environmental management system in accordance with the requirements of OHSAS 18001:2007 and ISO 14001:2015 in order to build a long-term mutually beneficial relationship, in which both the Company and suppliers strive to meet the requirements and expectations of each other.

In 2017 the Plan of Measures on implementation of the Integrated Management System (hereinafter – IMS) in accordance with the requirements of ISO 9001:2015, ISO 14001:2015, OHSAS 18001:2007 was developed and approved. According to the Plan the policy of Kazakhtelecom JSC in the field of the IMS was developed and approved, all documented procedures for compliance with the IMS requirements were revised and IMS regulation was developed.

Certification of the Company for compliance with the requirements of OHSAS 18001:2007 and ISO 14001:2015 is planned in 2018.

SUSTAINABLE DEVELOPMENT

Kazakhtelecom JSC consistently integrates the principles of sustainable development and social responsibility into management systems, development strategy and key business processes. The Company's achievement of the set objectives, its steady growth are based on systematic, balanced management of economic, social and environmental activities. Unconditional priorities of the Company in the field of sustainable development and social responsibility are the increase of business transparency, environmental protection, industrial safety, labor protection, energy saving and energy efficiency, development of human resources and social support of employees, contribution to the development of regions of presence.

Creating the basis for the future growth of Kazakhtelecom JSC: constantly increases the amount of investments in personnel development, provides employees with competitive remuneration, and develops social support programs. The Company makes a significant contribution to social and economic development of territories of presence.

The Policy in the field of sustainable development is developed and implemented by Kazakhtelecom JSC. The document defines the objectives, tasks and principles of the Company's activity in the oblast of sustainable development, approaches to interaction with stakeholders, and the principles for preparing reports.

In accordance with the Policy, the activities of Kazakhtelecom JSC in the oblast of sustainable development are based on the following principles:

- openness;
- accountability;
- transparency;
- ethical behavior;
- respect the interests of stakeholders;
- legality;
- respect for human rights;
- intolerance to corruption;
- inadmissibility of conflict of interest;
- personal example.

INTERACTION WITH STAKEHOLDERS

Being guided by the principles of sustainable development, Kazakhtelecom JSC is aimed at maintaining a permanent dialogue with the stakeholders.

Interaction with stakeholders is an integral part of the Company's activities. In an effort to build constructive relationships with both external and internal stakeholders, and to decision-making in conditions of maximum awareness, Kazakhtelecom receives feedback from them.

Significant stakeholders of Kazakhtelecom JSC are employees of the Company, shareholders, investors, business partners, public authorities, financial institutions, clients.

The Company determines the range of stakeholders taking into account the degree of mutual influence and overlap. The principles and procedures of interaction with stakeholders, formulate a Code of ethics approved in 2009.

Coordination of interests of the Company and stakeholders is implemented in the framework of direct dialogue with representatives of the stakeholders through negotiation, participation in the activities of joint working groups, committees and standing commissions, organization and holding sectoral conferences and forums, various kinds of meetings, meetings and meetings, as well as in implementation of targeted projects.

Clients of Kazakhtelecom JSC are the largest group of stakeholders on which the Company's welfare and its long-term reputation depend. We are responsible not only for providing quality services, but also for the ethical conduct of business, compliance with the most stringent international principles in relations with consumers.

Special attention is paid to privacy, providing accurate information about products, services, and service security, promptly responding to queries and complaints and deal with them through peaceful settlement.

ORLEU MODERNIZATION PROGRAM

Through the Transformation to Sustainable Business Development

2017 was the fourth in the calendar of the Modernization Program and went largely under the banner of organizational and operational improvements – a number of functions was centralized, the structure of the commercial direction was changed, the regional branches were enlarged, the processes and resources of the Company were streamlined. These changes directly influenced the activities of the Company, increasing the efficiency of processes and labor productivity.

Previously initiated commercial projects continued to bear fruit, in addition to them, initiatives to develop new businesses were launched. These projects are just what will characterize Kazakhtelecom in the future as an advanced information and communications operator.

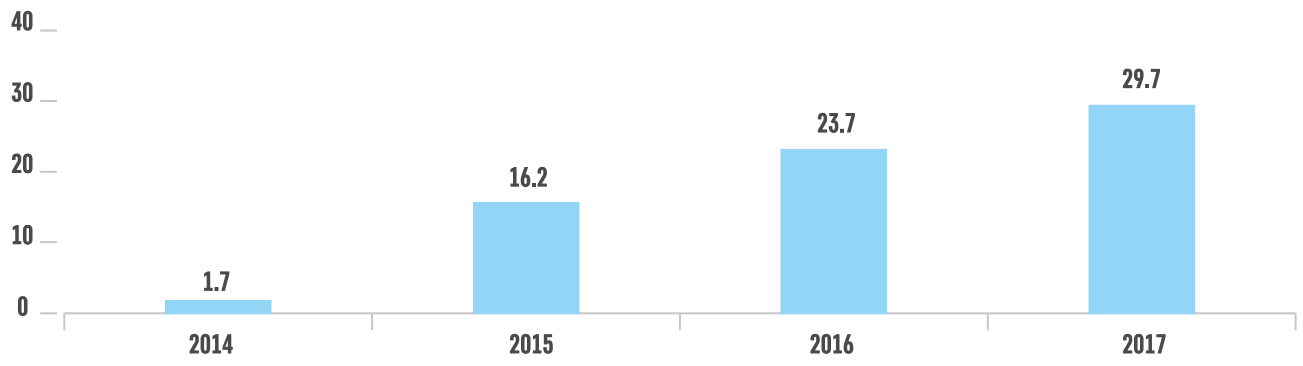
In the reporting year Kazakhtelecom JSC continued to implement Orleu Modernization Program started in 2014.

The Company's work on business modernization in 2017 brought significant financial results. This is evidenced by the most important financial indicator – the effect on free cash flow, i.e. the amount of money earned or saved thanks to Orleu Program.

EVERY YEAR THE EFFECT OF ORLEU PROGRAM SHOWS GROWTH

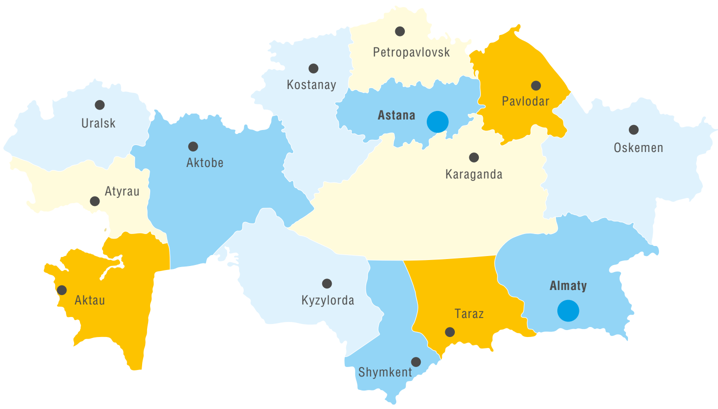
If in 2015 that amount was KZT 16.2 bln, in 2016 – KZT 23.7 bln, in 2017 the effect on free cash flow was KZT 29.7 bln which 139% to the plan.

EFFECT ON FREE CASH FLOW FOR 2014-2017

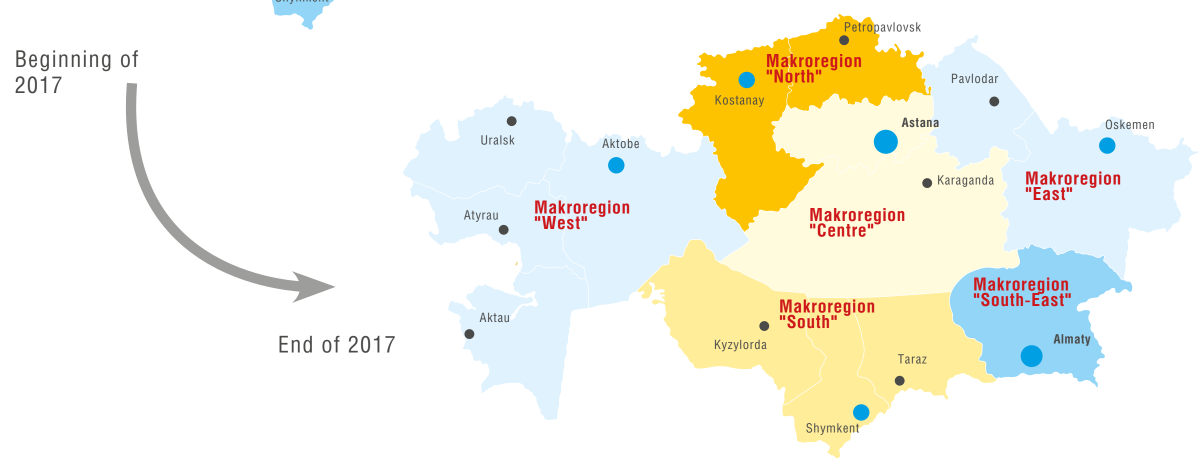


One of the key events of 2017 was the enlargement of the regional telecommunications network with the approval of the new organizational structure. The result of the association is to increase the efficiency of the Company by eliminating duplication of functions and unnecessary levels of management in the field. Thus, 6 regional directorates of the Company were established instead of 14 regional directorates of telecommunications according to the decision of the Management Board.

IN 2017 14 REGIONAL BRANCHES ARE ENLARGED INTO 6 MACROREGIONS



- The principles of the formation of RDT *and the RDT centers were definded
- Unified structures of RDT
- The commercial block is divided into 2 parts: B2C and B2B



*Regional directorates of telecommunication

The Shared Service Centre (SSC) for payroll functions was launched to improve performance. Efficiency and speed of processing of processes related to payroll, production of payments for employees of the branches increased as a result of establishment of the next service center. For efficient arrangement of the SSC work the system of electronic document circulation was developed, additional options of SAP system were applied, a number of processes and documentation requirements were standardized.

Also one of the key decisions of 2017 was the division of the Company's commercial segment into the retail and corporate segments.

In 2017 the greatest financial effect was brought by projects aimed at increasing income, as it was expected. Among them are projects on service bundling, implementation of new services and products, development of sales and service channels, control of outflow.

All over the world there is a growth of package proposals in the telecommunication services market. The service bundling projects are the best projects of the Modernisation Program for many years in Kazakhtelecom JSC. According to the results of 2017 the FMS subscriber base was 398 thousand. subscribers.

Considerable efforts were aimed at retaining subscribers. Within the framework of the massive subscribers loss control measures (measures on retaining of the subscribers applied for disconnection of services) a desirable level of clients transfer from inactive to the active base has been reached and grown from 5 to 45%.

It became possible to release part of production and working areas as a results of modernization of the equipment and optimization of use of the office premises. In 2017 the Company sold 20 thousand sq. m of premises.

No less important initiatives of 2017 are implemented on the technical part. Thus, in Almaty the Network management unified center of Kazakhtelecom JSC was launched on the basis of the Company's branch of the Network management main center. It allowed to centralize and optimize management processes, reduce operating costs, automate processes, quickly find faults in the network which ultimately affected on the increase in the reliability of services rendered.

The Company pays great attention to the implementation of the orders of the Head of State, N.A. Nazarbayev, and Digital Kazakhstan state program. The Company is actively implementing projects on digitalization of the economy. In particular, a project aimed at supporting all stages of the life cycle of the SMEs – an open digital platform was launched. At its core, the project represents an aggregator of the services necessary to ensure the functioning of the business throughout the life cycle, the platform is open and will be constantly replenished with new digital services.

HR MANAGEMENT

Effective human resources management is one of the key aspects of managing an organization. The stability and prosperity of any company depends on how successfully the employees of each division work

Employees are the main value of the Company and the key to successfully achieving its strategic objectives. Focusing on this approach, we develop and promote our employees, motivate talented youth and attract experienced professionals, improve the social package and support competitive wages.

In order to perform these tasks the Company has developed and adopted an HR strategy which includes three main components:

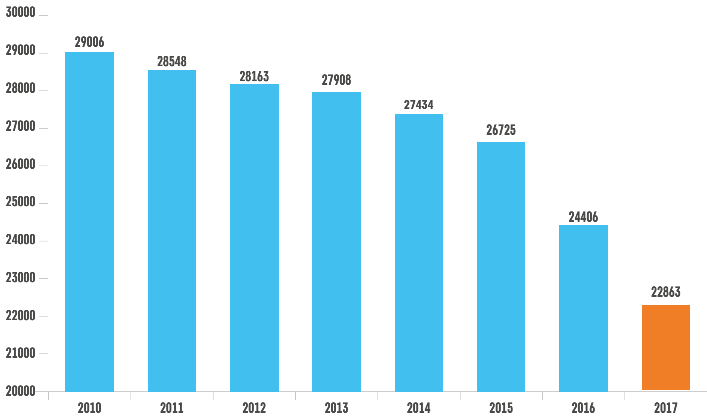
1. Organizational Development
2. Efficiency Improvement
3. Corporate Culture Change

HR INDICATORS

In 2017, within the framework of the road map of the Orleu Modernization Program, initiatives were taken to optimize the staff of the station staff, optimize management levels, centralize administrative and support functions. Based on the results of these measures, 1 523 staff positions were optimized.

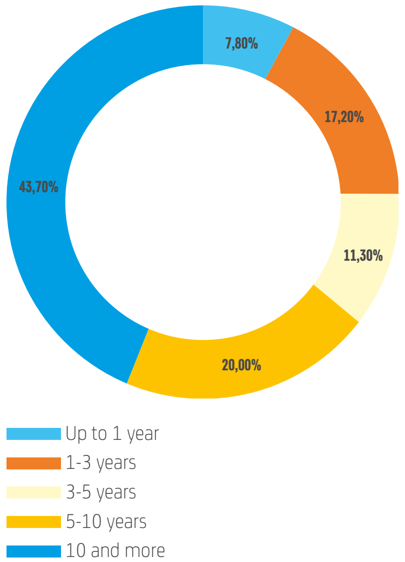
The actual number of employees of Kazakhtelecom JSC without subsidiaries for 2017 was 22 863 people (7.2% – administrative staff and 92.8% – production staff).

DYNAMICS OF CHANGES IN THE ACTUAL NUMBER OF EMPLOYEES OF KAZAKHTELECOM JSC (2010–2017)



The composition of the Company's employees is quite stable, 43.7% of employees have more than 10 years of work experience in Kazakhtelecom JSC, more than 30% have more than 5 years of work experience.

The composition of employees by work experience



The staff turnover rate in 2017 amounted to 7.8% (administrative staff – 0.5%, production staff – 7.3%).

In the reporting year, the Company carried out work on the Job evaluation according to the methodology of the Hay Group, the leading international consultant for human resources management. Job evaluation or «grading» is ranking of jobs by such criteria as the level of qualifications, the complexity of the work performed, the degree of responsibility for the job, independence in decision-making, impact on the Company's strategic objectives and business results, etc. In 2017, a grading system was introduced for the Central Office of Kazakhtelecom JSC.

We are constantly working to improve social welfare and the best example of the effective work is increasing of the Social Stability Rating. So, the research of the Social Stability Rating is being conducted in the Company for five years together with the Center of social interaction and communications of Samruk-Kazyna JSC .

The results of the 2017 rating show that the Company manages to maintain a significantly stable social situation. The level of social stability in 2017 in Kazakhtelecom JSC was 72%, which, according to the rating scale, classifies it as a sustainably developing company. This underlines the increased attention of the management to the issues of social stability in the Company and to the existing positive attitude of the employees.

HR PROJECTS OF THE COMPANY

ATTRACTION AND ADAPTATION OF PERSONNEL

Under the major structural changes implemented by the Company, an essential part of which is the creation of separate divisions for the work with corporate (B2B) and retail segments (B2C) on the basis of a commercial unit, competitive procedures were held for key positions, including functional directors, department directors, heads of division.

A great deal of work was done during the enlargement of the regional telecommunications directorates: there were held competitive procedures for all leading and key positions in macroregions. The staff was updated due to rotation from other structural divisions of the Company and acceptance of external candidates. It should be noted that the competitions were actively attended by employees who are part of the staff pool. They have successfully passed all the stages. 30% of the staff reservists were selected only for the key positions.

In 2017 there were changes in the direction of recruitment; the process became more automated and effective. For this purpose, we started using the IS BSC (http://bsc.telecom.kz). Now the entire work cycle with candidates (interviews, testing, hiring) can be observed through a special system. Also, accurate and timely monitoring of the work of HR-managers is carried out due to quick access to information on the availability of vacancies, as well as monitoring the performance of tasks using automated tools.

ORGANIZATIONAL DEVELOPMENT. CENTRALIZATION OF ADMINISTRATIVE AND SUPPORTING FUNCTIONS

The Company is actively implementing the following initiatives in organization development: centralization of administrative and support functions, optimization of management levels, change of regional management model, update of organizational structure.

2017 was devoted to the improvement and development of the Common Service Center for Human Resources Management (HR-CSS) through the expansion of its functions. For example, in the reporting year, a project was implemented in the pilot mode to create a Single Window for the CSS (front office), where work with documents on paper was transferred to the CSS, which allowed the employees of HR departments of Kazakhtelecom JSC branches to focus on the implementation of HR- processes, strategic tasks.

At the same time, continuing the implementation of the strategic initiative of the Orleu Program for the centralization of support functions, in 2017 a Common Service Center for the payroll function was introduced, as well as a CSS for legal support. A project is being implemented to create a Financial CSS in the pilot mode.

STAFF EFFICIENCY IMPROVEMENT

One of the main elements of the Staff Efficiency Improvement System is the so-called Performance Management System, which was launched in 2017 in all branches of the Company.

It is about setting clear, measurable objectives and tasks for the relevant period in the form of key performance indicators (KPI), on performance of which the remuneration depends.

The evaluation of employees' activities is carried out in two directions: evaluation of the employee's performance and evaluation of the level of competence development.

Also, an Individual Development Plan (IDP) System was introduced, which allows each employee to focus on developing their knowledge and skills, and to increase personal efficiency and effectiveness.

CORPORATE CULTURE TRANSFORMATION OF KAZAKHTELECOM JSC

Corporate culture is aimed at creating an efficient working environment conducive to the implementation of the Company's Long-Term Strategy.

Changes in staff behavior are the ultimate objective of the corporate culture transformation, the achievement of which is provided by changing its ideological component and business processes.

A large-scale work to diagnose the existing corporate culture of the company was completed in 2017. The study, which included conducting a survey, focus groups and interviews, was aimed at collecting primary data and clarifying the current state of the corporate culture in Kazakhtelecom JSC. In June 2017, a strategic session was held with the participation of top managers of Kazakhtelecom JSC, where detailed diagnostic results were presented. The Heads who took part in the event created an initial project of values. In the future, the project was adjusted and finalized to the final version of the model of corporate values. Work continues in parallel with this to create corporate competencies. It is important to note that the new model of corporate values was approved by the Management of Kazakhtelecom JSC. Important activities are planned to promote and introduce new values among the Company's personnel and change existing HR processes in 2018.

PERSONNEL TRAINING/KNOWLEDGE MANAGEMENT

Kazakhtelecom strives to continuously develop its personnel in accordance with the new tasks of business transformation. In 2017, under the Orleu program, a functional Sales Academy was launched, the purpose of which is a focused and targeted training of commercially oriented specialists. Profiles of various categories of positions were developed, the potential of managers and the commercially oriented employees of the Company's branches was diagnosed, the training was organized based on the results of the monitoring. The creation of the Technical and Financial Academies is under way.

The Company continues to operate a training system, the main components of which are internal corporate training on the basis of the Academy of Information and Communication Technologies Directorate and a corporate system of distance education. Distance education can be passed by any interested employee of the Company, using the courses presented in the electronic system, after which a Training Completed Certificate is issued.

The Company is continuing the implementation of the ***Talent Management*** project, the purpose of which is the formation and preparation the staff pool as the main internal source of replacement of key positions of Kazakhtelecom JSC. There is functioning a ***Leadership School***. It is a program in which reservists undergo a step-by-step training in developing managerial and leadership skills. So, reservists of 2016 passed the second stage of training, reservists of 2017 - the first stage under the modular program.

During the reporting period, out of 49 key vacant positions, 15 were replaced by reservists, which amounted to 30%.

CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility for business is an opportunity to observe the harmony of business interests of the Company and the interests of society, improve reputation and create a stable environment for development

Promotion of sustainable development of society is one of the strategic priorities of Kazakhtelecom. We strive not only to provide high-quality communication services for our customers but also to contribute to improving the quality of life in the country.

Kazakhtelecom JSC is guided in its activity by the Corporate Social Responsibility Strategy for 2012–2020 and is a participant in the global movement for socially responsible business, introduction of its principles into business practices and strengthening of competitiveness.

Annually the Company issues a separate report on sustainable development. In 2017, the sixth Corporate Social Responsibility Report of Kazakhtelecom JSC was prepared and published, detailing the information on social and environmental performance indices in accordance with the GRI Sustainability Reporting Guidelines.

