

TRANSTELECOM JSC

Financial statements
for the year ended 31 December 2017

TRANSTELECOM JSC

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TRANSTELECOM JSC

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

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

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

The financial statements for the year ended 31 December 2017 were authorized and approved for issue by the management of the Company on 20 April 2018.

On behalf of the management of the Company:

Zhexembekov D. T.
Acting President

20 April 2018
Astana

TRANSTELECOM

Bozchshina K. S.
Chief accountant

20 April 2018
Astana

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Transtelecom JSC

Opinion

We have audited the financial statements of Transtelecom JSC, which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Emphasis of Matter

As described in Notes 25 and 20 to the financial statements, 66% of the Company's trade accounts receivable as at 31 December 2017 (31 December 2016: 78%) and 46% of the Company's sales for the year ended 31 December 2017 (2016: 71%) were to National Company Kazakhstan Temir Zholy JSC (NC KTZh JSC) and its subsidiaries, which are related parties of the Company. Our opinion is not modified in respect of this matter.

We draw attention to Note 26 to the financial statements, which describes the uncertainty related to the outcome of the unresolved issue between NC KTZh JSC and the Company in respect of the payment of dividends declared for 2015. Our opinion is not modified in respect of this matter.

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Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 ISA 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Alua Yessimbekova
Engagement Partner
Certified Public Accountant
New Hampshire, USA
License No. 07348
dated 12 June 2014

Qualified Auditor
Qualification
certificate №0000523,
dated 15 February 2002,
Republic of Kazakhstan

DELOITTE, LLP

Deloitte, LLP
State license for the audit activity in the Reoublic of Kazakhstan
№0000015, type MFU-2, issued by the Ministry of Finance of
the Republic of Kazakhstan
13 September 2006

Nurlan Bekenov
General Director
Deloitte, LLP

20 April 2018
Almaty

TRANSTELECOM JSC

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017
(in thousands of Tenge)

	Notes	31 December 2017	31 December 2016
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	6	60,018,120	62,193,301
Intangible assets	7	3,558,749	3,556,450
Other non-current assets	8	5,864,701	1,250,747
		69,441,570	67,000,498
CURRENT ASSETS:			
Inventories		1,333,086	680,233
Trade accounts receivable from related parties	24	7,249,101	13,928,798
Trade accounts receivable	10	3,056,320	2,115,309
Prepaid income tax		917,530	363,876
Advances paid	9	371,505	3,316,518
Other current assets	11	2,240,646	646,822
Cash and cash equivalents	12	3,193,658	13,115,545
		18,361,846	34,167,101
TOTAL ASSETS		**87,803,416**	**101,167,599**
EQUITY AND LIABILITIES			
Equity:			
Share capital	14	12,241,487	12,241,487
Additional paid-in capital	14	244,190	244,190
Retained earnings		12,346,486	11,346,724
		24,832,163	**23,832,401**
NON-CURRENT LIABILITIES:			
Long-term borrowings	15	34,126,544	43,408,986
Long-term portion of finance lease obligations	16	1,526,422	1,504,209
Employee benefit obligations		379,700	404,968
Deferred tax liabilities	19	3,470,534	3,072,754
		39,503,200	**48,390,917**
CURRENT LIABILITIES:			
Short-term borrowings and current portion of long-term borrowings	15	12,984,884	10,151,499
Current portion of finance lease obligations	16	481,521	334,864
Trade accounts payable	17	6,213,225	9,402,543
Dividends payable		2,162,824	644,160
Taxes payable and other obligatory payments		279,918	510,414
Income tax payable		-	25,220
Advances received	9	159,244	6,863,601
Other current liabilities	18	1,158,891	998,557
Current portion of employee benefit obligations		27,546	13,423
		23,468,053	**28,944,281**
TOTAL LIABILITIES		**62,971,253**	**77,335,198**
TOTAL EQUITY AND LIABILITIES		**87,803,416**	**101,167,599**

On behalf of the management of the Company:

Zhexembekov D. T.
Acting President

20 April 2018
Astana

Bozenshina K. S.
Chief Accountant

20 April 2018
Astana

The notes on pages 10-44 form an integral part of these financial statements. The independent auditor's report is on pages 2-4.

TRANSTELECOM JSC

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017
(in thousands of Tenge)

	Notes	2017	2016
REVENUE	20	71,022,449	48,009,701
COST OF SALES	21	(53,898,837)	(34,245,775)
GROSS PROFIT		17,123,612	13,763,926
General and administrative expenses	22	(4,369,123)	(3,022,815)
OPERATING PROFIT		12,754,489	10,741,111
Finance costs	23	(5,988,767)	(6,035,743)
Finance income		257,117	817,240
Foreign exchange loss, net		(275,632)	(91,746)
Other income, net		81,933	46,174
PROFIT BEFORE INCOME TAX		6,829,140	5,477,036
INCOME TAX EXPENSE	19	(1,497,538)	(1,140,486)
PROFIT FOR THE YEAR		5,331,602	4,336,550
OTHER COMPREHENSIVE INCOME, NET OF INCOME TAX			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit obligation		4,710	90,987
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**5,336,312**	**4,427,537**

On behalf of the management of the Company:

Zhexembekov D. T.
Acting President

20 April 2018
Astana

Bozchshina K. S.
Chief accountat

20 April 2018
Astana

The notes on pages 10-44 form an integral part of these financial statements. The independent auditor's report is on pages 2-4.

TRANSTELECOM JSC

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017
(in thousands of Tenge)

	Share capital	Additional paid-in capital	Retained earnings	Total equity
As at 1 January 2016	12,241,487	244,190	8,182,246	20,667,923
Profit for the year	-	-	4,336,550	4,336,550
Other comprehensive income for the year, net of income tax	-	-	90,987	90,987
Total comprehensive income for the year	-	-	4,427,537	4,427,537
Dividends (Note 14)	-	-	(1,263,059)	(1,263,059)
As at 1 January 2017	**12,241,487**	**244,190**	**11,346,724**	**23,832,401**
Profit for the year	-	-	5,331,602	5,331,602
Other comprehensive income for the year, net of income tax	-	-	4,710	4,710
Total comprehensive income for the year	-	-	5,336,312	5,336,312
Dividends (Note 14)	-	-	(4,336,550)	(4,336,550)
As at 31 December 2017	**12,241,487**	**244,190**	**12,346,486**	**24,832,163**

On behalf of the management of the Company:

Zhexembekov D. T.
Acting President

20 April 2018
Astana

Bazarshina K. S.
Chief accountant

20 April 2018
Astana

The notes on pages 10-44 form an integral part of these financial statements. The independent auditor's report is on pages 2-4.

TRANSTELECOM JSC

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017
(in thousands of Tenge)

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		6,829,140	5,477,036
Adjustments for:			
Finance costs	23	5,988,767	6,035,743
Depreciation and amortization	21,22	7,793,953	7,520,014
Accrual of allowance for doubtful debts	22	30,458	81,241
Change in provision on remuneration of executive personnel	22	367,775	91,327
(Recovery)/accrual of provision for staff reduction		(4,980)	14,607
Accrual of VAT, fines and penalties provision		10,743	597
Foreign exchange loss, net		275,632	91,746
Finance income		(257,117)	(817,240)
Loss from disposal of property, plant and equipment and intangible assets		22,452	28,185
Employee benefit obligations		27,868	101,912
Cash flows from operating activities before changes in working capital		21,084,691	18,625,168
Changes in working capital and other balances:			
Change in trade accounts receivable		3,499,517	(4,023,245)
Change in inventories		(642,555)	(14,118)
Change in advances paid		2,945,013	(3,290,198)
Change in other assets		(1,392,477)	1,935,960
Change in trade accounts payable		(1,684,736)	1,946,046
Change in taxes payable and other obligatory payments		18,644	173,116
Change in advances received		(6,704,357)	6,418,057
Change in other current liabilities		(202,461)	79,246
Change in employee benefit obligations		(34,303)	(37,737)
Cash generated from operating activities		16,886,976	21,812,295
Interest paid		(6,481,525)	(6,200,296)
Interest received		267,717	704,297
Income tax paid		(1,680,741)	-
Net cash generated by operating activities		8,992,427	16,316,296
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment and advances paid for non-current assets		(10,445,270)	(6,170,374)
Purchase of intangible assets		(575,086)	-
Withdrawal/(replenishment) of deposit accounts		26,965	(34,734)
Proceeds from disposal of property, plant and equipment		-	261,521
Net cash used in investing activities		(10,993,391)	(5,943,587)

TRANSTELECOM JSC

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017
(in thousands of Tenge)

	Notes	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of borrowings	16.1	(9,282,442)	(8,371,240)
Proceeds from borrowings	16.1	3,000,000	5,070,299
Dividends paid	16.1	(606,245)	(618,899)
Repayment of finance lease obligations	16.1	(811,224)	(596,324)
Net cash used in financing activities		(7,699,911)	(4,516,164)
NET CHANGE IN CASH AND CASH EQUIVALENTS		(9,700,875)	5,856,545
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		(221,012)	(134,490)
CASH AND CASH EQUIVALENTS at the beginning of the year	12	13,115,545	7,393,490
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	12	**3,193,658**	**13,115,545**

On behalf of the management of the Company:

Zhexembekov D. T.
Acting President

20 April 2018
Astana

Bezcoshina K. S.
Chief Accountant

20 April 2018

The notes on pages 10-44 form an integral part of these financial statements. The independent auditor's report is on pages 2-4.

1. NATURE OF THE BUSINESS

Transtelecom JSC ("the Company") was established in accordance with the legislation of the Republic of Kazakhstan in 1998 as a state subsidiary entity. In 2004, the Company was reorganized into Joint Stock Company Transtelecom. The certificate of state re-registration of the legal entity No.31014-1910-AO was issued by the Department of Justice of Almaty on 15 June 2004. The certificate of state re-registration of the legal entity No.42964-1901-AO was issued by the Department of Justice of Astana on 17 April 2012 in connection with relocation of central office to Astana.