SOCIAL PROJECTS OF THE COMPANY

The telecommunication business is a priori socially oriented, as it provides the population, state bodies and business structures with access to modern communication and information resources, infocommunication services enables people to communicate freely with each other, the whole world.

The Company takes an active part in the implementation of socially significant tasks of developing rural communications, the education system, eliminating the digital inequality and improving the quality of life of the population through increasing the availability of telecommunications services. We believe that our projects help to solve the actual problems of our society today and also create a solid basis for the future development of the country.

In order to ensure the access of educational institutions to the best educational resources and technologies, the Company is implementing measures for the implementation of the e-learning system e-learning project in the framework of the State Program for the Development of Education of the Republic of Kazakhstan for 2011–2020, providing for the connection of educational institutions to the Internet network using broadband access technology.

From 7 095 schools including 5 391 in RS, 7 091 are equipped with telephones, 5 387 of them in the countryside as of January 01, 2018. Total 6 462 schools including 4 872 rural schools without regard to other providers are connected to the Internet. Among them 6 043 schools including 4 462 rural schools are connected to broadband Internet access (with access speed from 256 Kbps).

In order to eliminate the digital gap, improve the quality of life of the population through the use of digital technologies, Kazakhtelecom is actively promoting the implementation of the project under the name Providing Broadband Access to Rural Communities of the Republic of Kazakhstan on the Technology of Fiber-Optic Communication Lines. The development of broadband access will make it possible to realize a number of social state tasks related to informatization: e-medicine, e-education, e-government. Access to e-government services from each citizen, from each household, is the next step in government informatization programs' implementation.

In the context of increasing the availability of services, the Company conducts a flexible tariff policy and develops products offerings by forming bundles of services at favorable tariffs for the subscriber, while ensuring maximum satisfaction of the needs of subscribers in telecommunications services.

When making rates (tariffs) for services, Kazakhtelecom JSC is guided by the current social and economic situation, competition in the market and demand for services. To date, the main criterion of the Company's competitiveness is the provision of a package offer of a wide range of services, improvement of their technical characteristics.

Since January 1st, 2017, the customers have been offered a new products offer line, which includes the entire range of services provided by the Company. Within the framework of the new products offer line, several concepts have been implemented. In particular, in 2017 broadband access is provided within the framework of the concept of Secure Internet - an entirely new format for unlimited Internet services with increased speed, which includes by default Kaspersky Anti-Virus from Kaspersky Lab and the service of Parental Control without increasing the price. Telephony services are provided by the concept of Super Telephone, which allows satisfying the needs of customers in the full range of quality voice telephony services. The subscriber can optionally choose such services as Unlimited Russia, Unlimited calls to ALTEL and Tele2 users. Improvements also touched on digital TV services, now TV services with original content on OTT technology (Over the Top) are now available, and packages of films from the Amedia and Megogo film distribution companies providing smash hits screening are included.

An important part of the corporate social program of the Kazakhtelecom JSC are issues of social protection of its employees, maintenance of the employee's confidence in the future. The Company interacts with representatives of employees on the principles of social responsibility to the stakeholder in the name of employees and the fulfillment of the obligations assumed under the Collective Agreement aimed at maintaining a decent standard of living.

At the moment the interests of more than 20 thousand employees of Kazakhtelecom are represented by Kazakhstan Industry Professional Union of Workers of Information, Communication and Telecommunications Public Association and Branch Trade Union of Workers of Informatization and Communication Public Association.

Social protection of employees and pensioners of Kazakhtelecom JSC according to the Collective Agreement is an indispensable component of social policy and a long tradition of our Company.

Particular attention is paid to raising the professional level, obtaining higher education by employees of technical specialties. This year, the list of universities and colleges in relevant disciplines of the Telecommunications industry is significantly expanded for training in which employees are provided with paid study leave.

The Company annually allocates funds for higher education (bachelor's) in specialized higher educational institutions of telecommunications and information technologies. Such an opportunity is given as a priority to the employees and children of the Company's employees who have successfully passed all the selection stages, including the results of the Unified National Testing. This is a social project, allowing to prepare competent young specialists committed to the Society.

From 1997 until now, 1,530 specialists with higher education were educated at the expense of the Company's funds on intramural and extramural form of study. In 2018, another 15 students will complete their education in 2 specialized universities of Kazakhstan.

During the training period, the Company pays a scholarship to students studying at its expense for excellent and good academic performance.

The Company also pays attention to the training of specialists with the secondary education. Contracts were concluded with 9 colleges in 8 oblasts/regions of the republic within the framework of dual training. Students of colleges studying on dual training are interned in the Company, and teachers and masters of industrial training are trained.

The Company pays special attention to the issues of strengthening the health of employees and their children, creating conditions for proper rest and treatment. The Company provides voluntary health insurance for employees and their families (the staff of the Central Office and a number of branch employees are fully covered with medical insurance). Implemented the Company's social policy allows employees, regardless of seniority, to purchase sanatorium vouchers, and vouchers to children's camps for their children.

The Company provides social support to more than 9 thousand pensioners. Targeted charitable help, holding meetings for the professional holiday of signalmen and for the Day of the Elderly are prescribed to them annually. In addition, funds are allocated to encourage veterans of the Great Patriotic War and the rear workers who are registered with the Company (more than 600 people) to the Victory Day every year. The Company congratulates veterans-pensioners in connection with anniversary dates.

ENVIRONMENTAL PROTECTION

Kazakhtelecom JSC seeks to rationally use natural resources and responsibly approach the impact of its activities on the environment. Among the main priorities of the Company's social responsibility is a careful attitude to the environment. The company's Environmental Policy has been implementing in Kazakhtelecom JSC since 2008, which defines the basic principles and approaches to managing all environmental aspects of the Company's activities, and is also the basis for planning and implementing environmental protection measures.

When building linear communication facilities, Kazakhtelecom JSC uses advanced solutions in the field of telecommunications construction and pays special attention to environmental protection, using technologies that do not violate the ecological balance. The impact on the environment during the construction period is minimized by ensuring that the construction works comply with the requirements of the environmental legislation of the Republic of Kazakhstan and other requirements in the field of environmental protection and environmental safety. The Company's projects include measures to eliminate the environmental damage caused, such as reclamation of land and environmental impact assessment (EIA).

Linear communication facilities do not pollute the environment during operation since they do not emit harmful substances and do not give industrial wastes.

The Company sent over KZT 68 million for the development of the EIA, environmental expertise for the local network facilities, for obtaining a sanitary and epidemiological report on radio electronic means and other measures for environmental protection in 2017.

The Company implements measures to improve energy efficiency, which include the renewal of energy-intensive equipment and the introduction of new advanced technologies in the field of energy conservation.

The Company implements energy-saving technologies in the framework of modernization of stand-by generators and boilers, automatic systems for the regulation of heat and energy consumption, energy-saving lamps and much more.

The Company continued the implementation of measures to improve energy efficiency of own production in 2017.

LABOR PROTECTION AND OCCUPATIONAL SAFETY

The Company has a system for managing safety and labor protection, providing continuous methodological guidance, analysis and monitoring of the state of safety and labor protection in the Company.

Unconditional priorities of the Company in the oblast of industrial safety and labor protection are a constant increase in the level of safety, reduction in accident rates, industrial injuries, occupational diseases. The Company conducts certification of workplaces with the frequency of 1 time in 5 years. So, 3 638 workplaces were certified for the period from 2013 to 2017.

The Company's activities in the oblast of labor protection are conducted according to the legislation of the Republic of Kazakhstan, as well as with internal corporate regulations and procedures which specify requirements for ensuring safe working conditions and reducing occupational diseases and injuries. In the reporting year, a number of corporate standards in this area were updated taking into account the changed requirements of the legislation and changes in the structure of the Company.

The Company has created and operates Industrial Councils, in which issues of safety and labor protection are considered.

Annually for workers of mass professions, training and periodic testing of knowledge on safety and labor protection are conducted. So, in 2017, training was organized for 16 518 employees of the Company.

With the frequency of once every three years, depending on the profession of the employee, the Company conducts training and testing of knowledge on industrial safety with the issuance of certificates for access to certain works.

In 2017, the Company began work on the preparation for the implementation of the standard OHSAS 18001 (Health and Safety Management System). For this purpose, a survey, analysis and evaluation of the existing safety and health system was conducted, a four-level industrial safety management system was organized, and a Program for comprehensive measures to implement the OHSAS 18001 standard was developed and approved.

YOUTH POLICY

A key element in the development of the Company's human resources is the systemic implementation of corporate youth policy, which covers issues of succession planning and timely training of personnel. Zhastelecom a youth organization has been operating in the Company for the sixth year. It is managed by the Youth Council which is elected among promising young workers. Most of the members of Zhastelecom are included in the program for the preparation of the personnel reserve for the replacement of key positions.

In December 2017 V Forum of young workers of Kazakhtelecom JSC was held where problematic issues were discussed and ways of further development of the organization were outlined.

GLOSSARY

- **ADSL** Asymmetric Digital Subscriber Line, modem technology that transforms standard telephone analogue lines into high speed lines. ADSL connection requires two ADSL modems- for provider and for end user. These two modems are connected by conventional telephone cable. Connection speed can vary depending on the distance to last mile: the farther from provider the less maximum data communications speed.

- **ARPU** (Average Revenue Per User) – average monthly revenue per one subscriber.

- **B2B** (Business to Business) – business for business. A term defining activities aimed at customers who are legal entities.

- **B2C** (Business-to-Consumer) – a term specifying a commercial relationship between an organization (Business) and a private end consumer (Consumer).

- **B2G** (Business-to-Government) – the relationship between business and the state.

- **Big data** – processing large amounts of data.

- **CDMA** (Code Division Multiple Access) – multiple access with the code division, digital cellular (wireless) communication network. CDMA wireless communication equipment is recommended by the international organization for standardization of communication as the most perspective equipment for building of the third generation networks.

- **DWDM** (Dense Wave Division Multiplexing) – the technology of dense wave multiplexing is the most reliable technology for the support infrastructure of multiservice and mobile networks, provides a sharp increase in the throughput ability of the network and implements a wide range of fundamentally new communication services.

- **EVDO** (Evolution data Optimized) – a technology of high-speed data transmission used in the cellular communication networks of the CDMA standard.

- **FTTH** (Fiber to the Home) – fiber optic cable in the house (means individual/private house).

- **GPON** (Gigabit passive optical network).

- **LoRa** (from engl. Long Range) is a technology and the modulation method. Wireless technology for the transmission of small amounts of data over long distances developed for distributed telemetry networks, inter-machine interaction and the Internet of things.

- **LTE** (Long Term Evolution) – a mobile data transfer protocol that enables the creation of high-speed cellular communication systems optimized for packet data transmission at speeds up to 300 Mbps in the downstream channel (from base station to up to 75 Mbps in the upstream channel.

- **M2M** (Machine-to-machine) – a common name of technologies that allow machines to exchange information with each other or to transmit it unilaterally. These can be wired and wireless sensor monitoring systems or any device settings.

- **NGN** (Next Generation Network) is a multiservice network built around the backbone IP network allowing complete or partial integration of voice, data and multimedia communication services.

- **OTT** (Over the Top). OTT technology has been widely distributed in the field of rendering of Internet-based services and is a part of IP TV technology. The term OTT means the delivery of the video signal to the console (computer, mobile phone) of the user over the Internet without direct contact with the communication operator in contrast to the IP TV services provided through the network operated by the operator with guaranteed quality.

- **SDP** (Service Delivery Platform) – a number of components providing a service delivery architecture, such as service creation, monitoring, and protocols.

- **SDN/NFV** – a software-configurable network (SDN) and network function virtualization (NFV).

- **TDM** (Time Division Multiplexing) – an analog or digital multiplexing technology in which two or more signals or bit streams are simultaneously transmitted as subchannels in a single communication channel.

- **VAS** (Value Added Services) – services that bring in additional revenue, a term popular in the telecommunications industry for designating services provided not by the core of the network, but by additional platforms.

- **VoIP** (Voice over Internet Protocol) or IP-telephony is a technology providing voice transmission in networks with packet switching via IP protocol, the private case of which is the Internet as well as other IP-networks (e.g. dedicated digital channels).

- **VPN** (Virtual Private Network) is a generalized name of technologies allowing to provide one or several network connections (logical network) on top of another network (e.g., Internet).

- **VPS** (Virtual Private Server) – a service in which the user is provided with a so-called virtual dedicated server.

- **WLL** (wireless Local Loop) – Wireless subscriber Line/loop/train, a term for the wireless communication which is a combination of a radio telephone line and a landline phone. WLL is used where the landline telephone connection to stationary landlines is not possible or too expensive as well as, for example, in sparsely populated rural areas.

REFERENCE INFORMATION FOR THE SHAREHOLDERS

FULL NAME:
Kazakhtelecom Joint-Stock Company

ABBREVIATED NAME:
Kazakhtelecom JSC

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Tel: +7 (727) 2587 264
Public Relations Service
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INFORMATION ABOUT THE COMPANY'S AUDITOR

Ernst & Young is an external auditor of Kazakhtelecom JSC since 2007. The agreement with Ernst & Young to provide audit services for the separate and consolidated financial statements of the Group of Kazakhtelecom JSC was concluded for 2016–2018 in accordance with the Procedure for the choice of audit organization for Sovereign Welfare Fund Samruk-Kazyna JSC and organizations more than fifty percent of which directly or indirectly belong to Samruk-Kazyna JSC on the right of ownership or trust management.

Ernst & Young has a good business reputation, has considerable experience in rendering services to the leading companies working in various spheres of economy. The Company is one of the international leaders in the field of audit, taxation and law, business consulting and consulting services on IPO transactions.

Full Name: Ernst & Young Limited Liability Partnership.

License Number: State license for audit activity within the territory of the RoK: МФЮ-2 series, No.0000003 issued by the Ministry of Finance of the RoK as of July 15, 2005.
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Ernst & Young was paid a remuneration for the services rendered (with VAT) in 2017:

- consulting services (diagnostics of accounting of the current state of the management accounting and reporting and development of recommendations on the concept of development of the management accounting and reporting) in the amount of KZT 50,520,332.8;
- audit of financial statements in the amount of KZT 92,870,400.

INFORMATION ABOUT THE REGISTRAR

Full Name: The Integrated Securities Registrar Joint-Stock Company
The Integrated Securities Registrar JSC (herienafter – integrated registrar) is established by the decision of the National Bank of the RoK No.1 as of December 1, 2011 and registered by the Department of Justice of Almaty as of January 11, 2012. The integrated registrar has started to render services on its activity since February 1, 2012. The main purpose of the integrated registrar is to carry out the activity on maintaining the system of registers of securities holders and other activities subject to implementation in accordance with the legislation of the RoK On securities.
The Integrated Securities Registrar JSC is a registrar of Kazakhtelecom JSC since December 20, 2012.

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E-mail: Info@tisr.kz

Information about The Integrated Securities Registrar JSC is presented on the corporate website of Kazakhtelecom JSC (section About the Company>> To investors and shareholders > > Securities >> Information about the Registrar) and on the website of the Registrar (http://tisr.kz)

Kazakhtelecom JSC

Consolidated financial statements

For the year ended 31 December 2017
together with independent auditor's report

EY
Building a better working world

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Building a better working world

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Independent auditor's report

To the Shareholders of
Kazakhtelecom JSC

Opinion

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

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

Basis for opinion

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

Key audit matters

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

Building a better
working world

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition – accuracy of revenue recorded given the complexity of the billing systems	
There is a significant risk around the accuracy of revenue recorded as the billing systems employed by the Group are complex, and effect of accounting treatment of changing tariff structures and multi-element arrangements could be significant. The Group's disclosure in respect of the accounting policies on revenue recognition is included in Note 3 to the consolidated financial statements, and detailed revenue disclosures are included in Note 29 to the consolidated financial statements.	We evaluated the relevant IT systems and the design of controls, and tested the operating effectiveness of controls over capture and recording of revenue transactions; authorisation of changes in rates (tariffs) input to the billing systems; and calculation of amounts billed to customers.
Valuation of non-current assets, including property and equipment, intangible assets and investment in an associate – risk of impairment	
There is a significant risk of impairment of the Group's non-current assets. Property and equipment and intangible assets, including goodwill, bear risk of impairment in light of fast technological changes in telecom industry. Investment in an associate Khan Tengri Holding B.V. bears the risk of impairment due to saturation of mobile telecommunications market in Kazakhstan. Other risk factors include changing competitive and regulatory landscapes due to introduction of mobile number portability in January 2016 and granting of 4G licenses to other mobile telecom operators.	Our audit procedures included, amongst others, evaluating and testing the assumptions used in the impairment model. We assessed methodology used by the Group, for compliance with IAS 36 requirements. We involved a valuation expert to assist us with our procedures. We compared assumptions and data used by the Group to the historical data and current industry data. We specifically focused on the sensitivity of the testing, evaluating whether a reasonably possible change in assumptions could cause the carrying amounts of the cash-generating units to exceed its recoverable amounts.

At the reporting date the Group identified impairment indicators on some of its cash-generating units (CGUs). In accordance with IAS 36, management is required to carry out an impairment testing of such CGUs.

Impairment reviews are complex, contain highly judgmental assumptions, such as customer base and average revenue per user (ARPU), CAPEX and EBITDA margin during the budgeted period, growth rate used to extrapolate cash flows beyond the forecast period, and discount rate.

Assumptions used in the impairment reviews might be inappropriate, and hence the wrong conclusion may be drawn in respect of whether an impairment is required.

The Group's disclosures about impairment testing of the non-current assets are included in Note 10 to the consolidated financial statements, which specifically explains that small changes in the key assumptions used could give rise to an impairment of the investment in an associate, property and equipment and intangible assets, including goodwill balances in the future.

Transactions with Mobile Telecom Services LLP

The Group has undertaken a number of transactions with Mobile Telecom Services LLP, a related party, mainly on data transmission, rent of lines, interconnect and other services provided by/to Mobile Telecom Service LLP.

The disclosure of the transactions with Mobile Telecom Service LLP was one of the matters of most significance in our audit due to the complexity, structure, volume and number of these transactions.

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

We assessed the process for identifying related party transactions. We read the agreements between the Group and Mobile Telecom Services LLP to understand the terms and conditions and the nature of the transactions and assessed the accounting treatment applied. We obtained confirmations from Mobile Telecom Services LLP on transactions and outstanding balances, compared disclosed significant terms of transactions to supporting documents and analyzed the disclosure of the transactions with Mobile Telecom Service LLP.

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Other information included in the Group's 2017 Annual report

Other information consists of the information included in the Group's 2017 Annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2017 Annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we 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 and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young LLP

Bakhtiyor Eshonkulov Auditor / audit partner	Gulmira Turmagambetova General director Ernst & Young LLP
Auditor qualification certificate No. МФ - 0000099 dated 27 August 2012	State audit license for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2, No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

050060, Republic of Kazakhstan, Almaty
Al-Farabi ave., 77/7, Esentai Tower

13 March 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

In thousands of tenge	Note	2017	2016*
Assets			
Non-current assets			
Property and equipment	7	**259,021,612**	272,175,873
Intangible assets	8	**15,592,544**	17,140,121
Advances paid for non-current assets		**39,678**	40,243
Investments in associates	9	**69,246,140**	67,160,792
Deferred tax assets	38	**104,614**	–
Other non-current financial assets	12	**9,457,306**	5,983,097
Other non-current assets	13	**2,453,521**	1,602,770
		355,915,415	364,102,896
Current assets			
Inventories	14	**3,014,872**	4,483,724
Trade receivables	15	**32,094,228**	24,992,206
Advances paid	16	**538,756**	297,280
Corporate income tax prepaid		**7,269**	3,548
Other current financial assets	17	**62,133,687**	49,166,028
Other current assets	18	**1,624,022**	1,595,488
Cash and cash equivalents	19	**15,985,943**	24,320,942
		115,398,777	104,859,216
Total assets		**471,314,192**	468,962,112
Equity			
Shares outstanding	20	**12,136,529**	12,136,529
Treasury shares	20	**(6,464,374)**	(6,464,374)
Foreign currency translation reserve	20	**(6,354)**	(1,957)
Other reserves	20	**1,820,479**	1,820,479
Retained earnings		**351,621,657**	336,306,933
Total equity		**359,107,937**	343,797,610

The accounting policies and notes on pages 8 to 69 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In thousands of tenge	Note	2017	2016*
Non-current liabilities			
Borrowings: non-current portion	21	**24,967,690**	53,794,669
Finance lease liabilities	22	**7,681,118**	1,273,015
Deferred tax liabilities	38	**19,040,850**	19,624,081
Employee benefit obligations	23	**11,940,014**	7,788,984
Debt component of preferred shares	20	**874,244**	874,244
Other non-current financial liabilities	24	**260,431**	728,982
Other non-current liabilities	25	**5,361,847**	3,480,157
		70,126,194	87,564,132
Current liabilities			
Borrowings: current portion	21	**2,357,864**	2,473,507
Financial lease liabilities: current portion	22	**3,920,719**	3,162,706
Employee benefit obligations: current portion	23	**992,170**	430,554
Trade payables	26	**13,506,545**	11,997,342
Advances received		**3,033,151**	2,835,106
Current corporate income tax payable		**91,891**	571,983
Other current financial liabilities	27	**13,356,061**	11,810,685
Other current liabilities	28	**4,821,660**	4,318,487
		42,080,061	37,600,370
Total liabilities		**112,206,255**	125,164,502
Total equity and liabilities		**471,314,192**	468,962,112

* *Certain amounts in this column do not agree to the consolidated financial statements for the year 2016, as they reflect the adjustments made, details of which are provided in Note 4.*

Chairman of the Management Board ____________________ *Yessekeyev K.B.*

Chief financial officier ____________________ *Uzbekov A.A.*

Chief accountant ____________________ *Suleimanov Y.E.*

The accounting policies and notes on pages 8 to 69 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

In thousands of tenge	Note	2017	2016*
Continuing operations			
Revenue	29	**203,057,540**	198,466,711
Compensation for provision of universal services in rural areas	30	**7,167,685**	7,353,257
		210,225,225	205,819,968
Cost of sales	31	**(151,676,716)**	(138,292,361)
Gross profit		**58,548,509**	67,527,607
General and administrative expenses	32	**(21,452,350)**	(21,791,041)
Selling expenses	33	**(3,802,172)**	(2,928,796)
Operating profit		**33,293,987**	42,807,770
Share in profit/(loss) of associates	9	**1,098,368**	(18,410,477)
Finance costs	35	**(7,825,754)**	(6,412,545)
Finance income	35	**4,125,054**	3,575,283
Net foreign exchange loss	36	**(633,942)**	(890,461)
Gain/(loss) on disposal of property and equipment		**311,074**	(315,024)
Other income	37	**4,427,650**	4,197,635
Other expenses	37	**(1,859,771)**	(470,142)
Profit before tax from continuing operations		**32,936,666**	24,082,039
Income tax expenses	38	**(8,218,845)**	(9,210,030)
Profit for the year from continuing operations		**24,717,821**	14,872,009
Discontinued operations			
Profit after tax for the year from discontinued operations	39	**–**	40,959,809
Net profit for the year		**24,717,821**	55,831,818

The accounting policies and notes on pages 8 to 69 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

In thousands of tenge	Note	2017	2016*
Other comprehensive loss			
Other comprehensive loss to be reclassified to profit or loss in subsequent periods (net of tax)			
Foreign exchange differences from translation of financial statements of foreign subsidiaries		**(4,397)**	(49,619)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		**(4,397)**	(49,619)
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods (net of tax)			
Actuarial losses on defined benefits plans, net of income tax	23, 38	**(5,037,715)**	(607,983)
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		**(5,037,715)**	(607,983)
Other comprehensive loss for the year, net of income tax		**(5,042,112)**	(657,602)
Total comprehensive income for the year, net of income tax		**19,675,709**	55,174,216
Earnings per share			
Basic and diluted, net profit for the year, tenge	20	**2,250.11**	5,071.51
Earnings per share for continuing operations			
Basic and diluted, profit from continuing operations for the year, tenge	20	**2,250.11**	1,357.30

* *Certain amounts in this column do not agree to the consolidated financial statements for the year 2016, as they reflect the adjustments made, details of which are provided in Note 4.*

Chairman of the Management Board

Yessekeyev K.B.

Chief financial officier

Uzbekov A.A.

Chief accountant

Suleimanov Y.E.

The accounting policies and notes on pages 8 to 69 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to equity holders of the Parent							
In thousands of tenge	Shares outstanding	Treasury shares	Foreign currency translation reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Note	20	20	20	20				
At 1 January 2016	12,136,529	(6,464,488)	47,662	1,820,479	285,884,903	293,425,085	(1,003,643)	292,421,442
Net profit for the year	–	–	–	–	55,831,818	55,831,818	–	55,831,818
Other comprehensive loss	–	–	(49,619)	–	(607,983)	(657,602)	–	(657,602)
Total comprehensive income	–	–	(49,619)	–	55,223,835	55,174,216	–	55,174,216
Treasury shares reacquired, net *(Note 20)*	–	114	–	–	–	114	–	114
Dividends *(Note 20)*	–	–	–	–	(3,562,836)	(3,562,836)	–	(3,562,836)
Acquisition of non-controling interest *(Note 5)*	–	–	–	–	(1,238,969)	(1,238,969)	1,003,643	(235,326)
At 31 December 2016	12,136,529	(6,464,374)	(1,957)	1,820,479	336,306,933	343,797,610	–	343,797,610
Net profit for the year	–	–	–	–	24,717,821	24,717,821	–	24,717,821
Other comprehensive loss	–	–	(4,397)	–	(5,037,715)	(5,042,112)	–	(5,042,112)
Total comprehensive income	–	–	(4,397)	–	19,680,106	19,675,709	–	19,675,709
Dividends *(Note 20)*	–	–	–	–	(4,365,382)	(4,365,382)	–	(4,365,382)
At 31 December 2017	**12,136,529**	**(6,464,374)**	**(6,354)**	**1,820,479**	**351,621,657**	**359,107,937**	**–**	**359,107,937**

Chairman of the Management Board

Yessekeyev K.B.

Chief financial officier

Uzbekov A.A.

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Suleimanov Y.E.

The accounting policies and notes on pages 8 to 69 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

In thousands of tenge	Note	2017	2016*
Operating activities			
Profit before tax from continuing operations		**32,936,666**	24,082,039
Profit before tax from discontinued operations		**–**	42,621,503
Profit before tax		**32,936,666**	66,703,542
Adjustment for:			
Depreciation of property and equipment	31, 32	**40,096,546**	27,845,196
Amortisation of intangible assets	31, 32	**3,054,440**	3,064,718
Impairment of property and equipment and intangible assets	37	**1,246,347**	–
Change in deferred income		**2,639,160**	12,293
Changes in employee benefit obligations		**(585,721)**	(326,485)
Unrealised foreign exchange loss/(gain), net		**1,447,704**	(252,976)
Allowance for doubtful receivables	32	**882,403**	1,411,405
Write-down of inventories to net realizable value	32	**13,729**	192,139
Share in (profit)/loss of associates	9	**(1,098,368)**	18,410,477
Finance costs accrued	35, 39	**7,825,754**	6,833,870
Finance income accrued	35, 39	**(4,125,054)**	(3,750,368)
Gain on disposal of subsidiary	39	**–**	(41,579,323)
(Gain)/loss on disposal of property and equipment		**(311,074)**	315,024
Adjustments of working capital			
Change in trade receivables		**(7,940,071)**	(10,650,693)
Change in inventories		**1,455,123**	(496,005)
Change in current and non-current assets		**1,295,230**	4,889,055
Change in advances paid		**(239,724)**	168,661
Change in trade payables		**1,432,917**	2,355,652
Change in advances received		**198,045**	305,897
Changes in other current liabilities		**1,274,880**	671,011
Cash flows from operating activities		**81,498,932**	76,123,090
Dividends paid on common and preferred shares	20	**(4,299,346)**	(3,627,387)
Income tax paid		**(9,129,857)**	(8,184,946)
Interest paid	42	**(7,923,012)**	(5,844,446)
Interest received		**1,778,771**	1,731,670
Net cash flows received from operating activities		**61,925,488**	60,197,981
Investing activities			
Purchase of property and equipment		**(20,330,697)**	(17,379,516)
Purchase of intangible assets		**(652,798)**	(4,047,567)
Proceeds from sale of property and equipment		**696,344**	306,631
Placement of deposits		**(64,648,712)**	(57,121,119)
Return of deposits		**49,519,792**	39,519,133
Issue of long-term loans to employees		**(2,146,515)**	(2,127,857)
Repayment of loans to employees		**421,838**	365,450
Investments in associates	9	**(986,980)**	–
Return of funds of covered bank guarantee		**50**	208,600
Financial aid repaid		**2,000**	3,496
Net cash inflow from subsidiary disposal (QazCloud LLP)	5	**30,170**	–
Net cash outflow from subsidiary disposal (QazCloud LLP)	5	**–**	(53,965)
Net cash outflow from subsidiary disposal (Altel JSC)	39	**–**	(1,683,295)
Net cash flows used in investing activities		**(38,095,508)**	(42,010,009)

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of tenge	Note	2017	2016*
Financing activities			
Borrowings repaid	42	**(28,009,799)**	(8,624,665)
Repayment of finance lease liabilities	42	**(3,162,706)**	(4,707,462)
Acquisition of non-controlling interests in a subsidiary	5	**–**	(201,728)
Net cash flows used in financing activities		**(31,172,505)**	(13,533,855)
Effect of exchange rate changes on cash and cash equivalents		**(992,474)**	(298,217)
Net change in cash and cash equivalents		**(8,334,999)**	4,355,900
Cash and cash equivalents, as at 1 January	19	**24,320,942**	19,965,042
Cash and cash equivalents, as at 31 December	19	**15,985,943**	24,320,942

* *Certain amounts in this column do not agree to the consolidated financial statements for the year 2016, as they reflect the adjustments made, details of which are provided in Note 4.*

Disclosure of significant non-cash transactions is presented in *Note 40.*

Chairman of the Management Board

Yessekeyev K.B.

Chief financial officier

Uzbekov A.A.

Chief accountant

Suleimanov Y.E.

ACCOUNTING POLICIES AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL INFORMATION

Kazakhtelecom JSC (the "Company" or "Kazakhtelecom") was established in June 1994 in accordance with the legislation of the Republic of Kazakhstan.

The Company is incorporated, domiciled and operates in the Republic of Kazakhstan. The legal address of the Company is: 12 Sauran Str., Astana, 010000, Republic of Kazakhstan.

The Company is controlled by the Government of the Republic of Kazakhstan through Sovereign Wealth Fund "Samruk-Kazyna" JSC ("Samruk-Kazyna" or the "Parent"), which owns 51% of the Company's controlling shares. Below is a list of the Company's shareholders as at 31 December 2017:

	At 31 December 2017	At 31 December 2016
Samruk-Kazyna	**51.0%**	51.0%
SOBRIO LIMITED	**24.5%**	24.5%
ADR (The Bank of New York – depositor)	**9.2%**	9.2%
Alatau Capital Invest LLP	**3.7%**	3.7%
United Accumulative Pension Fund JSC	**3.4%**	3.4%
Deran Investment B.V.	**2.0%**	2.0%
Other	**6.2%**	6.2%
	100%	100%

The Company is included in the register of natural monopolists in relation to transit traffic services provided to telecommunication operators, public switch telecommunication network ("PSTN"), connection services provided to third party telecommunication operators, and rental of phone channels to telecommunication operators for connection to PSTN.

The Company and its subsidiaries listed in *Note 5* (hereinafter collectively referred to as the "Group") have a significant share of the fixed line communication market, including local, long-distance intercity and international telecommunication services including CIS and non-CIS countries; and also leases out lines and provides data transfer services, as well as wireless communication.

These consolidated financial statements of the Group were approved for issue by the Chairman of the Management Board on behalf of the Management of the Company on 13 March 2018.

2. BASIS FOR PREPARATION

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (hereinafter, "IFRS"), as issued by International Accounting Standard Board (hereinafter, "IASB").

These consolidated financial statements have been prepared on a historical cost basis, except as described in the accounting policies and the notes to these consolidated financial statements. The consolidated financial statements are presented in Kazakhstan tenge ("tenge") and all amounts are rounded to the nearest thousand, except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include financial statements of the Kazakhtelecom JSC and its subsidiaries as at 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

2. BASIS FOR PREPARATION (continued)

Basis of consolidation (continued)

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- Voting rights or potential voting rights belonging to the Group.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control over subsidiary. Assets, liabilities, revenue and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group obtains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, revenue, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New and amended standards and interpretations

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2017. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information for both the current and the comparative period in *Note 42*.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The Group applied amendments retrospectively. However, their application has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

Annual improvements cycle – 2014-2016

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10-B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. The amendments have no impact on the Group's consolidated financial statements.

Standards and interpretations issued but not yet effective

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date and will not restate comparative information.

During 2017, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9. Overall, the Group expects no significant impact on its consolidated statement of financial position and equity.

(a) Classification and measurement

IFRS 9 includes a new approach to the classification and measurement of financial assets, which reflects the business model of the organization for the management of financial assets and the characteristics of their cash flows. IFRS 9 defines three main categories of valuation for financial assets: financial assets carried at amortized cost, at fair value through other comprehensive income (OCI) and at fair value through profit or loss. The standard excludes existing categories in accordance with IFRS (IAS 39), including held-to-maturity investments, trade and other receivables, loans to related parties and other financial assets.

Based on the analysis performed, the Group does not expect significant impact on its consolidated statement of financial position and equity when applying the classification and measurement requirements of IFRS 9.

(b) Impairment

The new requirements related to impairment in IFRS 9 are based on the model of expected credit losses and replace the loss model of IFRS (IAS 39). This approach reflects a general scheme of deterioration or improvement in the credit quality of financial instruments. The amount of expected credit losses recognized as an assessment reserve or an estimated loss liability depends on the degree of deterioration in credit risk after initial recognition.

The new impairment model is applicable to financial assets discloses at amortized cost, borrowings, assets under contract in accordance with IFRS 15 *Revenue under Contracts with Customers*, trade receivables, loan commitments and financial guarantee contracts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards and interpretations issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

(b) Impairment (continued)

According to IFRS 9, there are two bases for estimating an impairment loss:

- 12-month expected credit losses: expected credit losses due to defaults possible within 12 months after the reporting date; or
- Expected credit losses over the life of the instrument: the expected credit losses that result from all possible defaults over the expected life of the financial instrument.

The Group plans to adopt a simplified approach and reflect expected credit losses for the entire life of the trade and other receivables. For the estimation of the expected credit losses, trade and other receivables will be grouped on the basis of credit risk and days of delay in payment.

For long-term bank deposits and other financial assets recorded at amortized cost, the Group plans to adopt a general approach.

For short-term bank deposits, cash and cash equivalents, the Group assessed the credit risk as low based on the credit ratings of banks and financial institutions.

Based on the analysis, the Group does not expect a significant change in the impairment loss on trade and other receivables and other financial assets recorded at amortized cost.

(c) Hedge accounting

The Group does not have hedging relationships that are designated as effective hedging relationships and, accordingly, the requirements for hedge accounting under IFRS 9 will not affect the Group consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method. During 2016 and 2017 years the Group performed a preliminary assessment of IFRS 15. Currently, the Group performs detailed anaylises to be finished in 2018.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

The Group will apply these amendments when they become effective.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards and interpretations issued but not yet effective (continued)

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

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2018, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach);
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

ACCOUNTING POLICIES AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards and interpretations issued but not yet effective (continued)

Transfers of Investment Property – Amendments to IAS 40

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. Effective for annual periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed. The Group will apply amendments when they become effective. However, since Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated financial statements.

Annual improvements 2014-2016 cycle (issued in December 2016)

These improvements include:

IFRS 1 First-time Adoption of International Financial Reporting Standards – Deletion of short-term exemptions for first-time adopters

Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from 1 January 2018. This amendment is not applicable to the Group.

IAS 28 Investments in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that:

- An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. This decision is taken separately for each investment upon initial recognition.
- If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b)the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact. These amendments are not applicable to the Group.

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

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 *Insurance Contracts*, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS 9. These amendments are not applicable to the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards and interpretations issued but not yet effective (continued)

Annual improvements 2014-2016 cycle (issued in December 2016) (continued)

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the Interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

(i) The beginning of the reporting period in which the entity first applies the interpretation; or

(ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The Interpretation is effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. However, since the Group's current practice is in line with the Interpretation, the Group does not expect any effect on its consolidated financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply interpretation from its effective date. Since the Group operates in a complex tax environment, applying the Interpretation may affect its consolidated financial statements and the required disclosures. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

Annual improvements 2015-2017 cycle (issued in December 2017)

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value.

In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted. As the Group does not have agreements on joint activities, the Group does not expect the amendments to impact its consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards and interpretations issued but not yet effective (continued)

Annual improvements 2015-2017 cycle (issued in December 2017) (continued)

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted. As the Group does not have agreements on joint activities, the Group does not expect the amendments to impact its consolidated financial statements.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. These amendments are not applicable to the Group.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. These amendments are not applicable to the Group.

Foreign currency translation

The consolidated financial statements of the Group are presented in tenge, which is the functional currency of the Company and its main subsidiaries. Tenge is the currency of the primary economic environment in which the Company and its main subsidiaries operate. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates prevailing at the date when the transaction meets recognition criteria. Monetary assets and liabilities denominated in foreign currency are translated at the official exchange rate ruling at the reporting date established by Kazakhstan Stock Exchange ("KASE") and published by the National Bank of the Republic of Kazakhstan ("NBRK"). All translation differences are recognized in the consolidated statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation (continued)

Transactions and balances (continued)

Foreign exchange rates are presented in the following table:

	31 December 2017	31 December 2016
US dollars	**332.33**	333.29
Euro	**398.23**	352.42
Russian roubles	**5.77**	5.43

The functional currencies of foreign operations KT-IX LLC (Russian Federation) and Online.kg LLC (Kyrgyzstan) are Russian roubles and Kyrgyz soms, respectively. During consolidation the assets and liabilities of foreign operations are translated into tenge at the rate of exchange prevailing at the reporting date and their statements of comprehensive income are translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in general and administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with the changes in fair value recognised in the consolidated statement of comprehensive income.

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

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

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

Investments in associates

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates (continued)

The Group's investments in its associates are accounted for using the equity method.

According to the equity method, investment in an associate is initially stated at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment individually.

If interest in an associate is acquired in exchange for contribution of a non-monetary asset in an associate, the Group (a) assesses its share in an associate at fair value in accordance with IFRS 3; and (b) fully recognises profit or loss incurred due to sale or contribution of assets that are businesses as defined in accordance with IFRS 3.

The consolidated statement of comprehensive income reflects the Group share in the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The Group's share in profit or loss of the associate is shown directly in the consolidated statement of comprehensive income beyond the operating profit. It represents profit or loss after taxes and non-controlling interests in subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring their accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the investment in an associate and its carrying amount and recognises resulting loss in the 'share in profit/loss of an associate' line in the consolidated statement of comprehensive income.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at fair value. Any difference between the carrying amount of theinvestment in associate upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset as current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within 12 (twelve) months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 (twelve) months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled within normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within 12 (twelve) months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least 12 (twelve) months after the reporting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Current versus non-current classification (continued)

The Group classifies all other liabilities as non-current.

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

Fair value measurement

Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in the *Note 42.*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the consolidated financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The respective unit of the Group (hereinafter, the "Working Group") determines the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted AFS financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operations. The composition of the Working Group is determined by the Management of the Company.

External valuation experts are involved for valuation of significant assets, such as investment property and AFS financial assets, and significant liabilities, such as contingent consideration. The decision to engage external value experts is taken on an annual basis by the Working Group after it is discussed and approved by the Company's Audit committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Working Group decides, after discussions with the Group's external valuation experts, which valuation techniques and inputs to use for each case.

At each reporting date the Working Group analyses changes in the cost of assets and liabilities that should be reanalyzed reassessed in accordance with the Group's accounting policy. As a part of such analysis, the Working Group checks main inputs used at the latest valuation by comparing information used at valuation with agreements and other relevant documents.

The Working Group and external valuation experts of the Group also compare changes in fair value of each asset and liability with relevant external sources in order to determine the change relevancy.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

The Working Group and external valuation experts of the Group provide valuation results to the Audit committee and independent auditors of the Group on a regular basis that assumes discussion of main assumptions used in valuation.

For the purpose of fair value disclosure, the Group classified assets and liabilities based on their nature, characteristics and risks related to them and applicable level of fair value hierarchy, as specified above.

Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Criteria for classification of the item as held-for-sale is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property and equipment and intangible assets once classified as held for sale are not depreciated or amortized.

Assets and liabilities classified as held for distribution are presented separately as current items in the consolidated statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented in the consolidated statement of comprehensive income as a separate item as profit or loss after tax from discontinued operations.

Additional disclosures are provided in *Note 39*. All other notes to the consolidated financial statements include amounts for continuing operations, unless otherwise mentioned.

Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Please refer to Other non-current liabilities *(Note 25)* for further information about decommissioning provision recognised.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

	Years
Buildings	50
Constructions	10-20
Telecommunication equipment	3-20
Other	3-20

Land is not depreciated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

An item of property and equipment and any significant component initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Construction-in-progress

Construction-in-progress represents property and equipment under construction and machinery and equipment awaiting installation and is recorded at cost. Construction-in-progress includes cost of construction and equipment and other direct costs. When construction of such assets is completed or when the machinery and equipment are ready for their intended use, construction-in-progress is transferred to the appropriate category of depreciable assets. Construction-in-progress is not depreciated.

Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing component of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and accumulated impairment loss. Depreciation is calculated on a straight-line basis over the estimated useful life, which is 50 years.

Investment properties are derecognised in the consolidated statement of financial position when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of comprehensive income when the asset is derecognized.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at initial cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

Intangible assets have finite useful lives.