The primary activity of the Company is the provision of a wide range of telecommunications and IT services, the implementation of a full range of construction and installation works, as well as conducting survey and design activities on the territory of the Republic of Kazakhstan. As of 31 December 2017, the Company had 13 branches in different cities of the Republic of Kazakhstan.

On 27 December 2017, during the Board of Directors meeting it was decided to establish representative offices of Transtelecom JSC in Minsk and Moscow, and to approve the regulation on representative offices of Transtelecom JSC in Minsk and Moscow.

According to the Order No.16-ОД of the Agency of the Republic of Kazakhstan on Regulation of Natural Monopolies "On Republican Section of the State Register of Natural Monopolies" dated 24 January 2005, the Company was included in the Republican section of the State Register of Natural Monopolies as a provider of service for usage of telephone underground conduits. In addition, based on the Order No. 494-ОД dated 31 December 2015 of the Regulation of Natural Monopolies Committee and based on the order No. 212-ОД dated 12 August 2016 of Ministry of National Economy of the Republic of Kazakhstan, the Company was included into the State Register of the companies with dominant (monopolistic) position on a certain commodity market for the following types of services:

- telegraph service;
- service for leasing direct pairs (lines);
- service of primary access to the Internet (for telecom operators);
- Internet access services for ultimate customers.

As of 31 December 2017, the shareholders of the Company were Joint Stock Company National Company Kazakhstan Temir Zholy (NC KTZh JSC) (51%) and Mukhanov Marlen Savitovich (49%).

Joint Stock Company National Welfare Fund Samruk-Kazyna on behalf of the Government is an ultimate shareholder of NC KTZh JSC.

The total number of employees of the Company as of 31 December 2017 and 2016 was 3,267 and 3,243 people, respectively.

The head office of the Company is located at the following address: 10 Kunayev str., Astana, 010000, the Republic of Kazakhstan.

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Amendments to IFRS and new interpretations that are mandatorily effective for the current year

In the current year, the Company applied a number of amendments to IFRS published by the International Accounting Standards Board ("IASB"), which are mandatory for the reporting period beginning on or after 1 January 2017.

Amendments to IAS 7 Disclosure Initiative

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

The Company's liabilities arising from financing activities consist of borrowings (Note 15) and financial leasing obligations (Note 16). A reconciliation between the opening and closing balances of these items is provided in note 16.1. Consistent with the transition provisions of the amendments, the Company has not disclosed comparative information for the prior period. Apart from the additional disclosure in note 16.1, the application of these amendments has had no impact on the Company's financial statements.

New and revised IFRSs in issue but not yet effective

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

- IFRS 9 *Financial Instruments*[1];
- IFRS 15 *Revenue from Contracts with Customers (and the related Clarifications)*[1];
- IFRS 16 Leases[2];
- IFRS 17 Insurance Contracts[3];
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*[1];
- IFRIC 23 *Uncertainty Over Income Tax Treatments*[2];
- Amendments to IFRS 2 – *Classification and Measurement of Share-based Payment Transactions*[1];
- Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4];
- Amendments to IAS 40 – *Transfers of Investment Property*[1];
- Amendments to IFRS 4 – *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1];
- Amendments to IFRS 9 – *Prepayment Features With Negative Compensation*[2];
- Amendments to IAS 28 – *Long-Term Interests in Associates and Joint Ventures*[2];
- Annual Improvements to IFRSs 2014-2016 Cycle[1];
- Annual Improvements to IFRSs 2015-2017 Cycle[2].

[1] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
[3] Effective for annual periods beginning on or after 1 January 2021, with earlier application permitted.
[4] Effective for annual periods beginning on or after a date to be determined. Earlier application is permitted.

IFRS 9 Financial Instruments

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

The key requirements of IFRS 9 are:

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

Based on a preliminary analysis of the Company's financial assets and financial liabilities as at 31 December 2017, on the basis of the facts and circumstances that exist at that date, the management of the Company has preliminary assessed the impact of IFRS 9 to the Company's financial statements as follows:

Classification and measurement

- Cash classified as a financial asset measured at amortized cost using the effective interest method. The purpose is to use it in current activity.
- Deposits with the term over 3 to 12 months, classified as short-term financial investments with fixed maturity date and fixed income, held to maturity, and loans carried at amortized cost, are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of IFRS 9;
- All other financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted under IAS 39.

Impairment

Financial assets measured at amortised cost, that will be carried at fair value through profit or loss under IFRS 9 (see classification and measurement section above), accounts receivables (Note 10), will be subject to the impairment provisions of IFRS 9.

The Company expects to apply the simplified approach to recognise lifetime expected credit losses for its trade receivables as required or permitted by IFRS 9 choise of accounting policies. Regarding the short-term financial investments, the management of the Company considers that they have low credit risk given their strong external credit ratings and hence expect to recognise 12-month expected credit losses for these items. Accordingly, the management expects to recognise lifetime and 12-month expected credit losses for these items respectively.

In general, based on a preliminary analysis, the management anticipates that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for the respective items and will increase the amount of losses recognised for these items.

IFRS 15 *Revenue from Contracts with Customers*

In May 2014, IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

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

- Step 1: Identify the contract with the customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contracts.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

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

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

In 2017, a comparative analysis of revenue according to IFRS 15 under the contracts of provoding telecommunications services, under the projects of ACS PDT, EXPO and Kazpost have been conducted. The management arrived to the conclusion that considering potential provision of discounts (tariff changes), revenue would display a slight downward deviation.

IFRS 16 Leases

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

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

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

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

Furthermore, extensive disclosures are required by IFRS 16.

The management of the Company does not expect that the application of IFRS 16 will have a significant impact on the amounts recognized in the financial statements in respect of financial leases in which the Company acts as a lessee (because the financial statements already recognize assets and related liabilities under finance leases).

The management expects that the other new standards mentioned above will not have significant effect on the Company's financial statements at the period of initial application.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared on the historical cost basis, except for certain financial instruments which should be stated at fair value.

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

Certain property, plant and equipment of the Company were revalued to determine deemed (initial) cost at the transition date of IFRS.

Fair value is defined as the amount that would have been received on the sale of an asset or paid in the transfer of an obligation, as part of a voluntary transaction between market participants on the valuation date, regardless of the immediate observability of this value or its determination by another method. In assessing an asset or a liability at fair value, the Company takes into account the characteristics of the asset or liability if market participants consider them. For estimates and disclosures in these financial statements, fair value is determined in the manner described above, with the exception of lease arrangements regulated by IAS 17, as well as estimates that are comparable but not equal to fair value (for example, net realizable value in the estimation of reserves under IAS 2 or the value in use when assessing impairment under IAS 36). In addition, in the preparation of financial statements, the fair value measurement is classified by hierarchy levels, depending on the observability of the input data and their relevance to the valuation:

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

Going concern

These financial statements have been prepared based on the assumption that the Company will continue as a going concern. This assumes the realization of a main activity and discharge of liabilities in the normal course of business within the foreseeable future. As at 31 December 2017, current liabilities of the Company exceeded current assets by 5,106,207 thousand tenge (as at 31 December 2016 current assets exceeded current liabilities by 5,222,820 thousand tenge). Management believes that the Company will continues as a going concern. The working capital deficit is explained by the following factors:

1. Accomplishment of investment activities, by paying advances to suppliers and contractors of services, including projects Makat-Mangyshlak, Zhetygen-Altynkol; modernization and development of transport and transit network, modernization and development of the local network and the realization of project Data Processing Center (DPC).
2. The decision to pay dividends in the amount of 4,336,550 thousand tenge. Part of the dividends was offsetted with the receivables of the parent company. Part of the dividends was paid in cash.
3. Short-term financial liabilities of 3,000,000 thousand tenge obtained from Alfa Bank SB JSC as part of the revolving credit line, due in June 2018.

Despite the resulting shortage of working capital and a decrease in the current liquidity indicators, management does not expect difficulties in fulfilling obligations, based on the following assumptions:

- Increase in profitability of core activities due to the growth in sales of telecommunications services, including sales to the main client group, NC KTZh JSC and its subsidiaries; within the framework of the Makat-Mangyshlak project and the growth of sales of operational and technical communication, which became possible due to the implementation of investment projects on modernization and expansion of networks; as well as other services.
- Increase in profitability of core activities due to the growth in sales of IT services in the areas of Infrastructure as a Service (IaaS), Software as a Service (SaaS), Service Now, Integrated Security, which also became possible due to the expansion of technical capabilities.
- Development of a transport and transit network by increasing the speed and throughput of backbone networks and organizing/upgrading the two joints with the People's Republic of China ("PRC") as the main customer in this area of activity. Within the bounds of this project, memorandums on the technical specification of joints setup, and cooperation in the data transit and channel leasing were signed. Based on them the main revenue agreements are expected to be signed.
- The existing credit line with Alfa Bank SB JSC is renewable within 30 month availability period from 26 June 2017, the Company complies with all terms of the agreement and can use this liquidity instrument if necessary.

As a result of the above, Management believes that the Company will continue as a going concern in the foreseeable future.

Currency

The currency of the Republic of Kazakhstan is Kazakhstani tenge (hereafter - "tenge"), which is the functional currency of the Company and the presentation currency of these financial statements. All the financial information presented in tenge has been rounded to the nearest thousand.