Intangible assets with finite useful lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. Expenses on amortization of intangible assets with finite useful life are recognized in the consolidated statement of comprehensive income in the category of expenses, which corresponds to the function of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of comprehensive income when the asset is derecognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Intangible assets are amortized on a straight-line basis within the following estimated useful lives.

	Years
Licenses and trademarks	3-20
Computer software	1-14
Customer base	8
Other	2-15

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's or cash-generating unit's (CGU) recoverable amount is the higher of: the fair value of an asset (cash generating unit) less costs of disposal and its value in use (cash generating unit). The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of 5 (five) years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of comprehensive income.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

Goodwill is tested for impairment annually as at 31 December, and when circumstances indicate that the carrying amount may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans issued and receivables, held-to-maturity investments, AFS financial assets. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification, as described below:

Loans issued and receivables

This category is the most relevant to the Group. Loans issued and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the consolidated statement of comprehensive income. The expenses arising from impairment are recognized in the consolidated statement of comprehensive income within finance costs in case of loans issued and within general and administrative expenses in case of accounts receivable.

This category generally applies to other non-current financial assets, trade receivables and other current financial assets. Further details are contained in *Notes 12, 15* and *17*, respectively.

Investments held to maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold it to maturity. After initial measurement held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the consolidated statement of comprehensive income. The losses arising from impairment are recognised in the consolidated statement of comprehensive income in finance costs. The Group did not have any held-to-maturity investments during the years ended 31 December 2017 and 2016, except for deposits placed in banks.

Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with initial maturity of 3 (three) months or less, which are subject to an insignificant risk of changes in value.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized (i.e. exluded from the Group's consolidated statement of financial position):

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Derecognition (continued)

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

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

Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation. Besides, such evidence include observable data indicating that there is a measurable decrease in the expected future cash flows on a financial instrument such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists 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. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interst rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the consolidated statement of comprehensive income. Interest income (recorded as finance income in the consolidated statement of comprehensive income) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans, together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the consolidated statement of comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities comprise trade and other accounts payable, loans and borrowings, finance lease liabilities, finance guarantee contracts and debt component of preferred shares.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings

This category is the most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the consolidated statement of comprehensive income.

This category generally applies to interest-bearing loans and borrowings. Further details are contained in *Note 21*.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of: the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

Debt component of preferred shares recorded in liabilities

The debt component of the preferred shares that exhibits characteristics of a liability is recognised as a liability in the consolidated statement of financial position, net of transaction costs. The corresponding minimal guaranteed dividends on those shares are charged as interest expense in the consolidated statement of comprehensive income. On initial recognition, the fair value of the liability component is determined by discounting expected future cash flows at a market interest rate for a comparable debt instrument. The fair value of the equity component on initial recognition is assigned the residual amount after deducting from the initial carrying amount of the instrument as a whole the fair value determined for the liability component. Subsequently, the liability component is measured according to the same principles used for loans and borrowings, and the equity component is not remeasured in subsequent years.

Trade and other accounts payable

Liabilities for trade and other accounts payable are recognised at fair value to be paid in the future for goods and services received, whether or not billed to the Group.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised through the consolidated statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are only offset and reported at the net amount in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and the Group intends to either settle on a net basis, to realise the asset and settle the liability simultaneously.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are valued at the lower of: cost of acquisition and net realisable value.

Cost comprise expenses incurred in bringing inventory to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. The same cost formula is used for all inventories having a similar nature and use. All inventories are determined based on weighted average cost method.

Lease

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected directly in the consolidated statement of comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of: the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as operating expenses in the consolidated statement of comprehensive income on a straight line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue and other income in the period in which they are earned.

Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

Decommissioning liabilities

Decommissioning liabilities are recognized in respect of the estimated future costs of closure and restoration and for environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the reporting period when the related environmental disturbance occurs. Decommissioning costs are recorded at the discounted value of expected liability settlement costs calculated using estimated cash flows and recognized as part of the initial cost of the particular asset. Cash flows are discounted at the current rate before tax, which reflects risks inherent to the decommissioning obligations. Unwinding of discount is expensed as incurred and recognised in the consolidated statement of comprehensive income as finance costs. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs, or in the discount rate applied, are added to or deducted from the cost of the asset.

Employee benefit

Social tax

The Group pays social tax according to the current statutory requirements of the Republic of Kazakhstan. Social tax expenses are charged to expenses as incurred.

Besides, the Group withholds 10% of the salary of employees paid as contributions of employees to the accumulating pension funds. Under the legislation, employees are responsible for their retirement benefits and the Group has no present or future obligation to further compensate its employees upon their retirement, except as provided below.

Defined benefits pension plan

In accordance with the Collective Agreement the Company provides certain long-term and retirement benefits to some of its employees (the "Defined Benefit Scheme").

Long-term benefits are paid to employees upon completion of a certain number of years of service whereas retirement benefits represent one-off payments paid upon retirement in accordance with the the Collective Agreement. Both items vary according to the employee's average salary and length of service.

Cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit obligation and the return on plan assets (excluding amounts included in net interest on the net defined benefit obligation), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment; and
- The date that the Group recognises related restructuring costs.

Net interest is calculated by applying the discount rate to the net defined benefit obligation or asset. The Group recognises the outlined changes of net defined benefit obligation in the lines: "cost of sales", "general and administrative expenses" in the consolidated statement of comprehensive income.

Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the acquisition, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in equity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The Company recognises a liability to make cash or non-cash distributions to equity holders of the Parent when the distribution is authorised and the distribution is no longer at the discretion of the Company. According to the legislation, distribution is approved by the shareholders. A corresponding amount is recognised directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value remeasurement recognised directly in equity.

Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in the consolidated statement of comprehensive income.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, irrespective of the period of payment. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude, and is also exposed to inventory and credit risks.

The specific recognition criteria described below must also be met before revenue is recognised.

Rendering of services

The Group's revenues are principally derived from the provision of local, domestic long distance and international long distance telecommunication services which consist of (i) usage charges for telephone services, which vary depending on the day, the time of the day, distance and duration of the telephone call, (ii) a monthly fee for telecommunication services, (iii) service activation and installation fees, (iv) provision of internet and data services, and (v) interconnection fees from domestic and foreign telecommunications operators.

The Group records revenues over the periods they are earned as follows:

(i) Revenues derived from fixed line and wireless phone services are recognised as the services are provided;

(ii) Monthly fees for telecommunication services are recognised in the month in which the services are provided to customers;

(iii) Upfront fees received for activation of connection to the fixed line and wireless network that do not represent a separate earnings process and are deferred and recognised over the expected period of the customer relationship. The expected period of the customer relationship is based on past history of customer period and industry practice;

(iv) Revenue from provision of data transfer services are recognised when the services are provided to customers;

(v) Interconnection fees from domestic and foreign telecommunications operators are recognised when the services are rendered as measured by the actual minutes of traffic processed.

Rental income

Rental income arising from operating leases of telecommunication channels is accounted for on a straight-line basis over the lease terms and included in revenue due to its operating nature.

Compensation for provision of universal services in rural areas

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Interest income

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

Dividends

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

Expense recognition

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

Connection cost

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

Borrowing costs

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

Income tax

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Group operates and generates taxable profit.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated statement of comprehensive income. Management of the Group periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in relation to the underlying transaction either in the consolidated statement of comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

4. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires the management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of these items and contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Other disclosures relating to the Group's exposure to risks and uncertainties includes:

- Financial instruments and financial risk management objectives and principles – *Note 42*;
- Sensitivity analyses disclosures – *Notes 10 and 23.*

Estimates and assumptions

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

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

Useful lives of property and equipment and intangible assets

The Group assesses the remaining useful lives of items of property and equipment and intangible assets at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the carrying amounts of property and equipment and intangible assets and on depreciation and amortization expenses recognized in profit or loss. In 2017, the Group reassessed the remaining useful lives of certain telecommunications equipment, which resulted in decrease in the remaining useful life by 2 to 5 years on average. The change in the remaining useful lives resulted in a total increase in depreciation expenses for the year ended 31 December 2017 in the amount of KZT 10,995,026 thousand.

Impairment of non-financial assets

An impairment exists when the carrying amount of an asset or cash generating unit exceeds its recoverable amount, which is the higher of: its fair value less costs of disposal and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next 5 (five) years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and growth rates used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in *Note 10*.

Allowances

The Group makes allowances for doubtful accounts receivable. Significant judgement is used to estimate doubtful accounts. In assessing doubtful accounts, historical and anticipated performance of buyer or customer is taken into account. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful debts recorded in the consolidated financial statements.

As at 31 December 2017, the Group had an allowance for doubtful receivables in the amount of KZT 3,038,439 thousand (as at 31 December 2016: KZT 2,957,611 thousand) *(Notes 15, 16* and *17)*.

Connection fees

Upfront fees received for activation and connection to the fixed line and wireless network that do not represent a separate earning process are deferred and recognized over the expected period of the customer relationship. In making its judgments, management considered the detailed criteria for the recognition of revenues from connection fees set out in IAS 18, industry practice and the Company's historical churn rate. As at 31 December 2017, average customer relationship period is assessed as 13 (thirteen) years for fixed line customers and 5 (five) years for internet customers.

Finance – Group as lessee

The Group has entered into leases with respect to certain telecommunication equipment. The Group determined that under these agreements, substantially all the risks and benefits incidental to ownership of the leased item are transferred to the Group and, respectively, the lease is classified as finance lease.

Employee benefit obligations

The Group uses actuarial valuation method for measurement of the present value of defined employee benefit obligation and related current service cost. This involves the use of demographic assumptions about the future characteristics of current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, etc.) as well as financial assumptions (discount rate, future salary increases). Due to the long term nature of these benefits, such estimates are subject to significant uncertainty.

The current portion of employee benefit obligations represents the obligations which the Group is going to repay within the twelve months period since the end of the annual reporting period.

In determining the appropriate discount rate, management of the Group considers the interest rates of high-yield corporate bonds in respective currencies.

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

Employee benefit obligations (continued)

The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates.

Further details about employee benefit obligations are contained in *Note 23*.

Discontinued operations

On 3 November 2015, the Company announced its decision to enter into an agreement with Tele2 Group to establish a joint venture in wireless segment based on Altel JSC (ALTEL 4G brand) and Mobile Telecom-Service LLP (Tele2 brand). On 29 February 2016, Kazakhtelecom JSC and Tele2 completed the transaction on formation of a joint venture. As a result of this transaction, Kazakhtelecom JSC received 51% of the authorised capital and 49.48% of voting shares in Khan Tengri Holding B.V. in exchange for 100% share in Altel JSC *(Note 9)*. Thus, Altel JSC activities were classified as discontinued operations.

Refer to *Note 39* for more details regarding discontinued operations.

Investments in associates

On 29 February, 2016, the Group acquired 51% of the share capital and 49.48% of voting shares in Khan Tengri Holding B.V., which provides mobile telecommunications services in the GSM and LTE standard in the Republic of Kazakhstan. Due to the fact that the Group owns 49.48% of the voting shares of Khan Tengri Holding B.V, the Group has a significant influence on the activities of Khan Tengri Holding B.V. and, accordingly, the interest in Khan Tengri Holding B.V. is accounted for as an investment in an associate and is recorded in the consolidated financial statements using the equity method *(Note 9)*.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

As at 31 December 2017, the Group did not have tax losses carried forward (31 December 2016: KZT 17,384 thousand) *(Note 38)*.

As at 31 December 2017, deferred tax assets of the Group were equal to KZT 104,614 thousand (at 31 December 2016: nil). As at 31 December 2017, the carrying amount of un-recognized tax assets was equal to KZT 92,891 thousand (31 December 2016: KZT 137,346 thousand). Further details are contained in *Note 38*.

Fair value measurement of financial instruments

When the fair value of financial instruments and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on data in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the fair value reported in the consolidated financial statements. For more details on the fair values refer to *Note 42*.

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

Reclassifications and adjustments of comparative data

Certain amounts in the consolidated statement of financial position, the consolidated statement of comprehensive income and the consolidated statement of cash flow for the year ended 31 December 2016 were reclassified to conform with the presentation used in the consolidated statement of financial position as at 31 December 2017 and to correct presentation in the consolidated statement of comprehensive income and the consolidated statement of cash flow for the year ended 31 December 2016:

In thousand tenge	As previously presented	Reclassifica-tions and adjustments	Note	As adjusted
Consolidated statement of financial position as at 31 December 2016				
Non-current assets				
Other non-current financial assets	5,876,966	106,131	[1]	**5,983,097**
Other non-current assets	1,708,901	(106,131)	[1]	**1,602,770**
Total non-current assets	364,102,896	–		**364,102,896**
Current assets				
Other current financial assets	48,133,067	1,032,961	[2]	**49,166,028**
Other current assets	2,628,449	(1,032,961)	[2]	**1,595,488**
Total current assets	104,859,216	–		**104,859,216**
Non-current liabilities				
Other non-current financial liabilities	–	728,982	[3]	**728,982**
Other non-current liabilities	4,209,139	(728,982)	[3]	**3,480,157**
Total non-current liabilities	87,564,132	–		**87,564,132**
Current liabilities				
Other current financial liabilities	–	11,810,685	[4]	**11,810,685**
Other current liabilities	16,129,172	(11,810,685)	[4]	**4,318,487**
Total current liabilities	125,164,502	–		**125,164,502**
Consolidated statement of comprehensive income for the year ended 31 December 2016				
Share in loss of associates	(13,568,195)	(4,842,282)	[5]	**(18,410,477)**
Other expenses	(5,312,424)	4,842,282	[5]	**(470,142)**
Profit before tax from continuing operations	24,082,039	–		**24,082,039**
Consolidated statement of cash flows for the year ended 31 December 2016				
Share in loss of associates	13,568,195	(4,842,282)	[5]	**18,410,477**
Changes in other current liabilities	5,513,293	4,842,282	[5]	**671,011**
Cash flows from operating activities	60,197,981	–		**60,197,981**

[1] Long-term accounts receivable in the amount of KZT 106,131 thousand were reclassified to other non-current financial assets.

[2] Restricted cash, due from employees, reimbursement of fee for using radio frequencies and other receivables in the amount of KZT 446,198 thousand, KZT 97,098 thousand, KZT 173,184 thousand and KZT 977,202 thousand, respectively, were reclassified to other current financial assets. Allowance for doubtful receivables also was also reclassified to other current financial assets in the amount of KZT 660,721 thousand.

[3] Guarantees issued and other long term payables in the amount of KZT 726,808 thousand and KZT 2,174 thousand, respectively, were reclassified to other non-current financial liabilities.

[4] Payables employees, payable to Khan Tengri Holding B.V., guarantees issued and other liabilities in the amount of KZT 4,363,711 thousand, KZT 4,842,282 thousand, 1,547,439 thousand, KZT 151,852 thousand and KZT 905,401 thousand, respectively, were reclassified to other current financial liabilities.

[5] Loss from impairment on investment in the associate in the amount of KZT 4,842,282 thousand was reclassified from othe expenses to share in loss of associates from other expenses, to conform with the Group accounting policy requirements.

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

Reclassifications and adjustments of comparative data (continued)

The above reclassifications and adjustments made had no impact on previously reported net profit, total comprehensive income or equity. The changes did not have an impact the Group's investing and financing cash flows. All disclosure amounts within the comparative information were changed respectively. In addition, the Group made certain reclassifications within cost of sales for the year ended 31 December 2016 to be consistent with the current year presentation.

5. CONSOLIDATION

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

		Percentage ownership	
	Country of incorporation	31 December 2017	31 December 2016
Nursat JSC	Kazakhstan	**100.00%**	100.00%
KT-IX LLC	Russia	**100.00%**	100.00%
KT Cloud Lab LLP	Kazakhstan	**100.00%**	100.00%
VostokTelecom LLP	Kazakhstan	**100.00%**	100.00%
Info-Net Wireless LLP	Kazakhstan	**100.00%**	100.00%
Nursat+ LLP	Kazakhstan	**100.00%**	100.00%
Online.kg LLC	Kyrgyzstan	–	100.00%

On 25 January 2016, the Company acquired 20% shares in Nursat JSC in cash from a minority shareholder represented by the Committee for State Property and Privatization of the Ministry of Finance of the Republic of Kazakhstan for KZT 235,326 thousand. As at 31 December 2015, prepayment of KZT 33,598 thousand was made out of this amount.

Based on the decision of the Board of Directors of Kazakhtelecom JSC on 17 August 2016 a purchase and sale agreement was concluded between Kazakhtelecom JSC and Samruk-Kazyna Business Services LLP for 51% interest of Kazakhtelecom JSC in the charter capital of Kazakhtelecom Industrial Enterprises Services LLP. As a result of the transaction, the net cash outflow amounted to KZT 53,965 thousand. The transaction value was equal to KZT 30,170 thousand and was paid on 29 March 2017.

On 16 November 2016, Signum LLC was reregistered and renamed to KT-IX LLC.

On 22 December 2017 the liquidation of Online.kg LLC was completed. The company ceased operations due to its liquidation. During 2014-2017, the assets of Online.kg LLC were sold through auctions. Funds received from the sale of assets after settlements with creditors and fulfillment of all obligations of Online.kg LLC in the amount of KZT 17,982 thousand were transferred to Kazakhtelecom JSC, its sole participant, before the completion of liquidation, including the return of the charter capital.

6. SEGMENT INFORMATION

For management purposes, the Group represents business units based on the organizational structure of the Group and has reportable operating segments as follows:

- Rendering fixed-line telecommunication services to local, national long-distance and international to business units of Kazakhtelecom JSC, Vostoktelecom LLP, KT Cloud Lab LLP and Nursat JSC;
- Rendering mobile telecommunication services in GSM and LTE standards by a business unit of an associate Khan Tengri Holding B.V.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

In February 2016, the Group lost control over the subsidiary rendering mobile telecommunication services in GSM and LTE standards *(Note 39)*. This disclosure of segment information does not include amounts related to discontinued operations.

6. SEGMENT INFORMATION (continued)

The following tables disclose revenue and profit information for the Group's operating segments for the years ended 31 December 2017 and 2016.

For the year ended 31 December 2017

In thousands of tenge	Fixed line	Mobile telecommu-nication services in GSM and LTE standards	Other	Eliminations and adjustments	Group
Revenue					
Sales to external customers	210,224,025	–	1,200	–	210,225,225
Inter-segment	–	–	210,405	(210,405)	–
Total revenue	210,224,025	–	211,605	(210,405)	210,225,225
Financial results					
Depreciation and amortisation	(43,122,634)	–	(28,352)	–	(43,150,986)
Finance costs	(7,825,754)	–	–	–	(7,825,754)
Finance income	4,843,630	–	4,929	(723,505)	4,125,054
Share in proft/(loss) of associates	–	1,166,223	(67,855)	–	1,098,368
Impairment loss	1,246,347	–	–	–	1,246,347
Allowance for doubtful receivables	(881,870)	–	(533)	–	(882,403)
Income tax expenses	(8,209,058)	–	(9,787)	–	(8,218,845)
Segment profit/(loss)	32,826,988	1,166,223	(76,973)	(979,572)	32,936,666
Operating assets	401,862,495	68,327,015	1,614,407	(489,725)	471,314,192
Operating liabilities	111,850,809	–	354,742	704	112,206,255
Other disclosures					
Investments in associates	–	68,327,015	919,125	–	69,246,140
Capital expenditures	30,221,868	–	154,902	–	30,376,770

For the year ended 31 December 2016

In thousands of tenge	Fixed line	Mobile telecommu-nication services in GSM and LTE standards	Other	Eliminations and adjustments	Group
Revenue					
Sales to external customers	205,819,968	–	–	–	205,819,968
Inter-segment	268	–	131,602	(131,870)	–
Total revenue	205,820,236	–	131,602	(131,870)	205,819,968
Financial results					
Depreciation and amortisation	(30,859,109)	–	(50,805)	–	(30,909,914)
Finance costs	(6,417,739)	–	–	5,194	(6,412,545)
Finance income	3,699,363	–	–	(124,080)	3,575,283
Share in loss of associates	–	(18,381,490)	(28,987)	–	(18,410,477)
Allowance for doubtful receivables	(1,411,405)	–	–	–	(1,411,405)
Income tax expenses	(9,216,687)	–	6,657	–	(9,210,030)
Segment profit/(loss)	39,933,806	(18,381,490)	(62,714)	2,592,437	24,082,039
Operating assets	401,684,781	67,160,792	441,401	(324,862)	468,962,112
Operating liabilities	124,895,545	–	254,647	14,310	125,164,502
Other disclosures					
Investments in associates	–	67,160,792	–	–	67,160,792
Capital expenditures	15,960,247	–	18,492	–	15,978,739

6. SEGMENT INFORMATION (continued)

1) Income and expenses between segments are excluded during consolidation;
2) Finance costs and finance income comprise intersegment finance costs and intersegment finance income;
3) Operating income of segments comprises income from intersegment transactions;
4) Capital expenditures include additions to property and equipment and intangible assets.

Reconciliation of profit

In thousands of tenge	2017	2016
Segment profit	**33,916,238**	21,489,602
Other	**(979,572)**	2,592,437
Profit of the Group	**32,936,666**	24,082,039

Reconciliation of operating assets

In thousands of tenge	2017	2016
Segment operating assets	**471,803,917**	469,286,974
Elimination of the Company's investments in subsidiaries	**(250,965)**	(73,877)
Elimination of intra-group receivables and payables	**(238,760)**	(250,985)
Operating assets of the Group	**471,314,192**	468,962,112

Reconciliation of operating liabilities

In thousands of tenge	2017	2016
Segment operating liabilities	**112,205,551**	125,150,192
Deferred tax liabilities	**239,464**	265,295
Elimination of intra-group receivables and payables	**(238,760)**	(250,985)
Operating liabilities of the Group	**112,206,255**	125,164,502

ACCOUNTING POLICIES AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. PROPERTY AND EQUIPMENT

Movements of property and equipment in 2017 and 2016 were as follows:

In thousands of tenge	Land	Buildings and construc-tions	Equipment	Other	Construc-tion in progress	Total
Cost						
At 1 January 2016	558,088	47,892,318	492,557,643	13,066,339	12,757,347	566,831,735
Additions	924	56,879	11,428,420	369,753	3,949,175	15,805,151
Transfers	85	471,127	4,257,904	(43,588)	(4,685,528)	–
Disposals	(4,279)	(262,949)	(5,370,652)	(228,039)	(247,934)	(6,113,853)
Transfers to intangible assets *(Note 8)*	–	–	–	–	(685,390)	(685,390)
At 31 December 2016	554,818	48,157,375	502,873,315	13,164,465	11,087,670	575,837,643
Additions	**148,543**	**100,816**	**9,105,525**	**1,053,724**	**19,338,230**	**29,746,838**
Transfers	**–**	**1,253,906**	**10,802,436**	**19,248**	**(12,075,590)**	**–**
Disposals	**(12,263)**	**(464,406)**	**(4,849,673)**	**(401,820)**	**(1,214)**	**(5,729,376)**
Transfers to intangible assets *(Note 8)*	**–**	**–**	**–**	**–**	**(957,300)**	**(957,300)**
At 31 December 2017	**691,098**	**49,047,691**	**517,931,603**	**13,835,617**	**17,391,796**	**598,897,805**
Accumulated depreciation and impairment						
At 1 January 2016	–	14,846,410	255,078,123	10,077,671	1,273,823	281,276,027
Depreciation charge	–	1,900,704	25,197,800	763,118	–	27,861,622
Disposals	–	(88,530)	(5,169,593)	(217,756)	–	(5,475,879)
At 31 December 2016	–	16,658,584	275,106,330	10,623,033	1,273,823	303,661,770
Depreciation charge	**–**	**1,896,927**	**37,513,243**	**709,252**	**–**	**40,119,422**
Impairment	**589**	**2,964**	**932,073**	**729**	**257,027**	**1,193,382**
Disposals	**–**	**(211,648)**	**(4,224,964)**	**(390,457)**	**(271,312)**	**(5,098,381)**
At 31 December 2017	**589**	**18,346,827**	**309,326,682**	**10,942,557**	**1,259,538**	**339,876,193**
Net book value						
At 31 December 2016	554,818	31,498,791	227,766,985	2,541,432	9,813,847	272,175,873
At 31 December 2017	**690,509**	**30,700,864**	**208,604,921**	**2,893,060**	**16,132,258**	**259,021,612**

Construction-in-progress is mainly represented by network construction and telecommunication equipment for installation.

During 2017, the Group recognized an impairment loss of KZT 1,193,382 thousand (2016: no impairment loss), related to write-off of certain fixed assets in the fixed line segment to recoverable amount due to technological obsolescence. Loss was recorded in the consolidated statement of comprehensive income as Other expenses. As at 31 December 2017 their recoverable amount of nil tenge was determined on the basis of calculated value in use of assets at individual asset level.

At 31 December 2017, the net book value of equipment used by the Group under finance leases and included in property and equipment was equal to KZT 23,365,385 thousand (at 31 December 2016: KZT 25,570,125 thousand). Additions during the year include fixed assets in the amount of 9,019,870 thousand tenge received under finance lease agreements (2016: no additions of fixed assets under finance lease agreements). Leased assets were pledged as collateral under the respective finance lease agreements.

As at 31 December 2017, property and equipment with the cost of KZT 135,390,566 thousand were fully depreciated (at 31 December 2016: KZT 116,565,628 thousand).

For the year ended 31 December, 2017, depreciation expenses included in the cost of construction in progress were equial KZT 4,670 thousand (for 2016: KZT 19,211 thousand).

8. INTANGIBLE ASSETS

Movements of intangible assets for 2017 and 2016 were as follows:

In thousands of tenge	Licenses and trademarks	Software	Goodwill	Other	Total
Cost					
At 1 January 2016	16,276,647	21,214,456	2,706,335	4,329,457	44,526,895
Additions	129,169	44,419	–	–	173,588
Transfers	6,415	(6,415)	–	–	–
Disposals	(18,791)	(231,267)	–	–	(250,058)
Transfers from construction-in-progress *(Note 7)*	151,538	533,852	–	–	685,390
At 31 December 2016	16,544,978	21,555,045	2,706,335	4,329,457	45,135,815
Additions	**434,575**	**156,231**	**–**	**39,126**	**629,932**
Transfers	**25,770**	**(25,764)**	**–**	**(6)**	**–**
Disposals	**(1,652,307)**	**(1,316,169)**	**–**	**–**	**(2,968,476)**
Transfers from construction-in-progress *(Note 7)*	**376,982**	**580,318**	**–**	**–**	**957,300**
At 31 December 2017	**15,729,998**	**20,949,661**	**2,706,335**	**4,368,577**	**43,754,571**
Accumulated amortisation and impairment					
At 1 January 2016	8,008,151	15,140,416	–	1,820,163	24,968,730
Amortisation charges	1,052,351	1,400,658	–	615,609	3,068,618
Disposals	(4,761)	(36,893)	–	–	(41,654)
At 31 December 2016	9,055,741	16,504,181	–	2,435,772	27,995,694
Amortisation charges	**1,162,646**	**1,287,779**	**–**	**619,995**	**3,070,420**
Impairment	**9,933**	**43,032**	**–**	**–**	**52,965**
Disposals	**(1,646,437)**	**(1,310,615)**	**–**	**–**	**(2,957,052)**
At 31 December 2017	**8,581,883**	**16,524,377**	**–**	**3,055,767**	**28,162,027**
Net book value					
At 31 December 2016	7,489,237	5,050,864	2,706,335	1,893,685	17,140,121
At 31 December 2017	**7,148,115**	**4,425,284**	**2,706,335**	**1,312,810**	**15,592,544**

Licenses and trademarks, software and other include intangible assets acquired as a result of business combination.

As at 31 December 2017 intangible assets (mainly software) with the cost of KZT 8,372,440 thousand were fully amortized (as at 31 December 2016: KZT 8,508,183 thousand).

9. INVESTMENTS IN ASSOCIATES

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

			31 December 2017		31 December 2016	
In thousands of tenge	Primary activities	Country of incorporation	Carrying amount	Ownership share	Carrying amount	Ownership share
Khan Tengri Holding B.V.	Telecommunication services	Netherlands	**68,327,015**	**51%**	67,160,792	51%
QazCloud LLP (Kazakhtelecom Industrial Enterprises Services LLP)	IT services	Kazakhstan	**919,125**	**49%**	–	49%
			69,246,140		67,160,792	

9. INVESTMENTS IN ASSOCIATES (continued)

Movements in investments in associates for the years 2017 and 2016 are as follows:

In thousands of tenge	Khan Tengri Holding B.V.	QazCloud LLP	Total
At 31 December 2015	–	–	–
Acquisition of associates	80,700,000	28,987	80,728,987
Deferred consideration by the Group to the associate equity	4,842,282	–	4,842,282
Share in loss of associates	(18,381,490)	(28,987)	(18,410,477)
Share in other comprehensive income of associates	–	–	–
Dividends declared	–	–	–
At 31 December 2016	67,160,792	–	67,160,792
Additional contribution to the charter capital of an associate	**–**	**986,980**	**986,980**
Share in proft/(loss) of associates	**1,166,223**	**(67,855)**	**1,098,368**
Share in other comprehensive income of associates	**–**	**–**	**–**
Dividends declared	**–**	**–**	**–**
At 31 December 2017	**68,327,015**	**919,125**	**69,246,140**

Investments in Khan Tengri Holding B.V.

On 29 February 2016, the Group acquired 51% share capital and 49.48% of voting shares in Khan Tengri Holding B.V. *(Note 39)* rendering GSM and LTE mobile telecommunication services in the Republic of Kazakhstan. Khan Tengri Holding B.V. is a private entity and not listed on the stock exchange. The Group's interest in Khan Tengri Holding B.V. is recorded in the consolidated financial statements using the equity method.

At the acquisition date, the investment was recognized based on a fair value estimate of KZT 80,700,000 thousand.

In November 2016, after final settlements on acquisition of interest in Khan Tengri Holding B.V. the Group recognized a liability to Khan Tengri Holding B.V. in the amount of KZT 4,842,282 thousand. This liability was capitalized in the cost of investment, as an deferred consideration by the Group to the equity of the associate. In 2016, the Group recognized an impairment loss for an investment in the associate in the amount of KZT 4,842,282 thousand which was included in share in loss of associates in the consolidated statement of comprehensive income *(Note 10)*.

The table below provides a summarized financial information on the Group's investment in Khan Tengri Holding B.V. on the basis of an assessment of the fair value:

In thousands of tenge	**31 December 2017**	31 December 2016
Current assets	**39,906,159**	29,436,215
Non-current assets	**153,137,417**	157,990,732
Current liabilities	**(46,052,692)**	(51,528,003)
Non-current liabilities	**(126,441,186)**	(117,635,958)
Equity	**20,549,698**	18,262,986
Share of the Group in equity – 51%	**10,480,346**	9,314,123
Goodwill	**57,846,669**	57,846,669
Carrying amount of investment of the Group	**68,327,015**	67,160,792

ACCOUNTING POLICIES AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. INVESTMENTS IN ASSOCIATES (continued)

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

In thousands of tenge	2017	2016
Revenue	**104,154,218**	78,190,273
Operating expenses	**(100,929,964)**	(93,812,416)
Non-operating expenses	**(10,566,819)**	(10,520,833)
Loss before tax	**(7,342,565)**	(26,142,976)
Income tax benefit/(expenses)	**9,629,276**	(404,491)
Profit/(loss) for the period	**2,286,711**	(26,547,467)
Total comprehensive income/(loss) for the year	**2,286,711**	(26,547,467)
Impairment of investments in associate *(Note 10)*	**–**	(4,842,282)
Share of the Group in profit/(loss) for the year	**1,166,223**	(18,381,490)

As at 31 December 2017, Khan Tengri Holding B.V. had obligations to make capital investments in the future in the amount of KZT 1,944,930 thousand (as at 31 December 2016: KZT 8,104,914 thousand).

Options to acquire interest in an associate

According to the agreement between the Group and Tele2, the Group has an unconditional right to require Tele2 to sell its 49% of the interest in Khan Tengri Holding B.V. at any time, after three years after the closing date of the transaction (call option). Tele2 has a similar unconditional right to require the Group to acquire a 49% interest in Khan Tengri Holding B.V. (put option).

The price of an option is expressed in US dollars and should be equal to the fair market value of the shares transferred as of the day of its determination.

The Group estimated the fair value of the option and as at 31 December 2017 the fair value of the option is nil (2016: nil).

Investments in QazCloud LLP

Based on the decision of the Board of Directors of Kazakhtelecom JSC, on 17 of August 2016, Kazakhtelecom JSC and Samruk-Kazyna Business Service LLP signed the agreement of purchase and sale of 51% interest of Kazakhtelecom JSC in the charter capital of Kazakhtelecom Industrial Enterprises Services LLP.

On 4 October 2017, Kazakhtelecom Industrial Enterprises Services LLP was re-registred with name being changed to QazCloud LLP.

On 25 July 2017, the Board of Directors of Kazakhtelecom JSC approved a decision to make an additional investment contribution to the charter capital of QazCloud LLP in the amount of KZT 1,973,960 thousand.

On 15 November 2017, the Group made a partial contribution, in the amount of KZT 986,980 thousand, in accordance with the actual need for the charter capital of QazCloud LLP.

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

In thousands of tenge	2017	2016
Revenue	**35,446**	19,574
Operating expenses	**(165,446)**	(98,358)
Non-operating expenses	**7,822**	–
Loss before tax	**(122,178)**	(78,784)
Income tax benefit	**–**	–
Loss for the year	**(122,178)**	(78,784)
Total comprehensive loss for the year	**(122,178)**	(78,784)
Unrecognized accumulated losses	**(7,988)**	9,617
Share of the Group in loss for the year	**(67,855)**	(28,987)

10. IMPAIRMENT TESTING

Goodwill

Goodwill acquired through business combination has been allocated to IP TV cash generating unit ("CGU"). This CGU is also a part of fixed line segment.

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

	IP TV	
	2017	2016
Goodwill	**2,706,335**	2,706,335

The Group performed testing for impairment in December 2017 and 2016.

The recoverable amount of IP TV CGU has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period.

The after tax discount rate applied to the cash flow projections is 14.86% (2016: 14.95%), and cash flows beyond the five-year period are extrapolated using a 0% growth rate (2016: 0%).

As a result of this analysis as at 31 December 2017, the management have not identified any evidence of impairment of this CGU.

Key assumptions used in value in use calculations

The calculation of value-in-use for IPTV CGU is most sensitive to the following assumptions:

- The customer base over the forecast period and an average revenue per customer;
- Growth rate for cash flow extrapolation beyond the forecast period;
- Discount rate.

Customer base and average revenue per customer

The customer base and average revenue per customer is important because management of the Group estimates how the unit's position may change over the forecast period against its competitors. The Group expects to increase IPTV customer base over the forecast period, as the Group plans to use the advantage of Kazakhtelecom JSC infrastructure to increase the market share of Kazakhtelecom JSC. Given competition, average revenue will decline during the forecast period.

Growth rates

Rates are based on published industry research.

Discount rate

Discount rates represent the current market assessment of the risks specific to this CGU, taking into consideration the time value of money and individual risks of the CGU underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

Sensitivity to changes in assumptions

The effect of changes in key assumptions on the recoverable amount is discussed below:

Customer base and average revenue per customer

Although management expects that the market share owned by the Group will grow over the forecast period, a decrease in the customer base and average revenue per customer by 25.01% (2016: 36.71%) would result in a loss from impairment in IP TV CGU.

10. IMPAIRMENT TESTING (continued)

Sensitivity to changes in assumptions (continued)

Growth rates

Management recognises that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions. A reduction to 8.31% per annum in the long-term growth rate (2016: 12.3% per annum) for IP TV unit would result in impairment loss.

Discount rate

An increase in after tax discount rate to 19.32% (2016: 21.8%) would result in impairment loss in IP TV CGU.

Investment in associate – Khan Tengri Holding B.V.

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

The carrying amount of investment in this CGU was as follows:

	2017	2016
Investment in an associate	**68,327,015**	67,160,792

The Group performed testing for impairment in December 2017 and 2016.

The recoverable amount of Khan Tengri Holding B.V. CGU has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a eight-year period.

The after tax discount rate applied to the cash flow projections is 14.86% (2016: 14.95%), and cash flows beyond the eight-year period are extrapolated using a 1.5% (2016: 3.72%) growth rate.

As a result of this analysis as at 31 December 2017, the management have not identified any evidence of impairment of this CGU. As at 31 December 2016, the Group recognized impairment of the investment in Khan Tengri Holding B.V. in the amount of KZT 4,842,282 thousand.

Key assumptions used in value in use calculations

The calculation of value in use for CGU is most sensitive to the following assumptions:

- Customer base over the forecast period and average revenue per customer with direct impact on revenue growth rates;
- The level of capital investments included in the financial plan;
- EBITDA margin included in the financial plan;
- Growth rate for cash flow extrapolation beyond the forecast period;
- Discount rate.

Customer base, average revenue per customer and revenue growth rates

The customer base and average revenue per customer is important because management of the Group estimates how the unit's position may change over the forecast period against its competitors. The Group's management expects an increase in the customer base over the forecast period because Khan Tengri Holding B.V. plans to take advantage over the competitors of 4G/LTE coverage and speed of mobile internet as well as attractive tariffs to increase its market share. As a result the Group expects an increase in revenue of the unit over the entire forecast period.

Level of capital investments

The level of capital investments is important because it defines the ability of the unit to technically maintain an increase in the customer base and meet the changing market requirements. The level of investments is determined by the needs of the units in completing the technical integration of the two networks in a timely manner, as well as the need to secure and strengthen the advantages of covering the public demand for communication services and improve network quality.

10. IMPAIRMENT TESTING (continued)

Key assumptions used in value in use calculations (continued)

EBITDA margin

EBITDA margin reflects the rate of return included by the unit into its financial plan with consideration of market conditions, competition and other factors. The growing dynamics of this index corresponds to operational growth of the unit and related cost savings.

Growth rates

Rates are based on published industry research.

Discount rate

Discount rates represent the current market assessment of the risks specific to this CGU, taking into consideration the time value of money and individual risks of the CGU underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

Sensitivity to changes in assumptions

The effect of changes in key assumptions on the recoverable amount is discussed below:

Customer base, average revenue per customer and revenue growth rates

Although the management expects that the market share owned by the Group will grow over the forecast period, according to the financial plan, slowing growth of customer base or decrease in the average revenue per customer, leading to a slowdown in revenue growth by more than 2.7%, would result in a loss from impairment in CGU (2016: a slowdown in growth rate by 1% will result to an increase in impairment loss).

Level of capital investments

Increase in capital investments by more than 5.87% will result in loss from impairment in this unit (2016: an increase in capital investments by more than 4.5% will result to an increase in impairment loss).

EBITDA margin

Decrease in EBITDA margin by more than 2.79% will result in loss from impairment in this unit (2016: a decrease in EBITDA margin of more than 1% will result to an increase in impairment loss).

Growth rates

Management recognises that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions. A reduction to (1)% per annum in the long-term growth rate in this unit would result in impairment loss (2016: reduction in the long-term growth rate lower than 3.4% will result to an increase in impairment loss).

Discount rate

An increase in after tax discount rate to 16.52% would result in impairment losses in CGU (2016: an increase in after tax discount rate to 15.28% will result to an increase in impairment losses).

11. INVESTMENT PROPERTY

Movements in investment property for the years ended 31 December 2017 and 2016 were as follows:

In thousands of tenge	2017	2016
Cost		
At 1 January	**1,264,668**	1,264,668
At 31 December	**1,264,668**	1,264,668
Accumulated depreciation and impairment		
At 1 January	**(1,264,668)**	(1,264,668)
At 31 December	**(1,264,668)**	(1,264,668)
Carrying amount		
At 1 January	**–**	–
At 31 December	**–**	–

Investment property is represented by an office building constructed in order to lease it out to the Government related entities.

The impairment of KZT 1,264,668 thousand represents the write down of the carrying amount of the investment property to its recoverable amount. The recoverable amount was based on analysis of value in use and fair value less costs to sell and estimated to be nil as at 31 December 2017 and 2016, as it is unlikely that the Group will receive reimbursement for its construction costs either through sale of the office building or rental payments. However, these assumptions may change in the future.

12. OTHER NON-CURRENT FINANCIAL ASSETS

As at 31 December 2017 and 2016 other non-current financial assets comprised:

In thousands of tenge	2017	2016
Long-term accounts receivable	**3,326,666**	3,024,242
Long-term bank deposits	**3,323,300**	50
Loans to employees	**2,603,464**	2,733,636
Other	**203,876**	225,169
	9,457,306	5,983,097

As at 31 December 2017 and 2016, ageing analysis of long-term receivables, loans to employees and other was as follows:

			Past due but not impaired				
In thousands of tenge	**Total**	**Neither past due nor impaired**	**Less than 30 days**	**30 to 90 days**	**90 to 120 days**	**120 to 360 days**	**Over 360 days**
31 December 2017	**6,134,006**	**6,134,006**	**–**	**–**	**–**	**–**	**–**
31 December 2016	5,983,047	5,983,047	–	–	–	–	–

As at 31 December 2017 and 2016 the Group's other non-current financial assers were denominated in the following currencies:

In thousands of tenge	2017	2016
KZT	**6,134,006**	5,983,097
US dollars	**3,323,300**	–
	9,457,306	5,983,097

As at 31 December 2017, the long-term receivables represent amounts due from Mobile Telecom Service LLP. As disclosed in *Note 39*, on 29 February 2016 the Company and Mobile Telecom Service LLP agreed to extend the maturity of the Company's receivables from Mobile Telecom Service LLP until 2031. These receivables were discounted at the date of restructuring using 10% rate.