In preparing the financial statements, transactions in currencies other than the entity's functional currency (the foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are retranslated at the exchange rates prevailing at the date of financial statements. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the exchange rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Foreign exchange differences on monetary items arising from changes in foreign exchange rates are recognized in profit or loss in the period in which they arise.
Exchange rates of foreign currency in which the Company had significant transactions are presented as follows:

	31 December 2017	31 December 2016
Exchange rates at the end of the year (to tenge)		
1 US Dollar ("USD")	332.33	339.47
1 Euro	398.23	371.31
	2017	**2016**
Average exchange rate for the year (to tenge)		
1 US Dollar ("USD")	332.25	341.76
1 Euro	396.92	378.32

Property, plant and equipment

Property, plant and equipment are stated at their initial cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs, which have been incurred in bringing the assets to the location and condition necessary for their intended use.

The cost of the Company's self-constructed assets includes the cost of all materials used in construction, direct labor on the project, financing costs that are directly attributable to the project, and an appropriate proportion of variable and fixed overheads. Costs cease to be capitalized as soon as the asset is ready for its intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal.

Further expenditures on property, plant and equipment are capitalized to the extent that the flow of the future economic benefits is probable and these expenditures can be reliably measured.

Deprecation is computed under the straight-line method utilizing the useful economic lives of the assets, which are as follows:

Buildings and constructions	10-100 years
Machinery and equipment	5-14 years
Vehicles	4-15 years
Other assets	5-10 years
Equipment under financial lease agreements	3-14.5 years

Land is not depreciated.

Intangible assets

Intangible assets that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. To compile financial statement, the Company classifies intangible assets into following groups:

Class of intangible assets	Useful lives
License	5-10 years
Software	5-10 years
Other intangible assets	1-10 years

Impairment of property, plant and equipment and intangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as a lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis as expenses over the lease term.

The Company as a lessee

Assets held under finance lease are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in statement of profit or loss and other comprehensive income, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense evenly over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Inventories

Inventories are valued at the lower of cost or net realizable value. Costs of inventories are determined on the weighted average cost principle. Net realizable value is the estimated selling price in the ordinary course of the business, less the estimated cost of completion and estimated costs necessary to make a sell.

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value.

Financial assets

Accounts receivable

Trade receivables and other receivables with fixed or determinable payments that are not traded in an organized market are classified as "accounts receivable".

Other short-term financial investments

Short-term financial investments include short-term deposits with an initial maturity of three months to one year.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

An impairment loss directly reduces the carrying amount of all financial assets, with the exception of trade receivables, which are reduced from the reserve.

Derecognition of financial assets

The Company ceases to recognize financial assets only in the event of termination of contractual rights to cash flows on them or in the event of the transfer of a financial asset and the related risks and benefits to another entity.

When the financial asset is fully derecognized, the difference between the carrying amount of the asset and the amount of consideration received and receivable, as well as any income or expense accrued in other comprehensive income, is recognized in profit or loss.

Financial liabilities

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized using effective interest method.

Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are settled, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

The income received as a result of temporary investment of borrowed funds, until they are spent for the acquisition of qualifying assets, is deducted from borrowing costs.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Provisions

Provisions are recognized when the Company has obligations (legal or conditioned by business transactions) that have arisen as a result of past events, and the likelihood that the Company will have to repay these obligations is high, and their amount can be reliably estimated.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (if the effect of discounting is significant).

When some or all of an economic benefits on provision recovery is expected to be recovered by the third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Retirement benefit costs

In accordance with the legislative requirements of the Republic of Kazakhstan the Company pays the amount equivalent to 10% of each employee's salary but not more than 183,442 tenge per month (2016: 171,442 tenge per month) to cumulative pension funds. These amounts are expensed when they are incurred. Pension fund payments are withheld from employees' salaries and included with other salary costs in the statement of profit or loss and comprehensive income.

Defined benefit plan

In accordance with a Labor Union Agreement the Company provides certain benefits to its employees upon their retirement ("Defined benefit plan"). Pursuant to this agreement, the Company provides the following benefits:

- one-time retirement grant;
- annual financial support to pensioners; and
- funeral aid for funeral services.

Obligations and expenses for remuneration under the Pension plan, with the established amount of payments determined by using the method of the projected unit of exchange. This method considers each year worked as raising the right to receive remuneration for an additional unit, and measures each unit separately to reflect the final commitment. Expenses for the provision of benefits are recognized in profit or loss in order to distribute the total remuneration during the working period of employees according to the pension plan formula with the established amount of payments. This obligation is measured at the present value of the estimated future cash flow using a discount rate similar to the government bond rate, whose currency and terms are comparable to the currency and the estimated terms of the Defined benefit plan obligation.

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Income tax

The income tax expense represents the sum of current tax payable and deferred income tax.

Current tax

Current income tax payable is calculated on the basis of taxable profit for the year. Taxable profit differs from net profit recorded in the statement of comprehensive income because it does not include amounts of income and expenses that are taxable or deductible in other periods and also do not include amounts that will never be recognized as either taxable or deductible . The Company's liability for current income tax is calculated at the tax rate that was effective at the balance sheet date.

Deferred tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements, and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

A deferred tax asset or liability is recorded at tax rates that are expected to apply in the period when the liability is settled or the asset realized.

Current and deferred taxes are recognized in profit or loss, except when they relate to items directly attributable to other comprehensive income or equity (in which case the relevant tax is also recognized directly in equity).

Revenue recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of revenue can be measured reliably. Sales are recognized less value added tax.

Revenues from barter transactions involving advertising services are recognized when selling goods or providing services in exchange for different goods or services. Revenue is measured at fair value of goods or services received. If the fair value cannot be measured reliably, it is measured at fair value of goods or services provided.

Revenue of the company consists of:

a) the provision of local, domestic long-distance and international long-distance telephone services which consist of:
   (i) charge for telephone services, which vary depending on distance and duration of the telephone call, and
   (ii) monthly telephone service fee;
b) provision of Internet and data transmission services;
c) provision of telegraph services;
d) trunk rental;
e) provision of construction services, and
f) other services, including conducting research and project activities, which includes urban planning, maintenance of trunk, international, long-distance and local loop, provision of information technology services, including the supply of software products, consulting services, and services for the implementation and maintenance of information systems.

The Company records revenue from services as follows:

(i) Revenues from provision of local, domestic long distance and international long distance telephone services are recognized at the same period in which the corresponding services have been rendered;
(ii) Monthly telephone service fees are recognized in the month in which the telephone services are provided to customer;
(iii) Revenues from the provision of Internet and data transmission services are recognized when the services are provided to customers;
(iv) Revenues from trunk rent are recognized evenly during the period of the agreement;
(v) Revenue from the provision of other services is recognized by reference to the stage of completion of the contract activity at the end of the reporting date. Stage of completion is measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. When the outcome of a contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying accounting policies

Finance lease – Company as a lessee

The Company entered into a finance lease agreement of certain telecommunication equipment with Grand Telecom LLP (Note 16). Under the lease agreement, the ownership of the equipment is not transferred to the lessee at the end of the lease term and the lease covers many separate assets. The Company determined that this lease mainly transfers all risks and rewards inherent in the title to this equipment, therefore the lease is classified as a finance one. Also management of the Company applied its judgment over lease payments allocation between the separate assets, and also for the determination of lease inception date and measurement of present value of minimum lease payments for every separate asset.

During the reporting period, the Company entered into Islamic Lease Agreement with Al Sakr Finance JSC regarding lease of certain buildings (Notes 6, 16). Under the lease agreement, the ownership of the assets is transferred to the lessee at the end of the lease term and the Company becomes responsible for safety and risks associated with any damage or loss of the asset leased from the asset acceptance date. Determining tha fact that the lease transfers almost all risks and rewards inherent to the ownership of the buildings, the Company classified it as financial lease.

Key sources of estimation uncertainty

Impairment of non-current assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The Company performed the impairment indicators analysis of non-current assets as at 31 December 2017. Based on the analysis no impairment indicators were identified.

Allowance for doubtful debts

The Company creates allowance for doubtful trade and other accounts receivable. Significant judgments are used to determine these allowance. In determining doubtful debts the historic and expected behavior of customers is considered. The changes in the economy or individual conditions of the customer can require adjustments of the allowance for doubtful debts in these financial statements. As at 31 December 2017 and 2016, allowance for doubtful debts was 785,141 thousand tenge and 755,107 thousand tenge, respectively.

Useful lives of property, plant and equipment

As disclosed in Note 4, the Company considers useful lives of property, plant and equipment at the end of each annual reporting period. The evaluation of the useful life of an asset depends on factors such as economic use, maintenance programs, technological improvements and other business conditions. The evaluation of useful lives of property, plant and equipment by management reflects relevant information available at the date of approval of these financial statements.

Estimation of litigation issues

The Company participates in the different litigation issues concerning its operating activities. The Company estimates the probability of unfavorable outcome of issues at the stage of examination or any potential issues and their impact on the financial position and financial results of the Company. Estimations based on probability to win or lose dispute and the amount of probable payments. Differences between estimated and actually paid amounts if those arise in future accounting periods, may significantly affect the financial results of the Company.

6. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and constructions	Machinery and equipment	Vehicles	Other Assets	Capital construction in progress	Total
Cost							
As at 1 January 2016	**180,645**	**3,111,179**	**81,303,408**	**307,287**	**289,243**	**2,385,548**	**87,577,310**
Additions	-	172,123	411,597	79,544	48,231	5,554,180	6,265,675
Transfers from intangible assets	-	-	389,123	-	-	-	389,123
Internal movements	-	7,389	1,163,362	2,866	4,277	(1,177,894)	-
Disposals	-	(2,578)	(67,848)	(28,341)	(8,493)	(68,850)	(176,110)
As at December 2016	**180,645**	**3,288,113**	**83,199,642**	**361,356**	**333,258**	**6,692,984**	**94,055,998**
Additions	8,756	862,449	119,202	-	7,833	4,070,389	5,068,629
Internal movements	-	5,463	6,579,170	21,030	18,291	(6,623,954)	-
Disposals	-	-	(121,215)	-	(4,599)	(22,407)	(148,221)
As at December 2017	**189,401**	**4,156,025**	**89,776,799**	**382,386**	**354,783**	**4,117,012**	**98,976,406**
Accumulated depreciation							
As at 1 January 2016	-	(1,253,909)	(23,366,780)	(154,700)	(145,909)	-	(24,921,298)
Charge for the year	-	(161,568)	(6,716,921)	(33,381)	(27,829)	-	(6,939,699)
Transfers from intangible assets	-	-	(65,257)	-	-	-	(65,257)
Disposals	-	-	61,125	236	2,196	-	63,557
As at December 2016	**-**	**(1,415,477)**	**(30,087,833)**	**(187,845)**	**(171,542)**	**-**	**(31,862,697)**
Charge for the year	-	(190,827)	(6,961,264)	(37,295)	(31,807)	-	(7,221,193)
Change in classification	-	1,486	(1,486)	-	-	-	-
Disposals	-	-	121,023	-	4,581	-	125,604
As at December 2017	**-**	**(1,604,818)**	**(36,929,560)**	**(225,140)**	**(198,768)**	**-**	**(38,958,286)**
Carrying value							
As at December 2016	**180,645**	**1,872,636**	**53,111,809**	**173,511**	**161,716**	**6,692,984**	**62,193,301**
As at December 2017	**189,401**	**2,551,207**	**52,847,239**	**157,246**	**156,015**	**4,117,012**	**60,018,120**

As at 31 December 2017 and 2016, the Company had the property, plant and equipment received under the finance lease agreements with Grand Telecom LLP with the carrying value of 742,250 thousand tenge and 1,113,375 thousand tenge, respectively. Lessor's title for these leased assets is the collateral for the Company's financial lease obligations (Note 16).

As of 31 December 2017, the Company entered into an Islamic lease Agreement with Al Sakr Finance JSC; as a result, three buildings with adjacent land plots have been obtained. The lease term is 4 years. After fulfilment of obligations under the lease agreement, the leased asset transfers to the Company's ownership. The carring value is 875,612 thousand tenge. The effective rate is 16.7%. Subsequently, the property objects will be re-equipped for implementation of the Data Processing Center (DPC) project (Note 16). The buildings received by the Company under the lease agreement are pledged as collateral under the agreement.

As at 31 December 2017, cost of fully depreciated property, plant and equipment amounted to 8,182,660 thousand tenge (31 December 2016: 7,963,080 thousand tenge).

During 2017, the Company capitalized borrowing costs of 65,668 thousand tenge directly related to construction of fiber-optic communication lines of the "Last Mile" sites (2016: 85,702 thousand tenge) (Note 23).

As of 31 December 2017, construction in progress is mainly represented by equipment for construction of fiber-optic communication lines of the "Last Mile" sites, local network, Internet development and repair of communications houses.

During 2017, "Last Mile" sites have been commissioned from the construction in progress along with a complex security system, including video surveillance security system, security alarm, voice warning and evacuation control, which the Company plans to use in providing services to customers. The total cost recognized in the carrying amount of property, plant and equipment in the course of its construction in 2017 were 6,623,954 thousand tenge.

There is no information on claims and other external limitations on usage of assets.

7. INTANGIBLE ASSETS

	Licenses	Software	Other	Total
Cost				
As at 1 January 2016	1,702,094	699,001	3,112,041	5,513,136
Additions	23,077	45,668	8,894	77,639
Transfer to property, plant and equipment (Note 6)	-	-	(389,123)	(389,123)
Disposals	-	(51)	(4,422)	(4,473)
As at 31 December 2016	1,725,171	744,618	2,727,390	5,197,179
Additions	17,677	557,410	-	575,087
Disposals	-	-	(30)	(30)
As at 31 December 2017	1,742,848	1,302,028	2,727,360	5,772,236
Accumulated amortisation				
As at 1 January 2016	(381,546)	(266,842)	(481,756)	(1,130,144)
Charge for the year	(185,616)	(105,033)	(289,666)	(580,315)
Transfer to Property, plant and equipment (Note 6)	-	-	65,527	65,257
Disposals	-	51	4,422	4,473
As at 31 December 2016	(567,162)	(371,824)	(701,743)	(1,640,729)
Charge for the year	(185,565)	(114,450)	(272,746)	(572,761)
Disposals	-	-	3	3
As at 31 December 2017	(752,727)	(486,274)	(974,486)	(2,213,487)
Carrying value				
As at 31 December 2016	**1,158,009**	**372,794**	**2,025,647**	**3,556,450**
As at 31 December 2017	**990,121**	**815,754**	**1,752,874**	**3,558,749**

As of 31 December 2017, there are no intangible assets pledged as collateral for liabilities.

8. OTHER NON-CURRENT ASSETS

	31 December 2017	31 December 2016
Non-current advances given	5,566,560	820,577
Non-current receivables from employees	224,490	432,092
Long-term portion of VAT recoverable	73,551	-
Restricted cash	100	-
	5,864,701	1,252,669
Allowance for doubtful debts	-	(1,922)
	5,864,701	**1,250,747**

As of 31 December 2017, long-term advances paid were mainly represented by advances made for the following:

- construction of a microprocessor automation and telemechanic system at the stations of the Kandyagash-Nikeltau site. The contractor of this project is TNS Intec LLP.
- turnkey complex works in the field of information technology (network monitoring system, IT infrastructure and automation of management of IT processes and extension of the contact center). The contractor of this project is Astana-New Technologies-2008 LLP.
- complex works on the construction of a transit networks at the stations of West Kazakhstan, Atyrau, Mangistau, South-Kazakhstan, Akmola, Kostanay, East Kazakhstan and Aktobe regions. The main purpose of the construction is to increase the network capacity to improve quality of transit traffic.
- construction of FOCL (Fiber-optic communication line), which is expected to be completed in the first quarter of 2018. The advance was paid to KomplektMontazhStroy kz LLP.
- complex work in the field of information technology - creation of Cloud Data Center, which also is expected to be implemented in the first quarter of 2018. The advance was paid to Astana-New Technologies-2008 LLP.

In 2015, the Company purchased 45 residential units from NC KTZh JSC and sold it to employees with a refund of housing cost for 15 years at a discount rate of 13.10%. As of 31 December 2017, liabilities of employees are recorded in non-current accounts receivable in the amount of 224,490 thousand tenge and in other current assets in the amount of 138,587 thousand tenge (31 December 2016: 432,092 thousand tenge and 211,391 thousand tenge, respectively).

On 14 August 2017, a money collateral pledge agreement have been concluded with Sberbank SB JSC, according to which the Company acts as a pledger. The value of the agreement's subject is 100 thousand tenge. According to the contract terms, the sum was placed into the pledgee's account. The purpose of the contract is to ensure the proper performance of obligations for the return of a Guarantee issued for a 3 years period. The subject of the collateral was recorded as long-term restricted cash in the Company's accounting records.

The Company classified 73,551 thousand tenge as a long-term VAT recoverable, under the Islamic lease Agreement with Al Sakr Finance JSC.

9. ADVANCES PAID AND ADVANCES RECEIVED

During 2017, advances received by the Company in 2016 from NC Astana EXPO-2017 JSC, under the project Astana Expo-2017 in the amount of 6,409,440 thousand tenge have been settled by associated acts of work performed due to full performance of related contractual obligations. Similarly to this, 3,301,582 thousand tenge of advances paid in 2016 to subcontractors Nortex Group LLP, TNS Intec LLP and Volsransservis LLP were settled in the reporting period.

10. TRADE ACCOUNTS RECEIVABLE

	31 December 2017	31 December 2016
Trade accounts receivable from third parties	3,308,064	2,334,871
Allowance for doubtful debts	(251,744)	(219,562)
	3,056,320	**2,115,309**

For the years 2017 and 2016, the movement of the allowance for doubtful debts was as follows:

	2017	2016
Allowance for doubtful debts at the beginning of the year	(219,562)	(158,694)
Accrued for the year	(32,602)	(74,040)
Written off through the earlier created allowance during the year	420	13,172
Allowance for doubtful debts at the end of the year	**(251,744)**	**(219,562)**

At the reporting date, the ageing of trade receivables was as follows:

	31 December 2017		31 December 2016	
	Book value	Allowance	Book value	Allowance
Not expired	3,028,778	-	2,103,309	-
Overdue for 91-180 days	56,176	(28,634)	24,000	(12,000)
Overdue for 180-365 days	6,805	(6,805)	36,634	(36,634)
Overdue for more than a year	216,305	(216,305)	170,928	(170,928)
As of 31 December	**3,308,064**	**(251,744)**	**2,334,871**	**(219,562)**

Trade accounts receivable of the Company were denominated in the following currencies:

	31 December 2017	31 December 2016
Tenge	2,424,198	1,122,932
USD	617,295	664,819
EURO	12,857	309,971
Russian Rubles	1,970	17,587
	3,056,320	**2,115,309**

11. OTHER CURRENT ASSETS

	31 December 2017	31 December 2016
VAT recoverable	1,248,816	138,900
Prepayment for license usage	591,831	-
Short-term receivables from employees (Note 8)	138,587	211,391
Other short-term financial investments	66,717	93,681
Interest receivable	21,336	86,753
Prepaid taxes other than income tax	16,399	16,820
Receivables from employees	2,015	2,918
Other accounts receivable	688,342	629,982
	2,774,043	1,180,445
Allowance for doubtful debts	(533,397)	(533,623)
	2,240,646	**646,822**

For the years 2017 and 2016, the movement of the allowance for doubtful debts was as follows:

	2017	2016
Allowance for doubtful debts at the beginning of the year	(533,623)	(529,059)
Accrued for the year	(113)	(5,279)
Written off through the earlier created allowance during the year	339	715
Allowance for doubtful debts at the end of the year	**(533,397)**	**(533,623)**

As at 31 December 2017, short-term receivables from employees include short-term portion of prepaid expenses at discounted value in the amount of 109,245 thousand tenge and current portion of receivables in the amount of 29,342 thousand tenge (31 December 2016: 181,359 thousand tenge and 30,032 thousand tenge, respectively).