12. OTHER NON-CURRENT FINANCIAL ASSETS (continued)

Loans to employees are interest free loans provided for the period from 1 to 15 years. These loans were discounted as at the issue date using market interest rates of 12.2% per annum to 22% (2016: from 12.2 to 22% per annum). Repayment of long-term loans to employees is made through withholding of amounts due from employees' salaries. Loans are secured by employees' real estate properties.

As at 31 December, 2017, the Group placed a long-term deposit with Eximbank Kazakhstan JSC in the amount of KZT 3,323,300 thousand, with a maturity period of up to 2019 and an interest rate of 2.5% per annum.

13. OTHER NON-CURRENT ASSETS

As at 31 December 2017 and 2016 other non-current assets comprised:

In thousands of tenge	**2017**	2016
Deferred connection cost on subscribers	**1,034,865**	1,392,240
Long-term VAT receivable	**822,977**	137,188
Deferred cost on operators	**522,337**	–
Other	**73,342**	73,342
	2,453,521	1,602,770

14. INVENTORIES

As at 31 December 2017 and 2016, inventories comprised:

In thousands of tenge	**2017**	2016
Cable materials at cost	**1,425,726**	1,964,441
Raw and other materials at cost	**556,203**	869,715
Spare parts at cost	**409,529**	787,676
Fuel at cost	**403,243**	542,862
Goods for resale at net realisable value	**220,171**	319,030
	3,014,872	4,483,724

During 2017, an amount of KZT 13,729 thousand (2016: KZT 192,139 thousand) was recognized as expenses in respect of inventories recorded at net realizable value. This amount was recorded within the item "General and administrative expenses".

15. TRADE RECEIVABLES

As at 31 December 2017 and 2016, trade receivables comprised:

In thousands of tenge	**2017**	2016
Trade receivables	**34,370,423**	27,216,691
	34,370,423	27,216,691
Less: allowance for doubtful receivables	**(2,276,195)**	(2,224,485)
	32,094,228	24,992,206

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

In thousands of tenge	**2017**	2016
Allowance for doubtful receivables at the beginning of the year	**(2,224,485)**	(1,914,169)
Charge for the year	**(838,049)**	(876,706)
Write-off for the year	**786,339**	566,390
Allowance for doubtful receivables at the end of the year	**(2,276,195)**	(2,224,485)

15. TRADE RECEIVABLES (continued)

As at 31 December 2017 and 2016, the ageing analysis of trade receivables was as follows:

		Neither past due	Past due but not impaired				
In thousands of tenge	Total	nor impaired	Less than 30 days	30 to 90 days	90 to 120 days	120 to 360 days	Over 360 days
31 December 2017	**32,094,228**	**28,853,169**	**1,712,306**	**1,103,628**	**200,939**	**224,186**	**–**
31 December 2016	24,992,206	23,098,804	989,484	537,916	136,265	229,737	–

As at 31 December 2017 and 2016 the Group's trade receivables were denominated in the following currencies:

In thousands of tenge	2017	2016
Tenge	**31,030,653**	23,928,901
US dollars	**1,060,084**	1,008,804
Other currencies	**3,491**	54,501
	32,094,228	24,992,206

As at 31 December 2017 the Group's trade receivables include amounts due from Mobile Telecom Service LLP of KZT 11,397,300 thousand (31 December 2016: KZT 7,920,728 thousand) resulted from rendering of telecommunication services and providing access to data transfer via IP VPN network. With regards to this receivable the Group plans to make a net offset in the amount of KZT 4,842,282 thousand with Mobile Telecom-Service LLP against of accounts payable to Khan Tengri Holding B.V. *(Note 27)*.

16. ADVANCES PAID

As at 31 December 2017 and 2016, advances paid comprised:

In thousands of tenge	2017	2016
Advances paid	**609,409**	369,685
	609,409	369,685
Less: allowance for doubtful amounts	**(70,653)**	(72,405)
	538,756	297,280

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

In thousands of tenge	2017	2016
Allowance at the beginning of the year	**(72,405)**	(30,716)
Reversal/(charge) for the year	**1,752**	(41,689)
Allowance at the end of the year	**(70,653)**	(72,405)

17. OTHER CURRENT FINANCIAL ASSETS

As at 31 December 2017 and 2016 other current financial assets comprised:

In thousands of tenge	2017	2016
Bank deposits	**58,493,090**	45,889,260
Loans to employees	**2,060,217**	1,896,652
Restricted cash	**446,198**	446,198
Interest receivable	**371,432**	242,197
Reimbursement of fee for using radio frequencies	**205,709**	173,184
Due from employees	**114,825**	97,098
Other accounts receivable	**1,129,742**	1,076,355
Other	**4,065**	5,805
	62,825,278	49,826,749
Less: allowance for doubtful amounts	**(691,591)**	(660,721)
	62,133,687	49,166,028

17. OTHER CURRENT FINANCIAL ASSETS (continued)

Bank deposits with initial maturity of more than 3 (three) months but less than 12 (twelve) months have been placed with local banks and earned income at interest rates of 1 to 13% per annum (2016: 1 to 14.5% per annum).

As at 31 December 2017 and 2016, the ageing analysis of loans to employees and other receivables was as follows:

		Neither past due	Past due but not impaired				
In thousands of tenge	Total	nor impaired	Less than 30 days	30 to 90 days	90 to 120 days	120 to 360 days	Over 360 days
31 December 2017	**3,636,532**	**3,603,623**	**10,846**	**7,061**	**6,053**	**8,949**	**–**
31 December 2016	3,270,963	3,249,131	7,717	5,020	1,812	7,283	–

As at 31 December 2017 and 2016 other financial assets were denominated in the following currencies:

In thousands of tenge	2017	2016
US dollars	**57,772,374**	45,931,882
KZT	**4,357,248**	3,207,484
Other	**4,065**	26,662
	62,133,687	49,166,028

Cash restricted in use represents cash on the accounts with KazInvestBank JSC, which are assessed as unlikely to be recovered due to the revocation of its banking license. Impairment allowance was recorded for the whole amount of this cash.

Reimbursement of fees for using radio frequencies represents receivables from Mobile Telecom Service LLP to refund of the Group's expenses for radio frequencies use fees.

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

In thousands of tenge	2017	2016
Allowance at the beginning of the year	**(660,721)**	(186,760)
Charge for the year	**(46,106)**	(483,549)
Write-off for the year	**15,236**	9,588
Allowance at the end of the year	**(691,591)**	(660,721)

18. OTHER CURRENT ASSETS

As at 31 December 2017 and 2016 other current assets comprised:

In thousands of tenge	2017	2016
Deferred connection costs	**820,026**	934,227
VAT receivable	**495,503**	431,782
Taxes prepaid other than corporate income tax	**161,181**	162,106
Deferred costs on operators	**86,027**	–
Other	**61,285**	67,373
	1,624,022	1,595,488

19. CASH AND CASH EQUIVALENTS

As at 31 December 2017 and 2016 cash and cash equivalents comprised:

In thousands of tenge	2017	2016
Cash on current bank accounts	**14,909,487**	20,976,246
Deposits with less than 90 days' maturity from the date of opening	**1,071,989**	3,332,900
Cash on hand	**4,467**	11,796
	15,985,943	24,320,942

ACCOUNTING POLICIES AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. CASH AND CASH EQUIVALENTS (continued)

Cash on current bank accounts earn interest at the rates ranging from 0.1% to 10% per annum (2016: from 0.1% to 13% per annum). As at 31 December 2017 cash on current bank accounts included an amount of KZT 74,999 thousand placed on overnight deposits with a rate of up to 7% (as of 31 December 2016, "overnight" deposits were not placed). Short-term deposits are made for varying periods between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the rates ranging from 0.15 to 1.5% per annum (2016: from 0.8 to 1% per annum).

As at 31 December 2017 and 2016 cash and cash equivalents were denominated in the following currencies:

In thousands of tenge	**2017**	2016
US dollars	**8,654,970**	17,049,152
Tenge	**7,200,660**	7,237,491
Russian roubles	**98,540**	28,249
Other	**31,773**	6,050
	15,985,943	24,320,942

20. EQUITY

Authorised and issued shares

	Number of shares		In thousands of tenge		
	Common shares	Preferred non-voting shares	Common shares	Preferred non-voting shares	Total issued shares
At 31 December 2015	10,922,876	1,213,653	10,922,876	1,213,653	12,136,529
At 31 December 2016	10,922,876	1,213,653	10,922,876	1,213,653	12,136,529
At 31 December 2017	**10,922,876**	**1,213,653**	**10,922,876**	**1,213,653**	**12,136,529**

Treasury shares

	Number of shares		In thousands of tenge		
	Common shares	Preferred non-voting shares	Common shares	Preferred non-voting shares	Total
At 31 December 2015	215,553	893,129	2,966,250	3,498,238	6,464,488
Treasury shares reacquired	–	–	–	–	–
Sale of treasury shares	–	(32)	–	(114)	(114)
At 31 December 2016	215,553	893,097	2,966,250	3,498,124	6,464,374
Treasury shares reacquired	**–**	**–**	**–**	**–**	**–**
Sale of treasury shares	**–**	**–**	**–**	**–**	**–**
At 31 December 2017	**215,553**	**893,097**	**2,966,250**	**3,498,124**	**6,464,374**

Shares issued less reacquired shares

As at 31 December 2017, number of common and preferred shares issued net of reacquired shares was 10,707,323 and 320,556 shares, respectively (31 December 2016: 10,707,323 and 320,556 shares, respectively).

Preferred shares

Holders of preferred shares are entitled to receive annual cumulative dividends of 300 tenge per share, and not less than the amount of the dividends per share paid to holders of common shares. Payment of preferred shares dividends does not require a resolution of Kazakhtelecom JSC shareholders meeting. The discounted value of future cash flows of annual cumulative dividends is recorded as a financial liability as at 31 December 2017 in the amount of KZT 874,244 thousand (31 December 2016: KZT 874,244 thousand). This liability has been included in non-current liabilities as a debt component of preferred shares. Preferred shareholders receive the right to vote if the general meeting of shareholders considers decisions restricting rights of preferred shareholders, decisions on reorganization or liquidation of the Company and if dividends on preferred shares are not paid within 3 (three) months after a specified payment date.

20. EQUITY (continued)

Dividends

The preferred shares earn a non-discretionary dividend of 300 tenge per share in accordance with the Company's charter documents. Preferred shares are considered to be compound financial instruments, and accordingly the liability and equity components are presented separately in the consolidated statement of financial position. Dividends in the amount of KZT 96,167 thousand were accrued as at 31 December 2017 (at 31 December 2016: KZT 96,167 thousand) and are recorded as interest expenses in the consolidated statement of comprehensive income *(Note 35)*.

On the basis of the decision made at the annual shareholders general meeting of Kazakhtelecom JSC on 21 April 2017, the Company declared dividends on preferred shares based on 2016 results in the amount of KZT 33,520 thousand and dividends on common shares in the amount of KZT 4,331,862 thousand (2016: KZT 10,896 thousand and KZT 3,551,940 thousand, respectively). The dividends accrued on common shares were repaid during 2017. Dividends per share (common and preferred) as at 31 December 2017 were equal to KZT 404.57 (as at 31 December 2016: KZT 331.73 per common and preferred share).

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

In thousands of tenge	**2017**	2016
Dividends payable at the beginning of the year	**1,547,439**	1,582,251
Dividends declared on common shares	**4,331,862**	3,551,940
Dividends declared on preferred shares in excess of the obligatory amount	**33,520**	10,896
Interest on debt component of preferred shares *(Note 35)*	**96,167**	96,167
Withholding tax	**(81,017)**	(66,428)
Dividends paid on common and preferred shares	**(4,299,346)**	(3,627,387)
Dividends payable at the end of the year *(Note 27)*	**1,628,625**	1,547,439

Other reserves

According to the Company's Charter, the Company created a reserve capital equal to 15% of the authorized share capital. This reserve capital was created through appropriation of the retained earnings. There were no movements in the reserve capital in 2017 and 2016.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of financial statements of the subsidiaries, whose functional currency is not tenge and whose financial statements are included in these consolidated financial statements in accordance with the accounting policy disclosed in *Note 3*.

Earnings per share

Basic earnings per share are calculated by dividing net profit for the year attributable to common equity holders of the Parent (after adjusting for the after-tax amount of dividends on preferred shares) by the weighted average number of common and preferred shares outstanding during the year.

Diluted earnings per share are equal to basic earnings per share, as the Group does not have any dilutive potential common shares.

The following tables reflects profit and share data used in the basic and diluted earnings per share computations:

In thousands of tenge	**2017**	2016
Net profit from continuing operations	**24,717,821**	14,872,009
Net profit from discontinued operations	**-**	40,959,809
Net profit	**24,717,821**	55,831,818
Interest on preferred shares	**96,167**	96,167
Net profit	**24,813,988**	55,927,985
Weighted average number of common and preferred shares for calculation of basic and diluted earnings per share	**11,027,879**	11,027,863
Basic and diluted earnings per share, tenge	**2,250.11**	5,071.51

ACCOUNTING POLICIES AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. EQUITY (continued)

Earnings per share (continued)

The following table reflects profit and share data used in the computation of basic and diluted earnings per share from continuing activities:

In thousands of tenge	**2017**	2016
Net profit from continuing operations	**24,717,821**	14,872,009
Interest on preferred shares	**96,167**	96,167
Weighted average number of common and preferred shares for calculation of basic and diluted earnings per share	**11,027,879**	11,027,863
Basic and diluted earnings per share, profit from continuing operations for the year, tenge	**2,250.11**	1,357.30

There have been no other transactions involving common shares or potential common shares between the reporting date and the date of preparation of these consolidated financial statements.

In accordance with listing requirements of Kazakhstan Stock Exchange, the Group should disclose ratio of total assets less total intangible assets, total liabilities and preferred non-voting shares (in equity) to the number of issued common shares at the end of the year. As at 31 December 2017, this ratio was equal to KZT 32,052 (as at 31 December 2016: KZT 30,478). Another requirement for disclosure is the amount of the dividends payable to owners of preferred non-voting shares, preferred non-voting shares in the equity and debt component of preferred non-voting shares, divided by number of preferred non-voting shares. As at 31 December 2017 this ratio was equal to KZT 8,538 (as at 31 December 2016: KZT 8,553).

21. BORROWINGS

As at 31 December 2017 and 2016, borrowings comprised:

In thousands of tenge	**Weighted average interest rate**	**2017**	Weighted average interest rate	2016
Borrowings with a fixed interest rate of 7% to 9% per annum	**8.13%**	**27,325,554**	8.35%	56,268,176
		27,325,554		56,268,176

As at 31 December 2017 and 2016, borrowings were denominated in the following currencies:

In thousands of tenge	**2017**	2016
Tenge	**27,325,554**	28,450,534
Tenge, payments indexed to exchange rate tenge / US dollar	**–**	27,817,642
	27,325,554	56,268,176

Borrowings are repayable as follows:

In thousands of tenge	**2017**	2016
Current portion of borrowings	**2,357,864**	2,473,507
Maturity between 1 and 2 years	**4,065,248**	2,029,593
Maturity between 2 and 5 years	**12,177,556**	38,981,004
Maturity over 5 years	**8,724,886**	12,784,072
Total non-current portion of borrowings	**24,967,690**	53,794,669
Total borrowings	**27,325,554**	56,268,176

As at 31 December 2017, the Parent is a guarantor of the Group's credit facility in the amount of KZT 26,991,220 thousand received from Development Bank of Kazakhstan JSC (as at 31 December 2016: KZT 26,991,220 thousand). As at 31 December, 2017 and 2016, the Group's borrowings are not collateralized by any property other than the above-mentioned guarantee.

22. LEASE

Finance lease

The Group has entered into finance lease agreements on the number of property and equipment, primarily telecommunication equipment. According to agreement terms, leased assets pass into the Group's ownership after the expiry of lease term. The amounts of future minimum lease payments and their present values are presented as follows:

	2017		2016	
In thousands of tenge	**Minimum lease payments**	**Present value of minimum lease payments**	Minimum lease payments	Discounted value of minimum lease payments
Within one year	**5,305,919**	**3,920,719**	3,514,387	3,162,706
After one year but not more than five years	**9,331,352**	**7,681,118**	1,333,351	1,273,015
Less: amounts representing future finance costs	**(3,035,434)**	**–**	(412,017)	–
Discounted value of minimum lease payments	**11,601,837**	**11,601,837**	4,435,721	4,435,721
Less: amounts due for settlement within 12 months		**3,920,719**		3,162,706
Amounts due for settlement after 12 months		**7,681,118**		1,273,015

The amounts representing finance costs are based on effective interest rates from 12.5% to 14.6% per annum.

Operating lease

The Group has entered into commercial agreements of operating lease on certain property and equipment, primarily buildings and constructions. These leases have an average life of 1 year with renewal option included in the agreements. There are no restrictions placed upon the lessee by entering into these leases. Information on obligations under operating lease agreements is disclosed in *Note 43*.

23. EMPLOYEE BENEFIT OBLIGATIONS

State contribution plan

The Group pays social tax according to the current statutory requirements of the Republic of Kazakhstan. The social tax and salary accruals are recorded in expenses as incurred.

In addtions, the Group withholds 10% of the salary of employees paid as contributions of employees to the accumulating pension funds. These expenses are recorded in the period when they were incurred.

Employee benefit obligations

As at 31 December 2017 and 2016 the total employee benefit obligations of the Group comprised the following:

In thousands of tenge	**2017**	2016
Present value of defined benefit pension plan obligation	**12,474,055**	7,831,035
Present value of obligations for other long-term payments	**458,129**	388,503
	12,932,184	8,219,538

23. EMPLOYEE BENEFIT OBLIGATIONS (continued)

Employee benefit obligations (continued)

A defined benefit pension plan provides for the fulfillment of obligations under the state pension provision in accordance with the Collective Agreement concluded between the Company and employees. Other long-term payments include anniversaries, funeral payments, and others.

The Group did not create a fund for such obligations.

A reconciliation of the present value of the defined benefit plan obligation with specified payments was as follows for the years ended 31 December 2017 and 2016:

In thousands of tenge	**2017**	2016
Total liability at the beginning of the year	**7,831,035**	7,362,909
Current service cost	**334,343**	256,175
Interest expenses	**747,081**	699,476
Benefits paid during the year	**(1,736,771)**	(1,247,503)
Actuarial losses recognized during the period within other comprehensive income	**5,298,367**	759,978
Total liability at the end of the year	**12,474,055**	7,831,035
Liability payable within one year	**(909,227)**	(350,182)
Liability payable after one year	**11,564,828**	7,480,853

A reconciliation of the present value of obligations for other long-term payments with specified payments was as follows for the years ended 31 December 2017 and 2016:

In thousands of tenge	**2017**	2016
Total liability at the beginning of the year	**388,503**	423,136
Current service cost	**34,668**	38,689
Interest expenses	**37,063**	40,198
Benefits paid during the year	**(79,858)**	(73,085)
Actuarial losses recognized during the period within expenses	**77,753**	(40,435)
Total liability at the end of the year	**458,129**	388,503
Liability payable within one year	**(82,943)**	(80,372)
Liability payable after one year	**375,186**	308,131

Actuarial losses recognised in 2017 have resulted primarily from changes in the assumptions relating to the discount rate and from historical adjustments.

Cost of current service, interest expenses and actuarial losses in the total amount of KZT 1,230,908 thousand were recorded in cost of sales and general and administrative expenses within personnel costs (2016: KZT 994,103 thousand) *(Note 34)*.

Actuarial losses recognized in 2017 within other comprehensive income, net of income tax, were equal to KZT 5,037,715 thousand (2016: KZT 607,983 thousand).

There were no unrecognised actuarial losses or past service costs.

The estimates of the liability were made on the basis of the published statistical data regarding mortality of employees and actual Company's data concerning the number, age, gender and years of employee service. Other principal assumptions used in determining benefit obligations for the Company's plan were shown below:

	2017	2016
Discount rate	**7.40%**	9.54%
The expected rate of future annual minimum salary increases	**8.70%**	7.00%

23. EMPLOYEE BENEFIT OBLIGATIONS (continued)

Employee benefit obligations (continued)

A quantitative sensitivity analysis for significant assumptions as at 31 December 2017, was as follows:

	Discount rate		**The expected rate of future annual minimum salary increases**	
Sensitivity level	Growth by 0.5%	Reduction by 0.5%	Growth by 1%	Reduction by 1%
Impact on defined benefit plan obligations, in thousands tenge	(636,998)	691,057	1,337,969	(1,160,631)

A quantitative sensitivity analysis for significant assumptions as at 31 December 2016, was as follows:

	Discount rate		The expected rate of future annual minimum salary increases	
Sensitivity level	Growth by 0.5%	Reduction by 0.5%	Growth by 1%	Reduction by 1%
Impact on defined benefit plan obligations, in thousands tenge	(195,110)	296,804	539,718	(460,198)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analyses are based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

24. OTHER NON-CURRENT FINANCIAL LIABILITIES

As at 31 December 2017 and 2016 other non-current financial liabilities comprised :

In thousands of tenge	**2017**	2016
Guarantees issued	**258,551**	726,808
Non-current accounts payable	**1,880**	2,174
	260,431	728,982

Guarantees issued

As disclosed in *Note 39*, on 25 February 2016, the Company provided a guarantee to Mobile Telecom Service LLP under the credit facility from Kazkommertsbank with a credit limit of up to KZT 14,000,000 thousand for the period until 25 February 2023 and a guarantee to Altel JSC under the credit facility from Development Bank of Kazakhstan JSC with a credit limit of up to KZT 10,008,780 thousand for the period until 19 December 2024.

Kazkommertsbank JSC

On 30 December 2016, an additional agreement was signed to the Guarantee Agreement of 25 February 2016 between Kazkommertsbank JSC and the Company to reduce from KZT 14,000,000 thousand to KZT 7,000,000 thousand. On 24 April 2017, the Company and Kazkommertsbank JSC signed an agreement on termination of the Guarantee Agreement of 25 February 2016 for the amount of KZT 7,000,000 thousand. The actual use of credit funds under this guarantee has not been made. As at 31 December 2017, this debt was equal to nil, the guarantee is canceled.

24. OTHER NON-CURRENT FINANCIAL LIABILITIES (continued)

Guarantees issued (continued)

Halyk Bank JSC

On 30 December 2016, the Company provided a guarantee for the obligations of Mobile Telecom-Service LLP under a credit line with Halyk Bank of Kazakhstan JSC with a credit limit of up to KZT 7,000,000 thousand for the period until 20 December 2023.

On 28 December 2017, the Agreement on the provision of a credit line dated 20 December 2016, concluded between the Company, Mobile Telecom-Service LLP and Halyk Bank of Kazakhstan JSC. The agreement was terminated due to maturity of availability of credit funds (19 December 2017), as well as due to not using funds under the specified line of credit from Mobile Telecom-Service LLP. In addition, due to termination, all obligations of the Company as the Guarantor Guarantee dated 30 December 2016 were terminated. As at 31 December 2017, the actual amount of the credit line in JSC Halyk Bank of Kazakhstan was nil, the guarantee was canceled.

Development Bank of Kazakhstan JSC

As at 31 December 2017, the only current guarantee for the obligations of Mobile Telecom-Service LLP to banks is a credit line guarantee to Development Bank of Kazakhstan JSC. The actual amount of the loan under the credit line in Development Bank of Kazakhstan JSC was KZT 9,984,421 thousand as at 31 December 2017.

25. OTHER NON-CURRENT LIABILITIES

As at 31 December 2017 and 2016 other non-current liabilities comprised :

In thousands of tenge	**2017**	2016
Deferred connection income on subscribers	**1,444,644**	1,763,417
Deferred income from operators	**2,758,768**	–
Decommissioning liabilities	**145,985**	141,564
Other	**1,012,450**	1,575,176
	5,361,847	3,480,157

Decommissioning liabilities

Provision for decommissioning liabilities is recorded at the discounted value of expected costs to bring the sites and facilities to their original condition using estimated cash flows and is recognised as part of the cost of the specific asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability.

Movements in provision for decommissioning liabilities for the years ended 31 December 2017 were as follows:

In thousands of tenge	**2017**	2016
Provision for decommissioning liabilities as at 1 January	**141,564**	66,614
Additional provisions	**1,114**	61,057
Amortization of discount on continuing operations *(Note 35)*	**3,307**	13,893
Provision for decommissioning liabilities as at 31 December	**145,985**	141,564

26. TRADE PAYABLES

As at 31 December 2017 and 2016 trade payables comprised:

In thousands of tenge	**2017**	2016
Trade payables for services rendered	**8,546,021**	6,635,766
Trade payables for supply of property and equipment	**4,635,227**	4,558,941
Trade payables for inventory received	**325,297**	802,635
	13,506,545	11,997,342

As at 31 December 2017 and 2016 trade payables were interest-free.

26. TRADE PAYABLES (continued)

As at 31 December 2017 and 2016 trade payables were mainly denominated in the following currencies:

In thousands of tenge	2017	2016
Tenge	**12,146,351**	11,429,856
US dollars	**994,400**	379,761
Other	**365,794**	187,725
	13,506,545	11,997,342

27. OTHER CURRENT FINANCIAL LIABILITIES

As at 31 December 2017 and 2016 other current financial liabilities comprised:

In thousands of tenge	2017	2016
Payables to employees	**6,239,349**	4,363,711
Payable to Khan Tengri Holding B.V.	**4,842,282**	4,842,282
Dividends payable *(Note 20)*	**1,628,625**	1,547,439
Guarantees issued	**82,150**	151,852
Other	**563,655**	905,401
	13,356,061	11,810,685

Payable to Khan Tengri Holding B.V. is related to final settlements on acquisition of interest in associate of Khan Tengri Holding B.V. *(Note 9, 39)*.

As at 31 December 2017 and 2016, other current financial liabilities was not interest bearing and the balances were mainly denominated in tenge.

28. OTHER CURRENT LIABILITIES

As at 31 December 2017 and 2016 other current liabilities comprised:

In thousands of tenge	2017	2016
Taxes payable other than income tax	**2,600,717**	2,335,514
Payable to pension funds	**718,267**	864,145
Deferred connection income on subscribers	**586,369**	662,586
Deferred income from operators	**412,170**	–
Other	**504,137**	456,242
	4,821,660	4,318,487

29. REVENUE

Revenue for the years ended 31 December comprised:

In thousands of tenge	2017	2016
Data transfer services	**106,291,761**	102,272,443
Rendering of fixed line and wireless phone services	**48,325,566**	52,923,822
Rent of lines	**18,419,971**	16,537,084
Interconnect	**15,876,122**	18,344,782
Other	**14,144,120**	8,388,580
	203,057,540	198,466,711

30. COMPENSATION FOR PROVISION OF UNIVERSAL SERVICES IN RURAL AREAS

According to the Resolution of the Government of the Republic of Kazakhstan No. 451, dated 31 March 2009, *On the Approval of Subsidies for Telecommunication Operators Losses Related to the Provision of Universal Telecommunication Services in Rural Areas*, the Group receives government subsidies as compensation for operators' losses for the provision of telecommunication services to socially important destinations. There are no unfulfilled conditions or contingencies attached to these subsidies. The compensation received for the year ended 31 December 2017 was equal to KZT 7,167,685 thousand (2016: KZT 7,353,257 thousand).

31. COST OF SALES

Cost of sales for the years ended 31 December comprised:

In thousands of tenge	2017	2016
Personnel costs *(Note 34)*	**51,977,009**	52,015,463
Depreciation and amortization	**42,929,496**	30,652,953
Repair and maintenance expenses	**7,981,590**	8,273,302
Rental of channels	**7,569,127**	8,641,512
Inventories	**7,301,851**	6,634,679
Interconnect	**7,068,297**	7,501,132
Fees for usage of GSM radiofrequencies of Mobile Telecom Services LLP	**5,446,007**	5,108,840
Content	**4,995,547**	4,248,377
Fee to provide telecom services	**2,831,806**	2,749,103
Electricity	**2,763,385**	2,719,383
Security and safety	**2,488,223**	2,258,226
Utilities	**1,709,762**	1,481,762
Rental of equipment	**960,294**	903,224
Business trip expenses	**737,406**	622,107
Rent of transponders related to satelite communications	**698,782**	717,746
Insurance	**524,521**	363,518
Fees for usage of billing system of Mobile Telecom Services LLP	**250,000**	234,000
Fees for radiofrequencies use	**202,632**	351,398
Other	**3,240,981**	2,815,636
	151,676,716	138,292,361

32. GENERAL AND ADMINISTRATIVE EXPENSES

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

In thousands of tenge	2017	2016
Personnel costs *(Note 34)*	**12,385,800**	12,056,669
Taxes other than corporate income tax	**3,083,629**	2,937,777
Consulting services	**1,169,063**	1,466,552
Allowance for doubtful receivables *(Notes 15, 16* and *17)*	**882,403**	1,411,405
Social activities	**731,491**	637,038
Business trips expenses	**458,529**	349,215
Insurance	**258,001**	211,589
Repair and maintenance expenses	**253,984**	247,609
Inventories	**247,306**	230,387
Depreciation and amortization	**221,490**	256,961
Trainings	**126,362**	83,478
Bank fees	**101,379**	198,175
Security and safety	**69,767**	87,611
Rental of equipment	**33,319**	78,375
Write-down of inventories to net realizable value *(Note 14)*	**13,729**	192,139
Other	**1,416,098**	1,346,061
	21,452,350	21,791,041

33. SELLING EXPENSES

Selling expenses for the years ended 31 December comprised:

In thousands of tenge	2017	2016
Marketing and advertising	**2,109,757**	1,744,576
Dealers commission	**1,289,929**	801,790
Other	**402,486**	382,430
	3,802,172	2,928,796

34. PERSONNEL EXPENSES

Personnel expenses for the years ended 31 December comprised:

In thousands of tenge	2017	2016
Payroll	**57,235,422**	57,456,111
Payroll related taxes	**5,896,479**	5,621,918
Employee benefits *(Note 23)*	**1,230,908**	994,103
	64,362,809	64,072,132

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

In thousands of tenge	2017	2016
Cost of sales *(Note 31)*	**51,977,009**	52,015,463
General and administrative expenses *(Note 32)*	**12,385,800**	12,056,669
	64,362,809	64,072,132

35. (FINANCE COSTS) / FINANCE INCOME

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

In thousands of tenge	2017	2016
Finance costs		
Interest expense on loans *(Note 42)*	**(6,535,447)**	(4,591,568)
Discounting of long-term loans to employees	**(601,926)**	(678,722)
Interest payable under finance leases *(Note 42)*	**(578,249)**	(872,127)
Interest on debt component of preferred shares *(Note 20)*	**(96,167)**	(96,167)
Discounting of other non-current financial assets	**(6,993)**	(139,048)
Unwinding of discount on long-term accounts payable	**(3,665)**	(21,020)
Unwinding of discount (provision for decommissioning liability) *(Note 25)*	**(3,307)**	(13,893)
	(7,825,754)	(6,412,545)
Finance income		
Interest income on deposits	**1,403,158**	1,028,267
Unwinding of discount on long-term loans to employees	**1,019,945**	1,058,544
Interest income on cash balances	**799,590**	860,930
Interest income on guarantees issued *(Note 24)*	**537,959**	128,218
Unwinding of discount on long-term accounts receivable	**364,402**	499,324
	4,125,054	3,575,283

36. NET FOREIGN EXCHANGE LOSS

On 20 August 2015, the National Bank and the Government of the Republic of Kazakhstan announced the transition to "free floating exchange rate of tenge" and cancelation of the currency corridor. As a result, Kazakhstani tenge significantly devalued against US dollar and other major currencies approximately by 90%. In 2017 and 2016 the Group had a balanced foreign exchange position, and therefore, for the year ended 31 December 2017, the Group recognized a net foreign exchange loss in the amount of KZT 633,942 thousand (in 2016: net foreign exchange loss in the amount of KZT 890,461 thousand).

ACCOUNTING POLICIES AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. OTHER INCOME/(EXPENSES)

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

In thousands of tenge	2017	2016
Other income		
Rental income	**3,247,383**	3,194,530
Non-core operations	**459,366**	452,817
Other	**720,901**	550,288
	4,427,650	4,197,635
Other expenses		
Impairment loss of property and equipment and intangible assets *(Notes 7, 8)*	**(1,246,347)**	–
Non-core operations	**(403,235)**	(427,284)
Rent	**(11,916)**	(12,310)
Other	**(198,273)**	(30,548)
	(1,859,771)	(470,142)

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

38. INCOME TAX EXPENSES

Income tax expenses for the years ended 31 December comprised:

In thousands of tenge	2017	2016
Current corporate income tax expenses	**8,646,038**	7,432,290
Deferred income tax (benefit)/expenses	**(427,193)**	1,777,740
	8,218,845	9,210,030

The Group and its subsidiaries except for KT-IX LLC and Online.kg LLC are subject to taxation in the Republic of Kazakhstan. KT-IX LLC is subject to taxation in the Russian Federation.

Tax rate for the Group and subsidiaries except for subsidiaries stated above was 20% in 2017 and 2016.

A reconciliation of income tax expenses applicable to profit before taxation at the statutory rate of 20% (2016: 20%), with the current corporate income tax expenses for the years ended 31 December is out below:

In thousands of tenge	2017	2016
Profit before tax from continuing operations	**32,936,666**	24,082,039
Profit before tax from discontinued operations	–	42,621,503
Profit before taxation	**32,936,666**	66,703,542
Income tax at statutory income tax rate of 20%	**6,587,333**	13,340,708
Inventories write-offs	**29,800**	125,727
Changes in unrecognised deferred tax assets	**(44,455)**	(139,348)
Share in (profit)/loss of associates non-deductible for tax purposes	**(219,673)**	2,713,639
Non-taxable gain from discontinued operations	–	(6,091,417)
Employee benefits obligations	**834,592**	-
Non-deductible expenses	**1,031,248**	922,415
Total income tax expenses	**8,218,845**	10,871,724
Income tax expense reported in the consolidated statement of comprehensive income as continued operations	**8,218,845**	9,210,030
Income tax related to discontinued operations *(Note 39)*	–	1,661,694
Total income tax expenses	**8,218,845**	10,871,724

38. INCOME TAX EXPENSES (continued)

Deferred tax balances, calculated by applying the statutory tax rates in effect at the reporting date to the temporary differences between tax basis of assets and liabilities and the amounts reported in the consolidated financial statements, comprised the following as at 31 December 2017:

	Consolidated statement of financial position		Consolidated statement of comprehensive income		Charged to other comprehensive income	
In thousands of tenge	**31 December 2017**	31 December 2016	**2017**	2016	**2017**	2016
Deferred tax assets						
Tax losses carry-forward	–	17,384	**(17,384)**	(2,064,383)	–	–
Employee benefit obligations	**935,383**	1,643,908	**(969,177)**	(65,296)	**260,652**	151,995
Discount on long-term assets	**936,763**	1,037,058	**(100,295)**	(126,506)	–	–
Accrued expenses	–	–	–	(1,105,482)	–	–
Accrued provisions for unused vacations	**257,068**	256,363	**705**	(136,527)	–	–
Allowance for doubtful receivables	**454,985**	507,331	**(52,346)**	135,510	–	–
Interest payable on borrowings	–	272,588	**(272,588)**	47,328	–	–
Intangible assets	**165,350**	128,609	**36,741**	68,537	–	–
Deferred income	**35,224**	17,860	**17,364**	(38,002)	–	–
Other	**934,596**	654,286	**280,310**	(226,914)	–	–
Less: unrecognised tax assets	**(92,891)**	(137,346)	**44,455**	139,348	–	–
Less: deferred tax assets less deferred tax liabilities	**(3,521,864)**	(4,398,041)	**876,177**	1,715,171	–	–
Deferred tax assets	**104,614**	–	**(156,038)**	(1,657,216)	**260,652**	151,995
Deferred tax liabilities						
Property and equipment	**22,323,250**	23,756,637	**(1,433,387)**	67,414	–	–
Intangible assets	**239,464**	265,485	**(26,021)**	(325,844)	–	–
Less: deferred tax assets less deferred tax liabilities	**(3,521,864)**	(4,398,041)	**876,177**	1,715,171	–	–
Deferred tax liabilities	**19,040,850**	19,624,081	**(583,231)**	1,456,741	–	–
Deferred income tax (expense)/benefit			**427,193**	(3,113,957)	**260,652**	151,995

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

In thousands of tenge	**2017**	2016
Deferred tax assets		
Continuing operations	**104,614**	–
Deferred tax liabilities	**(19,040,850)**	(19,624,081)
Net deferred tax liabilities	**(18,936,236)**	(19,624,081)

In thousands of tenge	**2017**	2016
Reconciliation of deferred tax liabilities, net		
Balance at 1 January	**(19,624,081)**	(16,662,119)
Income tax benefit/(expenses) for the reporting period – origination and recovery of temporary differences	**427,193**	(1,777,740)
Less: deferred tax recognised within other comprehensive income	**260,652**	151,995
Discontinued operations *(Note 39)*	–	(1,336,217)
Balance at 31 December	**(18,936,236)**	(19,624,081)

The Group performs offsetting of tax assets and liabilities only if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred tax assets and deferred tax lbiabilities relating to income tax collected by the same taxation authority.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. In accordance with legislation of the Republic of Kazakhstan, tax losses may be deferred for 10 (ten) years from the date of their origination and will expire in 2019. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

38. INCOME TAX EXPENSES (continued)

As at 31 December 2017, the Group has not recognised deferred tax assets in relation to the temporary difference in the amount of 20,554,741 thousand tenge related to investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not expect to reverse them in the foreseeable future.

39. DISCONTINUED OPERATIONS

On 3 November 2015, the Group announced the decision of its Board of directors to enter into an agreement to form a joint venture in mobile segment based on Altel JSC (ALTEL 4G brand) and Mobile Telecom-Service LLP (Tele2 brand) businesses.

On 29 February 2016, Kazakhtelecom JSC and Tele2 completed the transaction on formation of a joint venture in mobile segment based on Altel JSC and Mobile Telecom-Service LLP businesses. As a result of this transaction, Kazakhtelecom JSC received 51% of the authorised capital and 49.48% of voting shares in Khan Tengri Holding B.V. in exchange for 100% share in Altel JSC *(Note 9)*.

According to the transaction terms, on 25 February 2016, the Company provided a guarantee to Mobile Telecom Service LLP under the credit facility from Kazkommertsbank with a credit limit of up to KZT 14,000,000 thousand for the period until 25 February 2023 and a guarantee to Altel JSC under the credit facility from Development Bank of Kazakhstan JSC with a credit limit of up to KZT 10,008,780 thousand for the period until 19 December 2024.

Also, according to the transaction terms, on 29 February 2016 the Company and Mobile Telecom Service LLP agreed to extend the maturity of the Company's receivables from Mobile Telecom Service LLP until 2031. Receivables were discounted at the date of restructuring using the 10% market interest rate.

On 25 February 2016, borrowing of Altel JSC under the credit line in Development Bank of Kazakhstan JSC of KZT 26,991,220 thousand and borrowing of the credit line in SB Sberbank of Russia of KZT 3,000,000 thousand were transferred to the Company.

Results of discontinued operations are presented as follows:

In thousands of tenge	**For the period from 1 January 2016 to 29 February 2016**
Revenue	4,961,007
Cost of sales	(2,533,355)
Gross profit	**2,427,652**
General and administrative expenses	(585,577)
Selling expenses	(601,613)
Operating profit	**1,240,462**
Finance costs	(421,325)
Finance income	175,085
Other income	47,958
Profit before tax from discontinued operations	**1,042,180**
Income tax expenses	(423,337)
Profit for the year from discontinued operations	**618,843**
Gain on disposal of a subsidiary	41,579,323
Income tax expenses from disposal of a subsidiary	(1,238,357)
Total profit for the year from discontinued operations	**40,959,809**

39. DISCONTINUED OPERATIONS (continued)

Gain on disposal of a subsidiary Altel JSC is presented as follows:

In thousands of tenge	For the period from 1 January 2016 to 29 February 2016
Preliminary assessment of the fair value of investment in Khan Tengri Holding B.V. *(Note 9)*	80,700,000
Disposed net assets	(30,954,363)
Discounting of receivables from Mobile Telecom-Service LLP	(7,282,414)
Obligations under guarantees issued	(883,900)
Profit from disposal of subsidiary	**41,579,323**

The major classes of assets and liabilities of Altel JSC as at disposal were as follows:

In thousands of tenge	29 February 2016
Assets	
Property and equipment	28,048,578
Intangible assets	8,082,670
Deferred tax asset	911,526
Inventories	2,067,089
Trade receivables	3,889,479
Cash and cash equivalents	1,683,295
Other	2,453,617
Total assets	**47,136,254**
Liabilities	
Borrowings	–
Trade payables	(10,423,524)
Advances received	(1,389,595)
Other	(4,368,772)
Total liabilities	**(16,181,891)**
Disposed net assets	**30,954,363**

Net cash flows of Altel JSC:

In thousands of tenge	For the period from 1 January 2016 to 29 February 2016
Operating	(10,770,566)
Investing	(4,777,192)
Financing	8,542,902
Net cash outflows	**(7,004,856)**

Net cash outflows from disposal of the subsidiary Altel JSC are presented as follows:

In thousands of tenge	For the period from 1 January 2016 to 29 February 2016
Cash of disposed subsidiary	(1,683,295)
Net disposal of cash from subsidiary disposal	**(1,683,295)**

39. DISCONTINUED OPERATIONS (continued)

In thousands of tenge	**2016**
Profit per share	
Basic and diluted, from discontinued operations, tenge	3,714.21

40. NON-CASH TRANSACTIONS

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

In 2017, the Group paid an amount of KZT 4,545,215 thousand for property and equipment purchased in prior year (2016: KZT 5,276,702 thousand). Property and equipment in the amount of KZT 4,635,227 thousand was purchased in 2017 but not paid as at 31 December 2017 (2016: KZT 4,558,941 thousand).