For the years ended 31 December 2017 and 2016, financial assets included in other current assets of the Company were represented in tenge.

12. CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Deposits with maturities of less than 3 months	1,694,058	11,265,029
Cash on bank accounts	1,493,696	1,850,470
Cash on card accounts	5,783	-
Petty cash	121	46
	3,193,658	**13,115,545**

Cash and cash equivalents were denominated in the following currencies:

	31 Decemeber 2017	31 December 2016
Tenge	1,351,937	8,846,001
USD	1,816,483	4,227,002
EURO	25,238	42,542
	3,193,658	**13,115,545**

13. NON-CASH TRANSACTIONS

Non-cash financing operations of the Company that are not reflected in the statement of cash flows were as follows:

- In 2017, the Company leased three buildings with a total cost of 866,856 thousand tenge (2016 - zero).
- Dividends were paid to NC KTZh JSC in the amount of 2,211,641 thousand tenge by setting-off against trade receivables.

14. SHARE CAPITAL AND ADDITIONAL PAID-IN CAPITAL

Share capital

As at 31 December 2017 and 2016, the Company's issued and paid share capital amounted to 12,241,487 thousand tenge.

As of 31 December, the Company's share capital is as follows:

	31 December 2017		31 December 2016	
	Proportion	Number of shares	Proportion	Number of shares
NC KTZh JSC	51%	2,875,429	51%	2,875,429
Mukhanov M.S.	49%	2,762,668	49%	2,762,668

As at 31 December 2017 and 2016, the Company did not have any preferred shares.

On 31 August 2017, according to the decision of General Shareholders Meeting, it was decided to pay dividends for 2016 of 4,336,550 thousand tenge in proportion to the existing shareholding structure in the following way:

- Transfer to Mukhanov M. S. of 2,124,910 thousand tenge in form of cash;
- Offsetting by a proportionate reduction in overdue liabilities of NC KTZh JSC for the amount of 2,211,640 thousand tenge.

On 16 November 2017, part of dividends in the amount of 500,000 thousand tenge was paid to Mukhanov M. S. As of 31 December 2017, the dividends payable to Mukhanov M. S. of 1,518,664 thousand tenge were recorded in short-term dividends payable.

On 30 November 2017, dividends were set-off against accounts payable of NC KTZh JSC subsidiaries in the amount of 2,211,640 thousand tenge.

On 9 June 2016, according to the decision of Management Board of NC KTZh JSC, it was decided to pay dividends for 2015 of 1,263,059 thousand tenge.

On 31 October 2016, the Company paid dividends to Mukhanov M. S. proportionately to its shareholding of 49% in the amount of 618,899 thousand tenge.

As of 31 December 2017 and 2016, dividends payable to NC KTZh JSC of 644,160 thousand tenge were recorded in short-term dividends payable.

Additional paid-in capital

Additional paid-in capital is presented by difference between nominal and fair value of interest-free loan obtained from NC KTZh JSC in 2011, net of deferred tax.

15. BORROWINGS

	Currency	Maturity	Interest rate	31 December 2017	31 December 2016
Borrowings:					
Development Bank of Kazakhstan JSC ("DBK")	Tenge	2024	8.0%	19,483,692	22,481,184
Eurasian Development Bank ("EDB")	Tenge	2020	9.0%	11,613,107	14,927,045
Eurasian Development Bank ("EDB")	Tenge	2024	9.0%	6,695,672	7,588,179
Development Bank of Kazakhstan JSC ("DBK")	Tenge	2018	7.6%	2,274,372	4,548,744
Eurasian Development Bank ("EDB")	Tenge	2019	11.5%	4,015,335	4,015,333
Alfa Bank SB JSC	Tenge	2018	13.5%	3,029,250	-
				47,111,428	53,560,485
Less: current portions of long-term borrowings payable within 12 months				(12,984,884)	(10,151,499)
				34,126,544	**43,408,986**

The loans received, except for the loan agreements of 4,000,000 and 3,000,000 thousand tenge concluded with EDB and Alfa Bank SB JSC respectively, are guaranteed by NC KTZh JSC.

The repayment schedule of the principal and interest amounts as at 31 December under the loan agreements is as follows:

	31 December 2017	31 December 2016
Within 1 year	12,984,884	10,151,499
1-2 years	11,055,092	9,282,442
2-3 years	8,647,183	11,055,092
3-4 years	3,870,910	8,647,183
More than 4 years	10,553,359	14,424,269
	47,111,428	**53,560,485**

On 26 June 2017, the Company entered into the main loan agreement with Alfa-Bank SB JSC, № 1233.2090/2017 with a purpose of working capital replenishment in the amount of no more than 3,000,000 thousand tenge, for the period of 12 months and with an annual interest rate of 13.5%, and obtaining bank guarantees in the total amount of 5,400,000 thousand tenge. As at the reporting date, 3,000,000 thousand tenge were obtained.

The Company has to comply with all terms, conditions and covenants of the loan agreements concluded with DBK and EDB. There is no any financial covenants in contracts concluded with Alfa Bank SB JSC. The management believes that the Company fully complied with all terms, conditions and covenants established under the loan agreements concluded with EDB as of 31 December 2017.

In order to prevent cases of non-fulfillment of obligations to creditors, the Company agreed changes to financial covenants. Thus, as at 31 December 2017, a waiver was received in respect of financial covernants under the loan agreements with DBK.

16. FINANCE LEASE OBLIGATIONS

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Obligations under finance lease:				
Not more than 1 year	1,003,887	842,121	481,521	334,864
More than 1 year and not more than 5 years	1,806,298	1,829,445	1,526,422	1,504,209
	2,810,185	2,671,566	2,007,943	1,839,073
Less future finance charges	(802,242)	(832,493)	-	-
Present value of minimum lease payments	**2,007,943**	**1,839,073**	**2,007,943**	**1,839,073**
Included in the financial statements as:				
Current portion			**481,521**	**334,864**
Non-current portion			**1,526,422**	**1,504,209**

For the year ended 31 December 2017, under the contract with Grand Telecom LLP, the Company incurred contingent rent expenses related to the indexation of payments in the amount of 1,321,662 thousand tenge (2016: 1,252,928 thousand tenge) (Note 23).

For the years ended 31 December 2017 and 2016, average interest rate was 18.25% per annum.

In 2017, the Company entered into Islamic lease Agrrement with Al Sakr Finance JSC (Note 6). Average interest rate for the year ended 31 December 2017, was 17.29% per annum.

All lease obligations were denominated in tenge.

16.1 Reconciliation of liabilities arising from financial activities

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

31 December 2017	1 January 2017	Cash flows from financing activities (i)	New finance lease contracts	Dividends declared	Offsetting dividend obligations, net	Other changes (ii)	31 December 2017
Borrowings (Note 15)	53,560,485	(6,282,442)	-	-	-	(166,615)	47,111,428
Financial lease (Note 16)	1,839,073	(811,224)	980,686	-	-	(592)	2,007,943
Dividends payable	644,160	(606,245)	-	4,336,550	(2,211,641)	-	2,162,824
	56,043,718	**(7,699,911)**	**980,686**	**4,336,550**	**(2,211,641)**	**(167,207)**	**51,282,195**

(i) The cash flows from bank loans, finance lease and dividends paid, including tax on dividends, make up the net amount of proceeds and repayments under the financial activities in the statement of cash flows.
(ii) Other changes include interest accruals and payments.

17. TRADE ACCOUNTS PAYABLE

	31 December 2017	31 December 2016
Payable to other related and third parties	6,209,132	8,511,898
Payable to NC KTZh JSC and its subsidiaries (Note 24)	4,093	890,645
	6,213,225	**9,402,543**

Trade accounts payable of the Company were denominated in the following currencies:

	31 December 2017	31 December 2016
Tenge	5,818,901	9,082,044
USD	378,152	253,664
Russian Rubles	15,868	66,571
Euro	304	264
	6,213,225	**9,402,543**

As at 31 December 2017 and 2016, trade accounts payable of the Company are mainly represented by accounts payable for the purchase of property, plant and equipment, inventories and intangible assets.

18. OTHER CURRENT LIABILITIES

	31 December 2017	31 December 2016
Remuneration to key management	443,300	348,806
Provisions for unused vacations	338,577	304,545
Operating lease payable	176,328	49,210
Other liabilities	200,686	295,996
	1,158,891	**998,557**

19. INCOME TAX

	2017	2016
Income tax expense	1,099,758	-
Deferred income tax expense	397,780	1,140,486
Total income tax expense	**1,497,538**	**1,140,486**

Deferred tax amounts calculated by applying the statutory tax rates in effect at the respective reporting dates to the temporary differences between the tax basis of assets and liabilities and the amounts reported in financial statements, are as follows:

	31 December 2017	31 December 2016
Deferred tax assets		
Allowance for doubtful debts	157,022	150,598
Discount on apartments	110,524	112,071
Remuneration to employees	95,860	69,761
Provision for unused vacations	67,715	60,909
Taxes	12,123	12,481
Tax losses carried forward	-	8,320
Other provisions	63	11,498
Total deferred tax assets	**443,307**	**425,638**
Deferred tax liabilities		
Difference in carrying value of property, plant and equipment and intangible assets	(3,913,841)	(3,498,392)
Total deferred tax liabilities	(3,913,841)	(3,498,392)
Deferred tax liabilities, net	**(3,470,534)**	**(3,072,754)**

The deferred taxes movement for 2017 and 2016 is as follows:

	2017	2016
Deferred tax liabilities, net, at the beginning of the year	(3,072,754)	(1,932,268)
Deferred tax liability recognized in profit or loss	(397,780)	(1,140,486)
Deferred tax liabilities, net, at the end of the year	**(3,470,534)**	**(3,072,754)**

In 2017 and 2016, the statutory effective income tax rate in Kazakhstan was 20%.

Below is a reconciliation of theoretical income tax with the actual income tax expense recorded in the Company's statement of profit or loss and other comprehensive income:

	2017	2016
Profit before income tax expense	6,829,140	5,477,036
Tax at statutory rate of 20%	1,365,828	1,095,407
Effect of other permanent differences	131,710	45,079
Income tax expenses	**1,497,538**	**1,140,486**

20. REVENUE

	2017	2016
Revenue from sale of goods and services to third parties and other related parties	37,670,402	13,758,405
Revenue from NC KTZh JSC and its subsidiaries (see Note 24)	32,804,715	34,192,767
Revenue from sale of inventories to third parties	547,332	58,529
	71,022,449	**48,009,701**

In 2017, sales to NC KTZh JSC and its subsidiaries approximated to 46% of the total revenue amount (2016: 71%).

Revenues from NC KTZh JSC and its subsidiaries for 2017 include revenues from provision of services of 31,476,084 thousand tenge and from the sale of software of 1,328,631 thousand tenge (2016: 25,834,010 thousand tenge and 8,358,757 thousand tenge, respectively).

The table below presents the Company's revenue by the type of services provided:

	2017	2016
Astana – Expo 2017 project	19,465,190	434,715
Trunk rent	12,179,355	11,680,410
ACS PDT project	10,908,801	9,506,362
Internet	6,899,384	4,420,718
Software Sales (Project "Z Systems Upgrade", "VZhDO", delivery of licensed software, Complex system for Railway Stations)	4,125,132	8,417,286
International transit	2,945,019	1,982,128
Rent of data transmission lines	2,586,225	2,342,052
Revenue from other projects	2,247,018	1,834,391
Telegraph	2,038,898	1,973,269
Long-distance and international connection	1,683,783	1,263,872
Service of the industrial-engineering communication tools at KazTransOil JSC	1,297,489	1,176,404
Unified Service Center project	891,250	1,282,563
Local connection	858,947	819,156
Main Computer Center project, IT infrastructure Implementation and Maintenance	653,675	624,426
Projects under the complex contracts: KazTransOil JSC (reconstruction of AFA&EC of Kassymov ORS, Reconstruction of CDU - 10kV Chulak-Kurgan IPS)	327,309	-
Other revenue	1,914,974	251,949
	71,022,449	**48,009,701**

The growth in revenues from the following types of services: Internet and international transit, is explained by the new customers connection, the organization of communication channels and the increase in the volume of services. In addition, a significant growth in revenue was due to the services provided under the Astana-Expo 2017 project.

21. COST OF SALES

	2017	2016
Third party services	25,574,974	3,361,351
Depreciation and amortization	7,666,780	7,408,342
Salary and other related expenses	5,484,795	5,060,425
Operating lease expenses	4,690,967	3,670,542
Communication services	2,972,349	1,400,290
Professional services	2,304,364	1,688,748
Software cost	1,716,280	7,536,994
Materials	1,306,393	2,287,778
Taxes and other related expenses included in cost of sales	793,734	333,071
Employee benefits cost	23,409	85,606
Other costs	1,364,792	1,412,628
	53,898,837	**34,245,775**

Cost of inventories sold to NC KTZh JSC and its subsidiaries in 2017 amounted to 1,221,993 thousand tenge (2016: 7,438,116 thousand tenge).

Third-party services include work of subcontractors under the following projects:

	2017	2016
Expo-2017	18,436,737	165,827
ACS PDT	2,627,624	1,952,576
Complex security system for Railway Stations	2,604,266	-
KazTransOil	1,273,272	1,193,448
Complex works on Z System	266,445	-
Service OTC	167,726	-
KazMunayGaz	71,782	34,202
Project for Agriculture Ministry	67,321	-
Digital Mine	-	14,374
Kazpost	682	924
Other third paries works and services	59,119	-
	25,574,974	**3,361,351**

22. GENERAL AND ADMINISTRATIVE EXPENSES

	2017	2016
Salary and other related expenses	1,458,493	1,166,943
Advertising costs	572,150	76,860
Third party services	464,322	274,340
Taxes, other than income tax	459,389	508,793
Provision on remuneration of executive personnel	367,775	91,327
Rent of premises	214,700	88,996
Professional services	141,052	400,734
Depreciation and amortization	127,173	111,672
Allowance for doubtful debts	30,458	81,241
Employee benefits expenses	4,459	16,306
Other expenses	529,152	205,603
	4,369,123	**3,022,815**

23. FINANCE COSTS

	2017	2016
Interest expense on loans	4,406,352	4,458,949
Contingent rent payments (Note 16)	1,321,662	1,252,928
Interest expense on financial lease	326,421	409,568
	6,054,435	6,121,445
Less borrowing costs capitalized to the cost of qualifying assets (Note 6)	(65,668)	(85,702)
	5,988,767	**6,035,743**

24. RELATED PARTY TRANSACTIONS

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is paid to the substance of the relationship, and not merely the legal form.

Related parties may enter into transactions in which non-related parties may not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between non-related parties.

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

As at 31 December, amounts due to and from related parties (NC KTZh JSC and its subsidiaries and associates) comprised the following:

	Due from related parties		Due to related parties (Note 17)	
Company name	**31 December 2017**	**31 December 2016**	**31 December 2017**	**31 December 2016**
NC KTZh JSC	3,901,741	5,953,727	953	878,555
KTZh-Freight transportation JSC	2,440,946	6,268,298	24	2,624
Militarized Protection of the Railway JSC	53,699	137,006	-	-
Kaztemirtrans JSC	205,000	48,691	-	-
Passajirskie Perevozki JSC	133,798	46,435	-	-
KTZ Express JSC	37,778	43,939	-	-
Repair corporation Kamkor LLP	232	-	-	-
Other	7,223	2,831	3,116	9,466
	6,780,417	**12,500,927**	**4,093**	**890,645**

Transactions with related parties (NC KTZh JSC and its subsidiaries and associates) for the years ended 31 December were presented as follows:

Company name	Sales of software and services (Note 20) 2017	2016	Services acquired 2017	2016
NC KTZh JSC	19,620,264	22,952,701	54,880	61,545
KTZh-Freight transportation JSC	11,793,980	10,042,132	4,855	7,750
Passajirskie Perevozki JSC	697,352	519,384	-	-
Kaztemirtrans JSC	353,883	238,198	-	2,804
KTZ Express JSC	210,100	105,193	-	113
Militarized Protection of the Railway JSC	80,310	165,245	-	-
Vokzal-service JSC	-	131,618	-	330
Other	48,826	38,296	21,763	35,419
	32,804,715	**34,192,767**	**81,498**	**107,961**

The amounts due to and from other related parties as at 31 December, comprised the following:

Company name	Due from related parties 31 December 2017	31 December 2016	Due to related parties 31 December 2017	31 December 2016
KazTransOil JSC	181,068	1,208,512	47,134	-
Kazpost JSC	129,346	128,772	1,909	22,103
NAC Kazatomprom JSC	44,496	824	-	-
KazMunaiGas Onimderi JSC	33,701	19,592	2,640	11
NC KazMunaiGas JSC	26,617	10,285	-	-
Kazakhtelecom JSC	14,719	7,233	27,167	-
Samruk-Kazyna Finance LLP	14,612	-	-	-
Exploration Production KazMunayGas JSC	10,968	19,936	238	-
Samruk-Kazyna Contract LLP	151	28,000	-	-
Other	13,006	4,717	868	20,977
	468,684	**1,427,871**	**79,956**	**43,091**

Related party transactions for the years ended 31 December are as follows:

Company name	Services provided 2017	2016	Services acquired 2017	2016
KazTransOil JSC	2,349,393	2,411,237	17,046	-
Kazpost JSC	453,159	342,584	19,372	18,175
KazMunaiGas Onimderi JSC	185,268	134,922	4	12
NC KazMunaiGas JSC	136,940	108,313	-	-
Exploration Production KazMunayGas JSC	120,218	85,497	-	-
Samruk-Kazyna Finance LLP	57,977	-	937	-
Kazakhtelecom JSC	56,517	65,375	200,965	267,719
NAC Kazatomprom JSC	41,768	149,486	-	4,105
NWF Samruk-Kazyna JSC	37,265	-	169	-
Other	56,941	76,479	70,216	57,169
	3,495,446	**3,373,893**	**308,709**	**347,180**

As at 31 December 2017, the Company's key management personnel was comprised of 9 persons. For the year ended 31 December 2017, compensation to the key management personnel was 577,924 thousand tenge. As at 31 December 2016, the Company`s key management personnel was comprised of 9 persons. For the year ended 31 December 2016, compensation to the key management personnel was 451,607 thousand tenge. The entire amount of the compensation at the reporting date is either paid or payable within 12 months after the date.

25. FINANCIAL INSTRUMENTS

Capital risk management

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximizing the return to the Shareholders through optimization of the debt and equity balances. The Company's overall strategy remains unchanged since 2016.

The capital structure of the Company comprises the share capital as disclosed in Note 14, additional paid-in capital and retained earnings.

Categories of financial instruments

As at 31 December 2017 and 2016, financial instruments were presented as follows:

	31 December 2017	31 December 2016
Financial assets		
Trade accounts receivable (Notes 10 и 24)	10,305,421	16,044,107
Deposits with maturities less than 3 months (Note 12)	1,694,058	11,265,029
Cash (Note 12)	1,499,600	1,850,516
Non-current receivables	224,490	250,734
Other short-term financial investments (Note 11)	66,717	93,681
Other current assets	29,342	30,032
Interest receivable	21,336	86,753
Financial liabilities		
Borrowings (Note 15)	44,111,428	53,560,485
Trade accounts payable (Note 17)	6,213,225	9,402,543
Dividends on shares	2,162,824	644,160
Financial lease obligations	2,007,943	1,839,073
Other current liabilities (excluding provision and advances received from customers)	341,014	290,115

Objectives of financial risk management

The Company controls and manages the financial risks relating to the operations of the Company through internal risk reports, which analyze exposures by degree and magnitude of risks. These risks include risks related to capital structure of the Company, decrease in profitability, exchange rates fluctuations, credit risks, interest rates fluctuations etc. The following is a description of the Company's risk management policy.

Market risk

The Company's operations are primarily exposed to financial risks of changes in exchange rates (see Currency risk management below) and in interest rates (see Interest rate risk management below). The Company does not enter into agreements on derivative financial instruments to manage its exposure to interest rate risk and currency risk, since the management believes that such exposure will not have any material impact on the financial statements.

Currency risk management

The Company undertakes certain sales/purchase transactions denominated in foreign currencies. It causes the risk of loss due to changes in exchange rates. The Company also has assets and liabilities denominated in foreign currencies.

The carrying value of the Company's monetary assets and monetary liabilities denominated in foreign currencies as at 31 December was presented as follows:

	Assets		Liabilities	
	31 December 2017 in thousands of tenge	31 December 2016 in thousands of tenge	31 December 2017 in thousands of tenge	31 December 2016 in thousands of tenge
USD	2,459,652	4,925,150	378,152	253,664
Euro	38,096	352,865	304	264
Russian Rubles	2,111	17,587	18,150	66,571

Foreign currency sensitivity analysis

The Company is mainly exposed to the risk associated with a change in the US dollar.

The following table details the Company`s sensitivity to a 30% increase or decrease in tenge against US dollar. 30% is the sensitivity rate used in internal foreign currency risk reports to the key management and represents management`s assessment of the reasonably possible change in foreign currency rates. The sensitivity analysis focuses only on unregulated monetary resources in foreign currency and corrects them at the end of period taking into account 30% changes in foreign exchange rates.

	Impact of USD	
	31 December 2017	31 December 2016
Financial assets	(737,896)	(1,477,545)
Financial liabilities	113,446	76,099

The sensitivity analysis includes: a) Accounts payable, b) Accounts receivable when payables/ receivables are represented in foreign currency, c) Cash and cash equivalents in foreign currency.

The above table shows the change in the Company's currency position with the strengthening and weakening of the Tenge by 30% relative to the corresponding currency. At the moment, the Company is at open, long currency position. This indicates that the Company's claims exceed liabilities for a particular foreign currency.

Currency risk primarily relates to the cash and cash equivalents of the Company, denominated in US dollars, as of 31 December 2017 and 2016.

Credit risk management

Credit risk primarily relates to trade receivables and other current assets. The company has a significant concentration of credit risk with respect to NC KTZh JSC and its subsidiaries and associates. For the year ended 31 December 2017, the share of revenue from NC KTZh JSC and its subsidiaries and associates accounted for approximately 46% of the total revenue of the Company (2016: 71%). As at 31 December 2017, trade receivables for connection services and other services provided to NC KTZh JSC and its subsidiaries accounted for 66% (2016: 78%) of the total amount of trade receivables of the Company.

In respect of credit risk related to cash and cash equivalents, the Company's risk is associated with credit institutions in which cash and cash equivalents are placed, wherein the maximum risk is equal to the present value of these instruments and is considered to be insignificant. As at 31 December 2017, the Company places its cash in the largest second-tier banks of Republic of Kazakhstan: 58% of the Company's cash and cash equivalents in the amount of 1,847,850 thousand tenge, including deposits in the amount of 1,689,247 thousand tenge are placed at Tsesnabank JSC (credit rating is B+/negative/B, kzBBB- according to Standard&Poor's rating), 25% of cash in the amount of 811,585 thousand tenge are placed in Bank CenterCredit JSC (credit raiting is B/stable/B, kzBB+ according to Standard&Poor`s rating). The rest 17% of cash and cash equivalents are placed in other banks, not more than 10% per each bank.

Carrying amounts of financial assets recognized in financial statements of the Company, less provision for impairment, represent the maximum exsposure to credit risk.

Interest rates risk management

The Company's activities are subject to interest rate risk, as the Company attracts borrowed funds not only with fixed, but also with floating interest rates. The Company manages this risk by maintaining a balanced combination of loans with fixed and floating interest rates.

The Company's risks associated with changes in interest rates on financial liabilities are discussed in more detail in the section of this note on liquidity risk management.

Analysis of sensitivity to interest rate risk

The following sensitivity analysis to interest rate changes was carried out for loans with a floating interest rate for 2017. Liabilities with floating interest rates are analyzed on the basis of the assumption that their value to the date 31 December 2017 did not change during the year, and the interest rate increased by 100 basis points.

If the interest rate had increased (decreased) by 100 basis points while maintaining at the same level of all other variables, the pre-tax profit of the Company for 12 months of 2017 would have increased by 40,556 millon tenge.

Liquidity risk management

Ultimate responsibility for liquidity risk management is on the Company's Shareholder, which has established an appropriate liquidity risk management framework for the management of the Company's short-, medium- and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and available borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

Liquidity risk and interest rate risk tables

The following tables reflect contractual terms of the Company on its non-derivative financial assets and liabilities. The table was prepared on the basis of non-discounted cash flows projected on financial assets and liabilities as at the earliest date when the Company may be required to repay. The table includes cash flows on both interest and principal payments.

In the following table, cash flows for loans with floating interest rates are presented taking into account the weighted average interest rate from the date of receipt of the loan by 31 December 2017.

	Interest rate	Up to 1 year	1-5 years	Over 5 years	Total
31 December 2017					
Financial Assets					
Interest-free					
Cash	-	1,499,600	-	-	1,499,600
Trade accounts receivable	-	10,305,421	-	-	10,305,421
Interest receivables	-	21,336	-	-	21,336
Interest-bearing					
Deposits with maturities less than 3 months	2.10-12.00%	1,694,058	-	-	1,694,058
Receivables from employees	13.10%	29,342	90,584	133,906	253,832
Other short-term financial investments	2.10%-15.00%	66,717	-	-	66,717
Total financial assets		**13,616,474**	**90,584**	**133,906**	**13,840,964**
Financial liabilities					
Interest-bearing					
Finance lease obligations	17.29%-18.25%	(1,003,887)	(1,806,298)	-	(2,810,185)
Loans with fixed interest rate	7.60%-9.00%	(15,662,000)	(29,608,026)	(7,293,428)	(52,563,454)
Loans with floating interest rate	11.50%	(462,556)	(4,402,500)	-	(4,865,056)
Interest-free					
Trade accounts payable	-	(6,213,225)	-	-	(6,213,225)
Dividends on shares	-	(2,162,824)	-	-	(2,162,824)
Other financial liabilities	-	(341,014)	-	-	(341,014)
Total financial liabilities		**(25,845,506)**	**(35,816,824)**	**(7,293,428)**	**(68,955,758)**
Net financial liabilities		**(12,229,032)**	**(35,726,240)**	**(7,159,522)**	**(55,114,794)**

	Interest rate	Up to 1 year	1-5 years	Over 5 years	Total
31 December 2016					
Financial assets					
Interest-free					
Cash	-	1,850,516	-	-	1,850,516
Trade accounts receivable	-	16,044,107	-	-	16,044,107
Interest receivables	-	86,753	-	-	86,753
Interest-bearing					
Deposits with maturities less than 3 months	2.10-12.00%	11,265,029	-	-	11,265,029
Receivables from employees	13.10%	30,032	181,359	250,734	462,125
Other short-term financial investments	2.10%-15.00%	93,681	-	-	93,681
Total financial assets		**29,370,118**	**181,359**	**250,734**	**29,802,211**
Financial liabilities					
Interest-bearing					
Finance lease obligations	18.25%	(842,121)	(1,829,445)	-	(2,671,566)
Loans with fixed interest rate	7.60%-9.00%	(10,989,890)	(39,459,720)	(12,301,335)	(62,750,945)
Loans with floating interest rate	11.50%	(30,667)	(5,331,445)	-	(5,362,112)
Interest-free					
Trade accounts payable	-	(9,402,543)	-	-	(9,402,543)
Dividends on shares	-	(644,160)	-	-	(644,160)
Other financial liabilities	-	(290,115)	-	-	(290,115)
Total financial liabilities		**(22,199,496)**	**(46,620,610)**	**(12,301,335)**	**(81,121,441)**
Net financial assets/(liabilities)		**7,170,622**	**(46,439,251)**	**(12,050,601)**	**(51,319,230)**

The Company believes that it will settle all other liabilities using cash inflows from operating activities and the proceeds from maturing financial assets.

Fair value of financial instruments

Management believes that except for loans received from international and Kazakhstan development institutions the carrying value of the Company's financial assets and liabilities as at 31 December 2017 and 2016 recorded in the financial statements at amortized cost did not differ materially from their fair value. For the purpose of fair value assessment, the Company determines described instruments' fair value hierarchy as level 2.

The fair value of loans received from international and Kazakhstan development institutions - EDB and DBK, amounted to 41,391,398 thousand tenge. For the purpose of fair value assessment, the Company determines described instruments' fair value hierarchy as level 2.

26. COMMITMENTS AND CONTINGENCIES

Operating environment

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

Because the Republic of Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014-2016, prices on energy resources decreased significantly, which led to a dramatic decrease in national export revenue.

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

Legal issues

1) Payment of dividends

As described in Note 14, on 9 June 2016, according to the decision of Management Board of NC KTZh JSC, it was decided to pay dividends for 2015 of 1,263,059 thousand tenge.

On 15 June 2016, the ownership on 49% of common shares were transferred to the new shareholder, Mukhanov M. S.

On 31 October 2016, the Company paid dividends to Mukhanov M. S. proportionately to its shareholding of 49% in the amount of 618,899 thousand tenge. Dividends payable to NC KTZh JSC of 644,160 thousand tenge were recorded in short-term dividends payable.

As at the date of these financial statements, there is an unresolved issue between NC KTZh JSC and the Company in respect of the legitimacy of the payment of declared dividends for 2015 to the shareholder Mukhanov M. S. Management of the Company believe that the dividend payments were made in accordance with the relevant legislation of the Republic of Kazakhstan prevailing on this issue. As a result, there have been no additional amounts recorded in the financial statements of the Company as a result of this transaction.

2) Kazakhstan Transit Telecommunications LLP

The Company had litigation issues with Kazakhtsan Transit Telecommunications LLP (KT&T hereafter) in 2011-2015. In 2013 the Company reported reserves on taxes and penalties in the amount of 1,479,161 thousand tenge, which consequently were reversed in the amount of 1,198,626 thousand tenge after recognition of the decision of Tax Department as invalid. In 2015, Company reversed the remaining provision of 280,535 thousand tenge, which was excessively charged.

On 19 January 2015, according to decision of the Appeal judicial board of the Almaty city court, KT&T LLP was declared as a bankrupt with initiation of procedure of bankruptcy and appointment of the temporary administrator. The claims of Transtelecom JSC to KT&T LLP were recognised and included in a creditors' claims register. As of the date of the financial statements approval for issuance, the bankruptcy proccess have not yet been finalised.

In 2015, based on decision of Appellate judicial board of Almaty No.1a-752/2014 dated on 27 October 2014, the Company attained a right to demand compensation for material damage from Abdrahmanov M. M. in the amount of 2,098,794 thousand tenge for embezzling consigned property. As at 31 December 2017, materials related to the matter are in the proceeding in the Department for the Execution of Judicial Acts of Karasay territorial division of Almaty.

Tax and regulatory environment

The government of the Republic of Kazakhstan continues to reform the business and commercial infrastructure in its transition to a market economy. As a result, laws and regulations affecting businesses continue to change rapidly. These changes are characterized by poor drafting, different interpretations and arbitrary application by the authorities.

In particular, taxes are subject to review and investigation by a number of authorities enabled by law to impose fines and penalties. The lack of references to established provisions in Kazakhstan leads to the lack of clarity and integrity of the provisions. Frequent contradictions of legal interpretations both within state authorities and between the companies and state authorities create uncertainties and discrepancies. These facts create tax risks in Kazakhstan which are more significant than those generally available in countries with more developed tax systems.

Tax authorities are entitled to review accounting records during five years after the end of the period, in the course of which the taxable base is determined and taxes payable are assessed. Therefore, the Company can be subject to additional tax liabilities which can arise as a result of tax audits. The Company believes it has adequately provided for all tax liabilities based on its understanding of the tax legislation.

Environmental issues

The Company believes it is currently in compliance with all existing environmental, healthcare and labor safety laws and regulations of Republic of Kazakhstan. However, these laws and regulations may change in the future. The Company is unable to predict the timing or extent to which these environmental, healthcare and labor safety laws and regulations may change. Such change, if it occurs, may require the Company to modernize technology to meet more stringent standards.

Antimonopoly legislation

As stated in Note 1, the Company was included in the Republican section of the State Register of Natural Monopolies as a provider of service for usage of telephone underground conduits. The antimonopoly regulation requires the Company to apply tariffs established for regulated communication services and to submit reports to the Kazakhstan Agency for Regulation of Natural Monopolies and Protection of Competition. In addition, the Company was included into the State Register of market participants enjoying a dominant (monopolistic) position in a certain commodity market for following types of services:

- telegraph service;
- service for leasing direct pairs (lines);
- service of primary access to the Internet (for telecom operators);
- Internet access services for ultimate customers.

The management believes that the Company complies with the requirements of the anti-monopoly legislation.

Capital commitments

As at 31 December 2017, the Company's capital commitments under related contracts amounted to 15,961,962 thousand tenge (31 December 2016: 4,461,190 thousand tenge).

Compliance with loan covenants

On 14 August 2017, the Company entered into agreement with SB Sberbank JSC on procedures and conditions of the provision of credit instruments to legal entities and individual entrepreneurs. Under the agreement, a credit line № 17-54948-01-КЛ (Guarantee) from 14 August 2017 have been opened for revolving credit line available until 12 August 2022 to obtain bank guaranties in the total maximum amount of 290,000 thousand tenge. It is required to meet the requirements of the contract on delivery, implementation and support of REMS Central system under the project of creation of Automated control system "Power dispatch traction" (ACS PDT) dated 23 August 2012 (the beneficiary is E IT Services Co. Kazakhstan). The commission for issuing the bank guarantee is 1.5% per annum. As of the reporting date, the bank issued a guaranty on the total amount of 285,433 thousand tenge. With purpose to ensure the fulfillment of the obligations mentioned above, a money collateral pledge agreement № 17-54948-01-DZ-001 dated 14 August 2017, have been concluded. According to the terms of agreement, the Company placed 100 thousand tenge on the SB Sberbank JSC account as a collateral.

The Company has to comply with all terms, conditions and covenants of the loan agreements concluded with DBK and EDB. There is no any financial covenants agrreed in contracts concluded with Alfa Bank SB JSC. The management believes that the Company fully complied with all terms, conditions and covenants established under the loan agreements concluded with EDB and SB Sberbank JSC as of 31 December 2017.

In order to prevent cases of non-fulfillment of obligations to creditors, the Company agreed changes to financial covenants. Thus, as at 31 December 2017, a waiver was received in respect of financial covernants under the loan agreements with DBK.

Other liabilities

Guarantees

As at 31 December 2017, the guarantees issued by the Company are as follows:

	Guarantee Purpose	Date of guarantee issue	Guarantee period	Guarantee amount
Qazkommerts-bank JSC	Securing of advances return under the contract for the purchase of construction works of engineering infrastructure - International Specialized Exhibition ASTANA EXPO-2017 - Integrated Security Systems (Spot 3.2) "Organizer's office" on the territory of the exhibition "Expo-2017" in Astana No. 522/06 from 5 September 2016.	16 September 2016	30 April 2018	384,275
SB SberBank JSC	Meeting requirements of the contract on delivery, implementation and support of REMS Central system under the project of creation of Automated control system "Power dispatch traction" (ACS PDT) (beneficiaries are E IT Services Co. Kazakhstan and Hewlett-Packard LLP)	14 August 2017	12 August 2022	290,000
Alfa Bank SB JSC	Elimination of defects under a procurement contract № 591-1/06 dated 26 September 2016 on construction and installation if infrastructure - Integrated security systems in the design of exhibition pavilions and facilities № A1, B1, B2, C1, C2, C3, N 1.3, J2.4.2 (Logistics Center), input groups, kiosks and temporary constructions at the objects of Astana Expo-2017	16 November 2017	15 November 2019	158,995
Alfa Bank SB JSC	Elimination of defects under a procurement contract №423/06 dated 29 July 2016 of construction and installation of infrastructure - Basic telecommunication services in designing of exhibition pavilions and facilities № P1, C2, C3, C4, B1, B 2.2, B 2.3, B 2.4, N 1.3, J2, entrance groups, kiosks, and temporary constructions at the objects of Astana Expo-2017	15 November 2017	15 November 2019	77,223
Alfa Bank SB JSC	Elimination of defects under a contract dated 29 July 2016 on construction and installation works of the engineering infrastructure – "Smart Grid and EV Charging Infrastructure" for the needs of NC Astana EXPO-2017 JSC	15 September 2017	3 September 2019	45,771
Qazkommerts-bank JSC	Ensuring fulfillment of obligations under the contract № 522/06 dated 5 September 2016 on procurement of construction and installation works for engineering infrastructure - International Specialized Exhibition Astana Expo-2017 on complex security systems (spot 3.2) "Organizer's office" on the territory of EXPO-2017 in Astana	16 September 2016	30 April 2018	38,427
Other guarantees provided by banks	Securing performance of obligations	29 January 2016 – 4 October 2017	31 March 2018 - 3 October 2019	70,601

As at 31 December 2017, the Company did not have any obligations related to the guarantees listed above.

Finance lease obligations

As discussed in Note 16, the Company entered into the agreement with Grand Telecom LLP for the finance lease of equipment till 1 January 2020. The original agreement amount was 19,317,000 thousand tenge, including VAT. Following the additional agreement dated 2 April 2009, the amount was reduced to 14,483,297 thousand tenge, of which 12,089,423 thousand tenge was paid off as at 31 December 2017 (31 December 2016: 11,439,880 thousand tenge).

In 2017, the Company entered into the Islamic Lease Agreement with Al Sakr Finance JSC with maturity until 26 December 2021. According to the contract, the liability amount under the contract is 1,273,626 thousand tenge, of which 294,206 was paid off as at 31 December 2017.

27. SUBSEQUENT EVENTS

From 31 December 2017 to the date of approval and signing of these financial statements, no adjusting events or events requiring disclosure in the financial statements happened.

28. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were authorized and approved for issue by the management of the Company on 20 April 2018.