In 2017 in accordance with the finance lease agreements, the Group received telecommunication equipment amounting to KZT 9,019,870 thousand (2016: nil)

41. RELATED PARTY TRANSACTIONS

The category 'entities under control of the Parent' include entities controlled by the Parent Company. Transactions with such entities are mainly represented by transactions of the Group with NC Kazakhstan Temir Zholy JSC, NC KazMunayGaz JSC, KEGOC JSC, Kazpost JSC. The Group provides telecommunication services to the Parent and entities controlled by the Parent.

Related party transactions (including transactions with Khan Tengri Holdings B.V. and its subsidiary Mobile Telecom Service LLP) were made on terms, agreed to between the parties, which do not necessarily represent market terms and maybe not accessible to third parties. Outstanding balances at the end of the year are not secured, are short-term, and settlements are made in cash, except as described below.

As at 31 December 2017 and 2016, the Group has not recorded any impairment of accounts receivable relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Sales and purchases with related parties during the years ended 31 December 2017 and 2016 and the balances with related parties at 31 December 2017 and 2016 were as follows:

In thousands of tenge	**2017**	2016
Sales of goods and services		
Parent	**383,768**	204,883
Parent-controlled entities	**3,041,650**	3,954,878
Associate (Khan Tengri Holding B.V.) [1]	**22,089,462**	18,445,746
Associate (Qaz Cloud LLP)	**239**	144
Government institutions	**30,588,918**	28,657,548
Purchases of goods and services		
Parent	**–**	30,226
Parent-controlled entities	**3,189,663**	1,685,666
Associate (Khan Tengri Holding B.V.) [1]	**8,350,347**	8,052,200
Government institutions	**109,616**	557,754
Interest accrued on borrowings		
Entities under state control (Development Bank of Kazakhstan JSC)	**6,498,768**	4,199,838
Average interest rate on borrowings	**8.15%**	8.15%

41. RELATED PARTY TRANSACTIONS (continued)

In thousands of tenge	2017	2016
Cash and cash equivalents		
Entities under state control		
(Development Bank of Kazakhstan JSC)	**172**	3,240
Borrowings		
Entities under state control		
(Development Bank of Kazakhstan JSC)	**27,319,491**	55,137,133
Trade and other accounts receivable		
Parent	**56,378**	51,156
Parent-controlled entities	**797,881**	536,969
Associate (Khan Tengri Holding B.V.)	**14,949,354**	11,164,458
Associate (Qaz Cloud LLP)	**71**	2,050
Government institutions	**7,078,905**	4,411,156
Accounts payable		
Parent-controlled entities	**172,879**	335,297
Associate (Khan Tengri Holding B.V.)	**9,370,735**	8,231,494
Associate (Qaz Cloud LLP)	**–**	7,148
Government institutions	**477,877**	525,492
Other non-current assets		
Long-term loans to key management personnel	**27,294**	38,513
Long term deposits with Eximbank JSC	**3,323,300**	–

In 2017 and 2016, the Group provided communication services for the entities controlled by the Parent, and purchased goods and services to support operating activities related to provision of telecommunication services from such entities.

[1] The Group has significant volumes of transactions with Mobile Telecom Services LLP ("MTS"), subsidiary of Khan Tengri B.V., including revenue from data transmission, access to internet, rental of lines, interconnect and other revenue that in total comprise 11% from total consolidated revenue of the Group. In addition, the Group purchased from MTS services related to the usage of GSM radiofrequencies, interconnect, mobile traffic for converged services and other services that in total comprise 6% from total consolidated cost of sales of the Group.

Sales and purchases with MTS during the years ended 31 December 2017 and 2016 were as follows:

In thousands of tenge	2017	2016
Sales of goods and services		
Data transmission [A]	**12,998,033**	9,336,018
Rent of channels [B]	**5,696,007**	5,342,840
Interconnect [C]	**1,228,912**	1,005,755
Base cell stations maintenance [D]	**853,828**	903,371
Rent of sites for base stations	**672,800**	520,993
Other	**639,882**	1,336,769
	22,089,462	18,445,746
Purchases of goods and services		
Fee for usage of GSM radiofrequencies [E]	**5,446,007**	5,108,840
Mobile traffic at wholesale tariffs [F]	**1,701,897**	1,315,964
Interconnect [G]	**614,191**	466,144
Fee for usage of billing system [H]	**250,000**	234,000
Other	**338,252**	927,252
	8,350,347	8,052,200

[A] Data transmission represented revenue from provision of fixed and wireless communication channels, and access to the internet. It is calculated on the basis of provided communication channels capacity (Mb/s), as well as the number of communication channels provided.

41. RELATED PARTY TRANSACTIONS (continued)

[B] Rent of channels represents revenue from the provision to the temporary use of channels with the specified technical characteristics, organized based on LTE base cell stations (i.e. 4G license radiofrequencies). It is calculated based on the actual number of rented channels. In February 2016, the Group concluded an agreement with MTS for renting out 4G license radiofrequencies. Rental fees are payable on a monthly basis. Simultaneously upon concluding the agreement for renting out 4G license radiofrequencies the Group and MTS agreed to increase fees for use of GSM radiofrequencies and fee for usage of the billing system payable by the Group as described below.

[C] Revenue from interconnect is calculated based on the actual volumes of minutes of the connection.

[D] Revenue from base cell stations maintenance represents revenue from the provision of various services to ensure the stable and uninterrupted operation of radio access networks, and is calculated based on the actual number of base stations served.

[E] Fee for usage of GSM radiofrequencies is fixed monthly payment for the usage of the GSM radiofrequencies owned by MTS.

[F] Cost of mobile traffic at wholesale tariffs is the actual traffic used by Kazakhtelecom JSC customers in the mobile operator's network and is calculated based on the actual number of outgoing minutes, short messages (SMS), and megabytes of mobile traffic.

[G] Expenses on interconnect are calculated based on the actual volume of minutes of the connections.

[H] Fee for usage of billing system is fixed monthly payment for the usage of the MTS billing system.

The provision of these service is governed by different agreements that are not related to each other. Under each such agreement, the Group is either receiving or providing a certain type of services, for which the Group receives or pays a fee, which may differ from the terms under agreements with third parties. The difference from the terms under agreements with third parties could be explained by volume discounts and other special conditions between the Group and its associate. Volumes of services purchased from / sold to MTS exceed the volume of similar transactions with third party operators.

Compensation to key management personnel

For the years ended 31 December 2017 and 2016, the total compensation to key management personnel included in the accompanying consolidated statement of comprehensive income under general and administrative expenses was KZT 681,493 thousand and KZT 654,466 thousand, respectively. Compensation to key management personnel consists of wages fixed in the employment agreement, as well as remuneration based on the performace for the year.

As disclosed in *Note 30*, the Government of the Republic of Kazakhstan provides the Group with certain compensation for the provision of universal services in rural areas.

As disclosed in *Note 21*, as at 31 December 2017, the Group had a loan in the amount of KZT 26,991,220 thousand, under which the Parent Company acted as guarantor (as at 31 December, 2016: KZT 26,991,220 thousand).

42. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES

The Group's principal financial instruments include loans, finance lease obligations, cash and cash equivalents, bank deposits and accounts receivable and accounts payable. The main risks associated with the Group's financial instruments include interest rate risk, currency and credit risk. In addition, the Group monitors market risk and liquidity risk associated with all financial instruments.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. As at 31 December 2017, the Group had no loans or borrowings with floating interest rates and was not subjected to the risk of changes in market interest rates.

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

Foreign currency risk

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

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

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

	2017		2016	
In thousands of tenge	**Increase/ (decrease) in exchange rate**	**Effect on profit before tax**	Increase/ (decrease) in exchange rate	Effect on profit before tax
US dollars	**10%**	**7,005,596**	13%	4,654,329
	-10%	**(7,005,596)**	-13%	(4,654,329)

Credit risk

Credit risk is the risk that the Group will incur finance costs because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept, and by monitoring exposures in relation to such limits.

The Group trades only with recognised, creditworthy parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is equal to the carrying amount as disclosed in *Notes 12, 15* and *17*. The Group has no significant concentrations of credit risk.

			Cash balance		**Balance on deposit accounts**	
In thousands of tenge	**Rating 2017**	Rating 2016	**2017**	2016	**2017**	2016
Kazkommertsbank JSC	**B+/negative/B**	B-/negative/C	**5,868,048**	4,814,671	**–**	13,594,766
Bank CenterCredit JSC	**B/stable/B**	B/stable/B, kzBB+	**4,098,977**	6,568	**–**	5,265,995
Tsesnabank JSC	**B+/negative/B, kzBBB-**	B+/negative/B, kzBBB-	**2,458,522**	1,662,330	**4,984,950**	3,364,909
ATF Bank JSC	**B/negative/B**	B/negative/B	**2,275,670**	5,075,125	**1,000,000**	–
Halyk Bank Kazakhstan JSC	**BB/negative/B, kzA**	BB/negative/B, kzA	**456,903**	3,848,216	**42,538,240**	16,997,790
Eximbank Kazakhstan JSC	**CCC+/C/negative**	B-/stable/C, kzBB-	**454,889**	580,601	**–**	–
Forte Bank JSC	**B/positive/B**	B/stable/B, kzBB	**187,349**	2,667,505	**–**	–
SB Sberbank JSC	**Ba2**		**82,922**	–	**–**	–
Altyn Bank JSC (SB Halyk Bank Kazakhstan JSC)	**Ba2/stable/NP**	BB stable	**80,231**	597,988	**6,646,600**	6,665,800
Committee of the Treasury of the Ministry of the RK			**16,728**	–	**–**	–
Kaspi Bank JSC	**BB-/negative/B, kzBBB+**	BB-/negative/B, kzBBB+	**977**	3,455,999	**3,323,300**	–
Development Bank of Kazakhstan JSC	**BB+/ stable**	BBB-/negative/A-3	**172**	3,240	**–**	–
Sberbank JSC	**BB + positive**	BBB-/negative/AA-	**52**	1,186,179	**–**	–
Citibank Kazakhstan JSC	**A+ stable**	A positive	**36**	400,051	**–**	–
Alfa Bank JSC	**BB-/stable**	BB-/ stable /B, kzA-	**–**	10,626	**–**	–
Uralsib JSC	**B/CCC+**	B/CCC+	**–**	41	**–**	–
Bank of Astana JSC	**B-/stable**	B/ stable /B	**–**	5	**–**	–
KazInvest Bank JSC	**D/D/-**	D/D/-	**–**	2	**–**	–
Total			**15,981,476**	24,309,147	**58,493,090**	45,889,260

ACCOUNTING POLICIES AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Credit risk (continued)

			Balance on long term deposit accounts	
In thousands of tenge	Rating 2017	Rating 2016	2017	2016
Eximbank Kazakhstan JSC	CCC+/C/negative	B-/stable/C, kzBB-	3,323,300	–
Sberbank JSC	BB + positive	BBB-/negative/AA-	–	50

With respect to credit risk arising from other financial assets of the Group, comprising cash and cash equivalents and other financial assets, the Group's exposure to credit risk arises from default of counterparty, with a maximum exposure equal to the carrying amount of these financial instruments.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances.

The Group monitors its risk of a shortage of funds using a liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivables, other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and finance leases. The Group's policy is that not more than 30% of loans and borrowings should mature in the next 12 month period. Approximately 16% of the Group's debt will mature in less than one year at 31 December 2017 (31 December 2016: 9%) based on the carrying amount of borrowings reflected in the consolidated financial statements.

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

In thousands of tenge	On demand	1 to 3 months	3 months to 1 year	From 1 to 5 years	More than 5 years	Total
At 31 December 2017						
Borrowings	–	382,105	3,707,152	21,704,466	9,624,022	35,417,745
Finance lease liabilities	–	1,412,533	3,893,386	9,331,352	–	14,637,271
Trade payables	10,296,822	1,337,562	1,872,161	–	–	13,506,545
Financial guarantees issued*	–	436,003	1,309,772	9,814,952	2,312,966	13,873,693
Other current financial liabilities	–	13,273,911	–	1,880	–	13,275,791
	10,296,822	**16,842,114**	**10,782,471**	**40,852,650**	**11,936,988**	**90,711,045**
At 31 December 2016						
Borrowings	–	1,126,587	3,334,270	52,825,639	14,585,904	71,872,400
Finance lease liabilities	–	1,076,402	2,437,985	1,333,351	–	4,847,738
Trade payables	9,146,269	1,188,105	1,662,968	–	–	11,997,342
Financial guarantees issued*	–	38,739	4,971,673	2,535,971	985,973	8,532,356
Other current financial liabilities	–	11,658,833	–	2,174	–	11,661,007
	9,146,269	15,088,666	12,406,896	56,697,135	15,571,877	108,910,843

* *Based on the maximum amount that can be called for under the financial guarantees contracts (Notes 24, 27).*

Cash flow risk

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

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

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

Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to the holders of common shares, return equity to shareholders or issue new shares. No changes were made by the Group in the capital management objectives, policies or processes in 2017 and 2016.

The Group monitors capital using a debt-to-equity ratio, which is net debt divided by total equity. The Group's policy is to keep the ratio not greater than 1.0. The Group includes within net debt interest bearing loans and borrowings, trade payables and finance lease liabilities. Equity includes equity attributable to the equity holders of the Group.

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

In thousands of tenge	**31 December 2017**	31 December 2016
Interest-bearing loans and borrowings	**27,325,554**	56,268,176
Trade payables	**13,506,545**	11,997,342
Finance lease liabilities	**11,601,837**	4,435,721
Other non-current financial liabilities	**260,431**	728,982
Other current financial liabilities	**13,356,061**	11,810,685
Net debt	**66,050,428**	85,240,906
Equity	**359,107,937**	343,797,610
Debt-equity ratio	**0.18**	0.25

Fair value

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

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

Fair value (continued)

The table below presents fair value hierarchy of assets and liabilities of the Group. Disclosure of quantitative information of fair value hierarchy of financial instruments as at 31 December 2017 was as follows:

		Fair value measurement using			
In thousands of tenge	Date of valuation	Price quotations on active markets (Level 1)	Significant observable in-puts (Level 2)	Significant unobservable in-puts (Level 3)	Total
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2017	**15,985,943**	–	–	**15,985,943**
Other non-current financial assets	31 December 2017	–	–	**6,835,991**	**6,835,991**
Other financial assets	31 December 2017	–	–	**62,133,687**	**62,133,687**
Trade receivables	31 December 2017	–	–	**32,094,228**	**32,094,228**
Liabilities for which fair values are disclosed					
Borrowings	31 December 2017	–	–	**21,995,442**	**21,995,442**
Finance lease liabilities	31 December 2017	–	–	**11,601,837**	**11,601,837**
Other non-current financial liabilities	31 December 2017	–	–	**260,431**	**260,431**
Other current financial liabilities	31 December 2017	–	–	**13,356,061**	**13,356,061**
Trade payables	31 December 2017	–	–	**13,506,545**	**13,506,545**

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial assets and liabilities that are not carried at fair value in the consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

In thousands of tenge	**Carrying amount 2017**	**Fair value 2017**	**Unrecog-nised gain/ (loss) 2017**	Carrying amount 2016	Fair value 2016	Unrecog-nised gain in 2016
Financial assets						
Cash and cash equivalents	**15,985,943**	**15,985,943**	–	24,320,942	24,320,942	–
Other non-current financial assets	**9,457,306**	**6,835,991**	**(2,621,315)**	5,983,097	4,850,133	(1,132,964)
Other current financial assets	**62,133,687**	**62,133,687**	–	49,166,028	49,166,028	–
Trade receivables	**32,094,228**	**32,094,228**	–	24,992,206	24,992,206	–
Financial liabilities						
Borrowings	**27,325,554**	**21,995,442**	**5,330,112**	56,268,176	52,567,792	3,700,384
Finance lease liabilities	**11,601,837**	**11,601,837**	–	4,435,721	4,435,721	–
Other non-current financial liabilities	**260,431**	**172,590**	**87,841**	728,982	627,788	101,194
Other current financial liabilities	**13,356,061**	**13,341,392**	**14,669**	11,810,685	11,794,489	16,196
Trade payables	**13,506,545**	**13,506,545**	–	11,997,342	11,997,342	–
Total unrecognised change in unrealised fair value			**2,811,307**			2,684,810

ACCOUNTING POLICIES AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that their fair value approximates to the carrying amount. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Financial liabilities carried at amortised cost

The fair value of loans obtained is measured by discounting future cash flows using rates currently existing for outstanding amounts with similar terms, credit risk and maturity.

Changes in liabilities arising from financial activities

Changes in liabilities arising from financial activities for 2017 were as follows:

In thousand tenge	1 January 2017	New lease agreements	Reclassified to current	Repayment of principal in cash	Interest paid	Interest expense	Change in exchange rates	31 December 2017
Borrowings: non-current portion	53,794,669	–	(29,501,388)	–	–	–	674,409	24,967,690
Borrowings: current portion	2,473,507	–	29,501,388	(28,009,799)	(7,571,331)	6,535,447	(571,348)	2,357,864
Finance lease liabilities: : non-current portion	1,273,015	10,102,254	(3,694,151)	–	–	–	–	7,681,118
Financial lease liabilities: current portion	3,162,706	–	3,694,151	(3,162,706)	(351,681)	578,249	–	3,920,719
Total	**60,703,897**	**10,102,254**	**–**	**(31,172,505)**	**(7,923,012)**	**7,113,696**	**103,061**	**38,927,391**

Changes in liabilities due to financial activities for 2016 were as follows:

In thousand tenge	1 January 2016	Reclassified from disposal group	Reclassified to current	Repayment of principal in cash	Interest paid	Interest expense	Change in exchange rates	31 December 2017
Borrowings: non-current portion	27,299,921	27,491,220	(500,000)	–	–	–	(496,472)	53,794,669
Non-current portion of loans, classified as part of a disposal group	31,649,079	(27,491,220)	(4,252,273)	–	–	–	94,414	–
Borrowings: current portion	4,138,393	2,500,000	500,000	(4,799,665)	(4,456,881)	4,591,568	92	2,473,507
Current portion of loans, classified as part of a disposal group	2,187,485	(2,500,000)	4,252,273	(3,825,000)	(515,438)	400,680	–	–
Finance lease liabilities: : non-current portion	4,435,721	–	(3,162,706)	–	–	–	–	1,273,015
Financial lease liabilities: current portion	4,707,462	–	3,162,706	(4,707,462)	(872,127)	872,127	–	3,162,706
Total	74,418,061	–	–	(13,332,127)	(5,844,446)	5,864,375	(401,966)	60,703,897

Interest expense for 2016 year includes an amount of KZT 400,860 thousand, is related to discontinued operations.

43. COMMITMENTS AND CONTINGENCIES

Operating environment

In Kazakhstan, economic reforms and the development of the legal, tax and administrative infrastructure that meets the developed markets are still in process. The future stability of the Kazakhstan economy will largely depend on these reforms, as well as on the effectiveness of the Government's actions in the area of economy, financial and monetary policy.

Capital commitments

The Group generally enters into contracts for the completion of construction projects and purchase of telecommunication equipment. As at 31 December 2017, the Group had contractual obligations in the total amount of KZT 3,582,193 thousand (31 December 2016: KZT 11,107,684 thousand) mainly related to purchase of telecommunication equipment and construction of telecommunication network.

Operating lease commitments – Group as lessee

The Group entered into agreements for the lease of office buildings and premises in various regions of Kazakhstan. Agreements for the lease of office buildings and premises are based on the lease term of 1 year as an average. There are no restrictions placed upon the Group by entering into these lease agreements.

Future minimum rental payments under the non-cancellable operating lease agreements are presented as follows:

In thousands of tenge	**2017**	2016
Within one year	–	8,624
More than 1 year but less than 5 years	–	–
	–	8,624

License commitments

Under the terms of certain licenses on the provision of wireless telecom services, the Group has certain obligations in terms of coverage area of its network. The Group is obliged to expand the cellular telecommunication coverage to the regions along the major highways and small-sized towns and urban-type communities of the Republic of Kazakhstan. The Group's management believes that the Group is in compliance with the terms of the licenses.

Options to acquire a interest in an associate

According to the agreement between the Group and Tele2, the Group has an unconditional right to require Tele2 to sell its 49% of the interest in Khan Tengri Holding B.V. at any time during three years after the closing date of the transaction (call option). Tele2 has a similar unconditional right to require the Group to acquire a 49% interest in Khan Tengri Holding B.V. (put option).

The price of an option is expressed in US dollars and should be equal to fair market value of the shares transferred as of the day of its determination.

The Group estimated the fair value of the option. As of 31 December 2017, the fair value of the option equals zero.

Taxation

Tax legislation and regulatory framework of the Republic of Kazakhstan are subject to constant changes and allow for different interpretations. In addition, management believes that international agreements, under which the Group works with non-residents residing in International Telecommunication Union, and which provide for certain tax exemptions, have a priority over national tax legislation. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of the Republic of Kazakhstan multiplied by 1.25. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2017. Management believes that as at 31 December 2017 its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained.