KAZAKHTELECOM

Think digital!

2018 Annual Report

CONTENT

INTRODUCTION

The modern world is unthinkable without information communications technologies and Internet which have penetrated nearly every field of human life and activities from all angles and directions. Nowadays, the unbelievably intensive development of information and telecommunications technologies plays a significant role in economy, science, industry, communications between countries, information management, and data flows exchange. At the same time, the need in increasing volumes and speed goes up with every day. Thus, for the past year the world has witnessed another round of growth in the number of consumers of ICT-services as well as organizations specialized in computer technologies and delivery of services in IT and telecommunications sphere. It is not only ordinary users and end consumers who have been embraced by this amazing process – the scale of the digitization has reached the country level, when a number of states has already started the so-called format of “the digital society”, in which the mankind will not be able to reject numerous benefits of the technological progress and solutions that globally contribute to the maintenance of the comfortable and safe living.

Digital technologies provide undisputable advantages, such as, a simplified access of the population and entrepreneurs to governmental services, accelerated information exchange, introduction of additional opportunities for doing business, and creation of new digital products. In order to bring these ambitions into life as directed by the President of Kazakhstan Nursultan Nazarbayev, the entire country has proceeded with the implementation of the state program named “Digital Kazakhstan”. Its fundamental goal resides in the acceleration of the national economic development and improvement of the living conditions for the population through the use of digital technologies and also by creating an environment where the economy of Kazakhstan will step into the brand-new trajectory of development to ensure the evolution of digital economy of the future.

Striving for implementation of the goals to speed up the technological modernization of economy and provide conditions for the country-wide access to fiber-optic infrastructure, in 2018, Kazakhtelecom JSC has started to realize the largest project to provide all rural settlements of the Republic of Kazakhstan with the broadband access through the fiber-optic communications lines (RS FOCL). This project will make it possible to bring the access to the highspeed Internet to 2.5 thousand governmental entities in 828 rural settlements. The Company is facing a challenge to lay out over 15,000 kilometers of fiber-optic communications line within a bit more than two years.

One of effects of project framework will be expanding innovative services and improved level of their dissemination within rural settlements along with the provision of the access to such services as tele-medicine, opportunities of the online-education, and e-commerce services. Being implemented, the project will have a favorable impact on the level of employment both within the course of its construction works for the network deployment and after the works are accomplished.

Based on the outcome of 2018, the first stage of the RS FOCL Project brought the highspeed Internet access to 27 state entities in 7 rural settlements of Aktobe, West Kazakhstan, East Kazakhstan and Pavlodar oblasts.

On the progress rate of the availability of the access through optical lines, it should be emphasized that over 1 mln ports have been installed under the GPON technology by now, while the number of active users has exceeded 700 thousand, and the utilization of the copper infrastructure is intensively going on. However, the infocommunications operator intends to retain the classical telephone business, despite the overall global migration of the fixed telephone users towards mobile networks. The Company places its bet against the services that allow utilizing all advantages of both a mobile and fixed telephone connection.

In addition to the construction of network on the basis of fiber-optic cable, another promising business direction resides in the development of the new general connection technology, namely, 5G. In this regard, several memorandums on joint research of the opportunities and testing of this technology have already been signed.

There is one more subject that has been included into the field of research of the experts of Kazakhtelecom. Broad horizons emerging from the application of the IoT, the Internet of Things, are promising to become one of the key drivers of the revenue generation of the IT-industry in the very near future. Pursuing the current trends, Kazakhtelecom has realized a project on the construction of the Central-Asian largest M2M/IoT network based on LoRa technology. The wireless network with the low energy consumption will cover all IoT segments: housing services and utilities, transportation, safety, and industrial facilities, as well as control over urban territories, street lighting and collection of telemetric data from energy consumption meters. In the course of the first phase, the network has been already built in the cities of Almaty, Astana and Shymkent, while the total implementation of the project provides for the installation of more than 400 basic stations of the LoRa technology in all regional centers.

More than that, the Company continues to study, adapt and bring new services and possibilities related to the concept of Smart Home and Smart City into the market. In 2018, the Company has expanded the coverage to as many as 45 thousand video cameras connected to the Cloud Video Surveillance platform within the B2C/B2B/ B2G segments on the basis on the optical urban GPON infrastructure. Those novelties have been actively introduced into the cities and private homes of Kazakhstanis, and the practical experience of the Company in connection therewith has been repeatedly presented at international sectoral conferences and exhibitions.

In parallel with covering new territories with the fiber- optic lines, the Company has been paying a lot of attention to the development of new assets. Thus, one of the symbolic events was the signing of the agreement between Kazakhtelecom JSC, Telia Company, and Fintur Holdings BV on the acquisition of 75% of the voting shares of Kcell JSC, the Kazakhstani national cell operator.
The acquisition of the voting stake will allow delivering several ambitious projects due to the integration of the networks and experience of two operators. The effect of the synergy of two giants will make it possible in the very near future to build a high-technology integrated network within the territory of Kazakhstan.

Besides, the Company has shown positive results in some new directions, specifically, in the E-commerce, where we can name such products as Chocomart, Intermarket, KTstore. Thanks to its reliable and secure infrastructure and compliance with the strict safety standards, the Company has become the operator of fiscal data and provides for the connection of the enormous number of cash register machines (CRM) across the entire Republic. The infrastructure that allows making all major connections online has been installed within the course of the project, and the Company continues testing new cash machines and develop its own payment instrument.

Taking into consideration the growing traffic between Europe and Asia, the Company has been searching for additional options for existing telecommunications channels to ensure a more reliable and stable operation of services, having suggested a new route the telecom operators which has turned to be a worthy alternative to the basic underwater data transmission between the Southeast Asia countries and Europe.

One of the key processes in the past year was the Orleu Transformation Program. As of the end of 2018, the material effect on the cash flows generated through the implementation of the transformation program exceeded the point of KZT 34.4 bln.

At the same time, realization of the initiatives on the transformation of the Company and introduction of the effective business model have added the General Service with the function of legal support and General Financial Service Center to the multi-functional General Service Center (GSC) of Kazakhtelecom JSC which has been in operation since 2017.

All ongoing activities have provided a significant influence on the productivity of the Company as evidenced by the high rating of international agencies in 2018. Thus, according to Fitch Ratings, an international credit rating agency, the rating of Kazakhtelecom JSC has reached the level of BB+ with the Outlook Stable, while Kcell JSC has been rated as BB with the Outlook Stable, being placed for the positive reconsideration after Kazakhtelecom JSC signed the agreement on the acquisition of 75% of the voting stock in Kcell JSC.

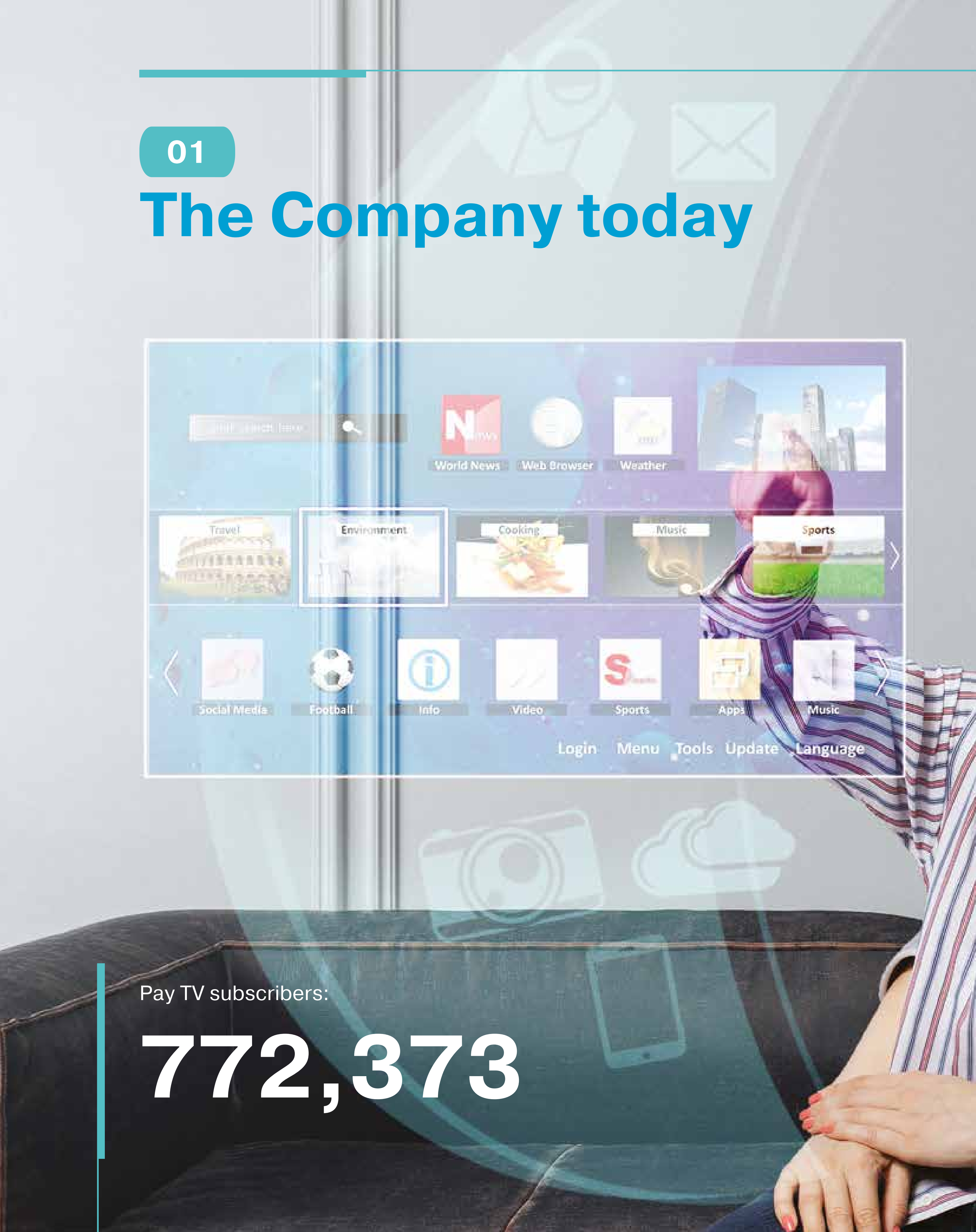
Another international rating agency – S&P Global Ratings – has confirmed the improved rating of Kazakhtelecom JSC (BB+ with the Outlook Stable) after Kazakhtelecom JSC signs the agreement on the acquisition of 75% of the voting stock in Kcell JSC.

That said, analysts of the leading rating agencies emphasize that the above-said transaction will help the Kazakhtelecom Corporate Group in raising its share at the mobile connection market to as much as 64%, increasing its business marginality and providing opportunities for future commercial development. According to the analysts, the increase of the rentability will be caused both by high performance indicators of Kcell JSC and due to the synergetic effect in the reduction of costs and continuing growth of revenues of Kazakhtelecom JSC. Many experts of rating agencies agree that the Company witnesses an intensive growth of revenues thanks to the diversification of its product portfolio.

Further dynamic digitization of various sectors and inevitable and all-round penetration of technologies in all spheres of our life constitute the most likely scenario of the near future. The rate of the integration of those processes is conditioned by daily updates in the sphere of information technologies and telecommunications industry. Successfully meeting its strategic goals and continuously developing its services and products, Kazakhtelecom JSC has been able to sustain its leadership position at the market for many years, while mastering new business directions and expanding its product range. Taking a just pride in the quarter-century professional experience, the Company advantageously follows global trends and satisfies demands of the local market, preserving its human resource capital, cherishing corporate values, maintaining investment attractiveness and honoring principles of a fair and transparent business. This report contains the key events and milestones of Y2018, all serving the fundamental goal, – to be closer to each and every consumer and become the first-choice brand since the effectiveness of the service operator in a modern world is measured not only through the volumes of its assets but also through the quality and quantities of its client base.

01

The Company today



Pay TV subscribers:

772,373

Brief Overview

Kazakhtelecom Joint-Stock Company is the flagship telecommunications operator of the Republic of Kazakhstan, providing a wide range of infocommunications services throughout the entire country.

The Company's registered location is as follows: 12 Sauran street, Yessil district, the city of Nur-Sultan, 010000, the Republic of Kazakhstan.

Kazakhtelecom JSC (hereinafter referred to as the Company or Kazakhtelecom) is the largest operator of the fixed telephone connection in Kazakhstan and a recognized leader in the field of telecommunications services, including to rural settlements, and also one of the biggest operators of the National Data Transmission Network.

Kazakhtelecom maintains an effective and up-to-date telecommunications network on the national scale and covers practically all targeted markets of infocommunications services consumers. The Company considers the reliability and the size of the main network along with the impressive efficiency of the utilized innovative technologies to be its most important competitive advantages.

Advantages of the Company:

- Most of the population of Kazakhstan use its communications services – over 80% of all households are equipped with the fixed telephone connection provided by Kazakhtelecom JSC;
- Its wired communications infrastructure is unparalleled in the country;
- The Company maintains a well-developed network of retail offices and customer service centers – more than 300 across Kazakhstan
- It is the all-known brand trusted by clients;
- 248 network service centers and also 17 data centers and contact centers;
- Telephone density is 17.3 telephone lines per 100 people;
- 1,700,976 ports of the fixed broadband access;
- 7,160,000 users of the mobile connection services*;
- 772,373 Pay TV connection points;
- Receipts arrive at KZT 222,726 mln;
- Revenues equals to KZT 42,883 mln;
- EBITDA margin amounts to 35.9%.

Network service centers
248

Pay TV connection points
772,373

Data centers and contact centers
17

Receipts arrive
222,726 mln KZT

Telephone density
17.3 telephone lines per 100 people

Fixed broadband access
1,700,976 ports

EBITDA margin
35.9%

Revenues
42,883 mln KZT

** Except Kcell JSC*

Key Performance Indicators

Item Description	Unit of measure	2014 actual	2015 actual	2016 actual	2017 actual	2018 actual
Financial Indicators (consolidated)	mln KZT					
Sales Revenues	mln KZT	208, 223	189,754	205,820	210,225	222,726
Net Profit	mln KZT	7,484	24,209	55,832	24,718	42,883
EBITDA	mln KZT	61,580	66,745	73,718	76,445	79,887
EBITDA margin, %	%	29.6	35.2	35.8	36.4	35.9
Capital Investments (accrued)	mln KZT	55,154	38,699	15,014	29,109	47,853
Efficiency Indicators						
ROIC (Return On Invested Capital)	%	6	9.8	10.1	8.6	6.3
Average Revenue Per User (ARPU)	KZT/month	3,413	3,582	3,605	3,108	5,017
Number of Employees (including subsidiaries)	ppl	29,000	28,343	25,117	23,610	22,457
Total Revenue Per Employee	ths KZT	7,180	6,912	8,194	8,904	9,924
Information on Assets						
Total Assets	mln KZT	417,693	436,494	468,962	471,314	793,395
Long-Term Credits	mln KZT	56,426	27,300	53,795	24,968	135,838
Equity Capital	mln KZT	270,309	292,421	343,798	359,108	414,841
Operational Indicators						
Number of Fixed Lines	lines	4,063,258	3,878,584	3,670,276	3,425,559	2,978,472
Local Network Digitization Level	%	99.06	100	100	100	100
Number of fixed Broadband Access ports	ports	1,543,138	1,502,632	1,592,146	1,686,785	1,700,976
Number of Pay TV connection points	ports	530,630	607,762	670,127	735,419	772,373
Macroeconomic Indicators						
Total Population of Kazakhstan	ths ppl	17,417.4	17,670.9	17,918.2	18,157.1	18,395.6
GDP Growth	%	104.3	101.2	101.1	104	104
Consumer Price Index	%	107.4	113.6	108.5	107.1	105.3
KZT to USD Exchange Rate, average annual rate	KZT	179.19	221.73	342.16	326	344.71

Address of the Chairman of the Board of Directors of Kazakhtelecom JSC

Nurzhan Baidauletov

Chairman of the Board
of Directors
Kazakhtelecom JSC

Dear Colleagues, Clients and Partners!

In 2018, telecommunications services have become one of the key drivers for the development of several industries as our country has proclaimed its transition to the digital format under the auspices of the Digital Kazakhstan State Program. This is a strategic multilevel program aimed to improve living conditions of every citizen through the all-round introduction of digital technologies. Kazakhtelecom and its team have assumed an important role of being directly involved into the implementation of a variety of initiatives, including such a large-scale project as construction of fiber-optic telecommunications lines in rural settlements of the country which is brought into life within the framework of the public-private partnership.

I believe that the Company, being the multi-service operator, possesses all necessary resources to realize tasks and achieve targets set by the leaders of our country.

In general, the last year showed a successful accomplishment of all activities on the expansion of the network coverage, improvement of the service quality, and development of new services in the B2C and B2B segments. Kazakhtelecom is becoming a single access point to infocommunications services; it literally comes to every home, being a reliable partner and infrastructural operator for the implementation of Smart City, Smart Home and Internet of Things projects. We should emphasize growing needs in the application of the Big Data and new approaches in terms of cybersecurity and further promotion of innovative products.

The productivity of the Company's operations in 2018 has been evidenced by the ratings of the international agencies – its significant events had a positive influence on the Company's credit ratings. Thus, according to Fitch Ratings, Kazakhtelecom JSC received BB+ with the Stable Outlook and Kcell JSC was given BB with the Stable Outlook, providing for the subsequent reconsideration and potential upgrade. S&P Global Ratings confirmed the favorable rating of Kazakhtelecom JSC (BB+, Outlook Stable) after the signing of the agreement on the acquisition of 75% of the shares in Kcell JSC by Kazakhtelecom. Acquisition of the majority stake of the mobile service operator has enhanced Kazakhtelecom's operational profile and its market positions, giving a positive impact on the Company's long-term stability. The said transaction will work for the improvement of the network quality indicators for mobile service consumers, especially in view of the forthcoming transition to the 5G standard.

On behalf of the Board of Directors, it is my honor to extend our gratitude to all stakeholders – our shareholders, partners, and clients of Kazakhtelecom – for their trust and many years of cooperation.

I have no doubt that Kazakhtelecom JSC will keep up to the dynamic spirit of its development, adhering to the philosophy of a socially responsible Company, and continue to bring innovative approaches in its work, remaining your technically reliable and stable partner.

Best regards,
Nurzhan Baidauletov
Chairman of the Board of Directors
Kazakhtelecom JSC

Address of the Chairman of the Management Board of Kazakhtelecom JSC

Kuanyshbek Yessekeyev

Chairman of the Management Board
Kazakhtelecom JSC

Dear Shareholders, Investors, Clients, and Partners!

The year of 2018 will be remembered by Kazakhtelecom JSC and its many-thousand team for its productive operation, development of new promising businesses, intensive application of innovations and progressive technologies, introduction of sustainable values, and establishment of the strong corporate culture.

Adherence to the adopted principles, preservation of traditions, flexibility, and ability to accept changes have formed the foundation of our philosophy, of doing business during this period of time, quite complicated both for the Company and the industry in general. New trends, migration of traffic from the fixed segment to the mobile sector, growing volumes of the transmitted data, digitization of many industries, emerging competition, and numerous challenges of the global telecom market dictated conditions to all players. Yet, the past year has been fruitful and productive to all companies of the Corporate Group. Once again, we demonstrated our capability to work cohesively as a team, to change, and to move forward.

I am proud to bring this Annual Report into your consideration where all most important events and decisions undertaken in 2018 are contained. You are welcome to review our key indicators which form the basis for the evaluation of the Company's success – technical, financial, and sectoral indicators; analysis of our work in various market segments; progress status of implemented projects, and also information on the activities of our subsidiaries and our plans for the upcoming period.

Commencement of the construction of fiber-optic communications lines to provide the broadband access to underserved rural settlements is one of the most significant milestones of our work. It is planned to build more than 15,000 km of the fiber-optic communications lines within the next two years and connect almost 2.5 thousand governmental entities in 828 rural settlements to the main line channels. It is a pioneer project of such scale to be implemented through the mechanism of the public- private partnership: Kazakhtelecom will build fiber- optic networks, connects governmental entities and budget organizations thereto and ensure a reliable access to services. The erected infrastructure may be later used to provide services to other market players, including through sharing resources with mobile service companies to construct internal networks and render the full range of telecommunications products.

We will have to exert all efforts to achieve our final goal which resides in providing the access to the Internet for all governmental entities and budget organizations in the rural settlements – hospitals, schools, local authorities, emergency services, defense facilities, and law enforcement agencies. Realization of this project will have an undoubtful favorable effect, specifically, development of innovative services and arrangement of access to multiple opportunities of telemedicine, online-education and e-commerce.

Acquisition of 75% of the voting shares in Kcell JSC became another important event which influenced both the Company's situation and overall telecommunications market of Kazakhstan. When preparing for the transaction, Kazakhtelecom performed in-depth investment analysis, assessment and comprehensive inspection of the financial and business activities of Kcell in accordance with the international standards applied to transactions of such kind.

This decision has a strategic importance, making it possible to start implementation of several ambitious projects through the synergetic effect of the integration of our networks. It will serve as a new impetus for the development of both companies as we are uniting strategic and operational capacities of two giant telecommunications operators of the country. As a result of our joint activities, our clients will be offered a much wider range of services.

The past year was also marked by the fact that the Company started serious research and development in the field of 5G, having entered into the memorandum of understanding on the joint analysis of the possibilities of the 5G technology with Samsung, and having agreed about the testing of 5G in a trial mode with Nokia Corporation. Our Company considers this technology to create infrastructural services and new existing business opportunities.

For nearly a quarter of the century, Kazakhtelecom has been known as a reliable partner, telecom operator and provider of innovative services and products. Largely, such trust has been deserved due to the stable operation of the network and responsible attitude of our personnel to what they do as well as their faith in the principles of our corporate ethics. We paid a lot of attention in 2018 to our staff, holding numerous activities aimed to consolidate efforts and aspirations of our people. Thus, we are at the transition stage, moving away from the operational discipline pattern which is typical for many large companies to the culture of achievements and successful thinking. By the way, in 2018, we have fixed new priorities and key ideas in the updated model of corporate values and implemented several initiatives intended to integrate personal values with the corporate ones.

Let me take this opportunity to extend my cordial gratitude to the many-thousand team of our Company for their daily work and commitment to our common goal. It is impossible to overestimate the role of the highly professional human resources in the modern-world environment inspired by the endemic digitization and integration of ICT-services. Nowadays, the industry of telecommunications, globally speaking, constitutes a channel which transmits the impulse of development to all wheels of life. Dynamic growth of infocommunications environment and its associated eco-system are among the critical factors of the sustainable economy in any country. In light of the digitization objectives, further improvement of the telecommunications industry and provision of the access to services to the population become our top priorities.

I am fully confident that in the year of 2019 we will successfully continue to realize our projects and global tasks and duly fulfill commitments assumed by the Company.

Best regards,
Kuanyshbek Yessekeyev
Chairman of the Management Board
Kazakhtelecom JSC

2018 Event Calendar

January

Askar Zhumagaliyev, Deputy Prime Minister of the Republic of Kazakhstan, reviewed the operation of the cloud video surveillance in Astana.

The presentation demonstrated key advantages of the innovative service: the cloud surveillance makes it possible to continuously monitor all what happening in vestibules of multi-apartment buildings and also save archive data and obtain access to video images in the online format, through mobile devices and personal account of the user.

February

Kazakhtelecom JSC arranged for the master-class from Bill O'Connor, the founder of Autodesk Innovation Genome, the innovative strategyguru of Autodesk and the expert in the fieldof innovations, management and technologies. The central theme of the master-class was generating ideas to introduce innovative solutions.

Kazakhtelecom JSC presented its project – Open Digital Platform for Small and Medium Enterprises, aiming at the introduction of the digital liaison system for SMEs to cooperate with each other as well as with the governmental agencies and other market players.

Kazakhtelecom JSC took part in the joint session of the Infocommunications Commission and Council of Telecommunications and Infocommunications Operators under the RCC dedicated to various operational matters of the telecommunications and infocommunications operators of the RCC member-states.

Kazakhtelecom JSC presented a national stand of Kazakhstan and technological achievements at the largest event in the field of mobile technologies, the Mobile World Congress Barcelona 2018. The Company demonstrated innovative services and technologies in the sphere of infocommunications implemented in Kazakhstan within the framework of the Smart Home and Smart City concepts along with the opportunities of the transit potential.

Kazakhtelecom JSC finalized the first stage of the project on construction of CIS largest M2M/Internet-of-Things network based on the LoRa, Zigbee and LTE technologies. The network covers all market directions of the Internet of Things world: apartments, private houses and vestibules in the B2C segment, as well as urban streets, multi-apartment buildings, administrative buildings, production facilities and motor roads in the B2B/B2G segment. The first stage was marked with the accomplishment of the CIS biggest energy- efficient LPWAN network based on the LoRa technology covering all multi-apartment buildings, facilities and urban territories of the cities of Astana, Almaty, and Shymkent.

Kazakhtelecom JSC received an award of the Kaspersky Laboratory, being nominated as the Telecommunications Operator with the best user protection against cyberattacks in Europe and Central Asia.

March

As a part of the Kazakhstani delegation headed by Askar Zhumagaliyev, Deputy Prime Minister of the Republic of Kazakhstan, the representatives of Kazakhtelecom JSC visited the Belarus High Technologies Park where they were familiarized with the latest developments in the field of software products and digital solutions for various industries and mobile applications.

April

In the course of the 13th International HR-Conference "Future Organization", Kazakhtelecom JSC made a presentation on its model of the General Customer Service Center before the international experts in the sphere of human resource management, representatives of national and international companies, and senior officials of HR-departments of private businesses, bringing it as an example of the successful transformation.

Kazakhtelecom JSC held the TOP-100 Conference with the participation of the Heads of the companies of various levels where the new model of its corporate values named CREDO was presented. The new model consisting of five major directions is intended to facilitate effective management and development of the Company and also to satisfy all needs of the population in infocommunications services and products.

May

Kazakhtelecom JSC held the annual Republican competition for the title of the Best Welding Cableman for Handling Fiber-Optic Cables which brought together over 30 specialists of regional branches.

The annual General Shareholder Meeting of Kazakhtelecom JSC approved the size of the dividends on the basis of the Y2017 outcomes. The dividend per 1 ordinary share amounted to KZT 1,595.79.

June

Kazakhtelecom JSC selected candidates for the internship under the PROTelecom Project: 80 students of the third and fourth years of studies and graduates commenced their work in the Company's divisions in Astana and Almaty. The principal goal of the internship program was to involve students and graduates of the leading national universities to participate in the Company's activities.

Kazakhtelecom JSC acted as a partner of the Conference of TEDxAstana 2018 within the framework of developing the Company's initiatives to integrate ideas of transformation for both external and internal stakeholders. The event contributed to the positioning of transformation ideas at the in-depth value level of the perception of the employees.

Kazakhtelecom JSC held another republican contest for the title of the Best Professional to Serve Digital Lines of Kazakhtelecom JSC in 2018.

In conjunction with the Blockchain and Crypto Technology Association of Kazakhstan, Kazakhtelecom JSC organized the first International Conference named "Blockchain Regulation: Opportunities and Risks" dedicated to the statutory regulation of the application of the distributive computational technology. In parallel therewith, Kazakhtelecom JSC joined the Blockchain and Crypto Technology Association of Kazakhstan.

Kazakhtelecom JSC presented a national stand of Kazakhstan and technological achievements at the largest event in the field of mobile technologies, the Mobile World Congress Shanghai 2018. The event was marked with signing memorandums, contracts and agreements and holding strategic talks with top-managers of the global leading companies in the field of telecommunications as well as mobile and innovative technologies. The stand demonstrated the operator's infrastructure, specifics of its network technology, its innovative services and solutions within the Smart Home and Smart City concepts, and proposals to be brought into the global market of the Internet of Things area.

July

Within the framework of its social corporate responsibility and on the eve of the Communications and Information Professional's Day, Kazakhtelecom JSC organized a celebration reception in honor of the communications sector veterans. The Company provides regular support to more than 10,000 pensioners of the Company and industry in general, of which over 500 people are also veterans of the Great Patriotic War and persons with the equivalent status.

Kazakhtelecom JSC and Uzbektelecom JSC shook hands on the cooperative activities in respect of new business directions. In the course of the meeting held in Tashkent, CEOs of the companies exchanged their plans on infrastructural development to ensure the overall coordination of activities within the infocommunications market. On top of that, they also agreed on expansion of the external Internet channels of Uzbektelecom JSC with the use of the unique technological solution suggested by Kazakhtelecom JSC.

The Committee on Regulation of Natural Monopolies and Protection of Competition and Consumer Rights under the Ministry of National Economy of the Republic of Kazakhstan granted an approval to Kazakhtelecom JSC to acquire 75% of the voting stake of Kcell JSC.

August

Kazakhtelecom JSC provided technical support for the holding of the 5th Caspian Summit with the participation of the Presidents of Kazakhstan, Azerbaijan, Islamic Republic of Iran, Russian Federation, and Turkmenistan. Speaking specifically, the technical support included the organization and office equipage of the press-center for 500 work seats, provision of the international and intercity connection services, access to the highspeed Internet with the speed of 1Gbps, and deployment of WiFi network.

As a part of the cooperative agreement with IVI.ru, which is the Russian online-cinema, Kazakhtelecom JSC introduced an additional service of providing an access to the online-cinema.

September

At annual international exhibition-conference of communication providers of “GCCM 2018”, Kazakhtelecom JSC presented new opportunities for the transit of information flows between Europe and Asia. The presentation announced the results of the assessment of technical parameters of new possible overland route to be laid through the countries of Europe, Russia, Kazakhstan, Turkmenistan, and Iran with the subsequent connection to the Gulf countries and India. The new route constituted an alternative to the existing underwater sea cables. The event brought together more than 350 representatives of 110 companies from CIS, Southeast Asia, Europe, and Near East.

Kazakhtelecom JSC signed the Memorandum of understanding with the Interbank Card Center of Turkey BKM Bankalararasi Kart Merkezi A.S., aiming to exchange professional experience in the field of developing new technologies and innovations for global financial services at B2B market segment under the Fintech concept.

As a part of their working visit to Pavlodar oblast, the Prime Minister of the Republic of Kazakhstan, Mr. Bakytzhan Sagintayev, and the Deputy Prime Minister of the Republic of Kazakhstan, Mr. Askar Zhumagaliyev, got familiarized with the operation of CIS largest data center of Tier III, belonging to the network of data processing centers of Kazakhtelecom JSC. This joint project, implemented in conjunction with Hewlett-Packard, is the country-biggest complex of network and computing equipment and specialized software products that opens an access to a wide range of services and products rendered on the basis of the Data Processing Center. A special attention was paid to the new trend of digital economy development, specifically, to the industry of cloud computations and mining.

Pursuant to the requirements of the Law of the Republic of Kazakhstan “On Combating Corruption” and according to the Strategy of the Corporate Group of companies aimed to honor the principles of a fair business, Kazakhtelecom JSC established the Compliance Service.

Kazakhtelecom JSC held the VI International Science and Research Conference dedicated to the digital transformation of telecom business and opportunities of 5G technology. The conference was attended by representatives of RIPE NCC, GSMA, telecom operators, consulting and IT-service companies, and telecommunications equipment suppliers of Kazakhstan and Russia.

Kazakhtelecom JSC made a presentation of the business portal ISMET.kz in Astana. Approximately 100 representatives of the small and medium businesses took part in the event.

Kazakhtelecom JSC reported on the completion of the first stage of construction of the Central Asian largest energy-efficient LPWAN network which had been started in the year of 2017 based on the LoRa technologies to cover all private and multi-apartment buildings, facilities and urban territories of the cities of Astana, Almaty, and Shymkent. The said M2M-network is the foundation of the future infrastructure for the implementation of the Smart City solutions, in particular, automated data collection from metering devices (Smart Metering) and Smart Lighting.

October

Signing of the public-private partnership agreement under the Project on the Provision the Broadband Access to Rural Communities of the Republic of Kazakhstan based on the fiber- optic communications line technologies between the Ministry of Information and Communications of the Republic of Kazakhstan, Kazakhtelecom JSC, and Consortium consisting SilkNetCom LLP and Transtelecom JSC. The implementation of this project will bring the highspeed access to hospitals, schools, akimats and other governmental agencies. Pursuant to the agreement, Kazakhtelecom JSC will connect 2,496 public entities and budget organizations out of total of 3,500 to the broadband data transmission services.

S&P Global Ratings, the international credit rating agency, confirmed the credit rating of Kazakhtelecom JSC as of the level of BB+ with the Stable Outlook. Based on the national chart, the rating of the Company grew from the levelof kzAA – to the point of kzAA.

The Chairman of the Management Board of Kazakhtelecom JSC, Mr. Kuanyshbek Yessekeyev, reported to the President of the Republic of Kazakhstan, Mr. Nursultan Nazarbayev, on the testing of the 5G technologies held in Kazakhstan along with the prospects of its practical application.

Under the implementation of the Digital Kazakhstan State Program, Kazakhtelecom JSC proceeded with the large-scale activities on the laying of fiber-optic communications lines (FOCL) within the territories of rural settlements. The first in line were the village of Ozyorki of East Kazakhstan oblast and villages of Maiskiy district of Pavlodar oblast: Karaterek, Kentubek, and Malaisary.

Representatives of the Ministry of Finance of the Republic of Kazakhstan reviewed the work of the multi-functional General Service Center (GSC) of Kazakhtelecom JSC, consisting of the Salary Accrual Center, Legal Department, and HR-GSC, to share and exchange experience.

Kazakhtelecom JSC and Samsung entered into the memorandum of understanding to conduct joint research of the opportunities suggested by the 5G technology. The cooperative initiative considered certain options to utilize 5G in order to expand the capacities of fixed access organization and also create additional business possibilities.

Kazakhtelecom JSC and CDN-Video OOO signed the Memorandum of cooperation in the field of developing the Internet-content in Kazakhstan.

The major goal of signing the memorandum resided in the localization of the traffic within the network of Kazakhtelecom JSC through the use of the CDN opportunities (Content Delivery Network).

Kazakhtelecom JSC accomplished the construction of the fiber-optic communications lines to arrange for the connection of 16 governmental entities and budget organizations in 4 rural settlements of East Kazakhstan and Pavlodar oblasts under the Project on the Provision the Broadband Access to Rural Settlements of the Republic of Kazakhstan based on the fiber-optic communications line technologies.

November

Kazakhtelecom became the favorite of the voting in the nomination of LEVEL UP, the most significant international business award in the field of human resource management, namely, WOW!HR_KZ, for its Talent Management project which had been launched in 2016, aiming to develop personnel reserves and identify leaders.

The Chairman of the Management Board of Kazakhtelecom JSC, Mr. Kuanyshbek Yessekeyev, made a presentation of the blockchain-platform to create blockchain-products at the formal opening ceremony of Astana Hub, the International Technological Park of IT-Start-ups.

Kazakhstan Stock Exchange Forum nominated Kazakhtelecom JSC with the award for the contribution in the development of the stock exchange market. The award ceremony was attended by the specialists of the Stock Exchange market of Kazakhstan, listing companies, leading financial experts, and media representatives.

Kazakhtelecom JSC conducted a listing operation and placed its bonds at the Astana International Exchange on amount of KZT 75 bln.

Almaty hosted the coordination session attended by the senior managers of Kazakhtelecom JSC and personnel of the Main Telecommunications Network Control Center which had been implementing the pilot project named “CREDO: our way to the culture of success”, aimed to strengthen and promote corporate values of the Company.

The Financial Service Center and General Service Center with the legal support function were added to the multi-functional General Service Center (GSC) which had been in operation in Kazakhtelecom JSC since 2017.

Kazakhtelecom JSC held the second international forum of the Internet of Things concept in Astana, during which local and foreign experts discussed a variety of matters of its application in daily life as well as modern tendencies of development and prospect of utilizing the concept in the realities of Kazakhstan.

December

Astana witnessed the start-up session of the Project: CREDO – our way to the culture of success, which was attended by TOP 100 employees of the Central Regional Telecommunications Directorate.

Kazakhtelecom JSC conducted a listing operation and placed its bonds at the Astana International Exchange for the amount of KZT 25 bln.

In the course of the annual national teleconference named “The Second Five-Year Period of the Industrialization. Made in Kazakhstan”, the Chairman of the Management Board of Kazakhtelecom JSC reported to the President of the Republic of Kazakhstan, Mr. Nazarbayev, on the progress of implementation of the project on provision of the rural settlements of the country with the broadband Internet accesses.

Kazakhtelecom JSC accomplished construction of fiber-optic communications lines to provide for connection of 13 governmental entities and budget organizations in 3 rural settlements of Aktobe and West Kazakhstan oblasts under the Project on the Provision the Broadband Access to Rural Settlements of the Republic of Kazakhstan based on the fiber-optic communications line technologies. As of December 10th, 2018, FOCL laid to 27 governmental entities and budget organizations in 7 rural settlements were accomplished and commissioned, having fulfilled the obligations stipulated by PPP Agreement for 2018.

On December 12th 2018, Kazakhtelecom JSC, Telia Company and Fintur Holdings BV signed the agreement on the acquisition of the aggregated 75% of the voting stake in Kcell JSC, the Kazakhstani mobile service provider. Pursuant to the terms of the transaction, Kazakhtelecom acquired 24% of the shares of Kcell from Telia Company и 51% of the shares from Fintur Holdings BV (a joint enterprise of telecommunications operators of Telia Company (58.55%) and Turkcell (41.45%), respectively.

According to the Unified National Pension Fund, Kazakhtelecom JSC was recognized as the best national employer. Kazakhtelecom was said to be among the first Kazakhstani companies with the clearly defined HR-policy.

Fitch Ratings placed the ratings of Kazakhtelecom JSC (BB+, the Stable Outlook) and of Kcell JSC (BB, the Stable Outlook) for the positive reconsideration after Kazakhtelecom JSC signed the agreement on the acquisition of 75% of the voting stake in Kcell JSC.

S&P Global Ratings confirmed the credit rating of Kazakhtelecom JSC (BB+, the Stable Outlook) after Kazakhtelecom JSC signed the agreement on the acquisition of 75% of the voting stake in Kcell JSC.

The city of Almaty welcomed the Youth Organization's Forum held by Kazakhtelecom JSC. The session hosted the presentation of the new Z-telecom. Reloading Project to develop talented young professionals. The Forum was attended by more than 150 delegates aged under 35 years representing all branches of the Company.

The payment of the guaranteed dividend on the preferred shares of Kazakhtelecom JSC for Y2018 was made in the amount of KZT 300 per 1 share.

CORPORATE PROFILE

Basic Information

The national joint-stock Company named Kazakhtelecom was established in accordance with Decree No. 666 “On founding the national shareholder Company “Kazakhtelecom” issued by the Cabinet of Ministers of the Republicof Kazakhstan on June 17th. 1994 through the transfer of the assets of governmental enterprises, joint-stock companies and telecommunications organizations into the authorized stock of the newly created joint-stock Company of the national scale to render a wide range of telecommunications services throughout the entire territory of the Republic. The primarystate registration was made by the respective authorities of Justice of the Republic of Kazakhstan on December 1st, 1994.

The initial emission of shares for the size of the Company’s authorized capital, amounting to KZT 12.1 bln, was registered in March 1996.

Pursuant to the Law of the Republic of Kazakhstan “On Joint-Stock Companies” dated May 13th 2003, Kazakhtelecom Open Joint-Stock Company was re-registered into Kazakhtelecom Joint-Stock Company (Kazakhtelecom JSC). Legal Entity State Re-Registration Certificate No. 6924-1901-AO as of April 1st 2004 was issued by the Department of Justice of the city of Astana. Due to the establishment of the Office of Justice of Saryarka district under the Department of Justice of the city of Astana, the Company received a new certificate on the state re-registration of the legal entity under a different number of 570-1901-01-AO as of January 26th 2012.

On August 18th 2014, due to the changes in the registered address of Kazakhtelecom JSC, the Department of Justice of the city of Astana issued

a respective legal entity state re-registration certificate. The Company operates under General License No.14014826 as of 09.10.2014 issued by the Committee of Communications, Informatization and Information of the Ministry for Investments and Development of the Republic of Kazakhstan. The shares of the Company are included into the official list of the Kazakhstan Stock Exchange (KASE). The principal shareholder of Kazakhtelecom JSC is Samruk-Kazyna JSC, with 100% state participation, which holds 51% of the ordinary shares of the Company. Kazakhtelecom JSC is a legal entity, maintaining regional branches within its organizational structure. Besides, the structure of the assets of Kazakhtelecom JSC comprises a number of subsidiaries and other affiliates. The Company is represented throughout the entire territory of the Republic, having a network of 248 network service points as well as its own network of 15 data centers, and also contact centers. The Company’s central office is located in Nur-Sultan, the capital city of Kazakhstan. The group of companies of Kazakhtelecom JSC employ over 23 thousand people.

Organizational Structure of Kazakhtelecom JSC

- General Shareholder Meeting
- Board of Directors
- Management Board
- Central Office

BRANCHES

Business-to-Business Division	Business-to-Customer Division
Central Regional Telecommunications Directorate	Almatytelecom Regional Telecommunications Directorate
Western Regional Telecommunications Directorate	Eastern Regional Telecommunications Directorate
Northern Regional Telecommunications Directorate	Southern Regional Telecommunications Directorate
Long Distance Communication Association	Main Telecommunication Network Operation Control Center
Information Systems Directorate	Telecommunications and Infrastructure Objects Construction Directorate
Telecom Supply Directorate	Directorate «Academy of Information and Communication Technologies»

List of Subsidiaries and Other Affiliates of Kazakhtelecom JSC

List of Subsidiaries and Other Affiliates of Kazakhtelecom JSC

1. Khan Tengri Holding B.V.
2. KT Cloud Lab LLP
3. QazCloud LLP
4. VOSTOKTELECOM LLP
5. Info-Net Wireless LLP
6. KT-IX LLC (Russian Federation)
7. NURSAT JSC*
8. NURSAT+ LLP
9. Kcell JSC

** This telecommunications operator is within the final stage of its voluntary liquidation*

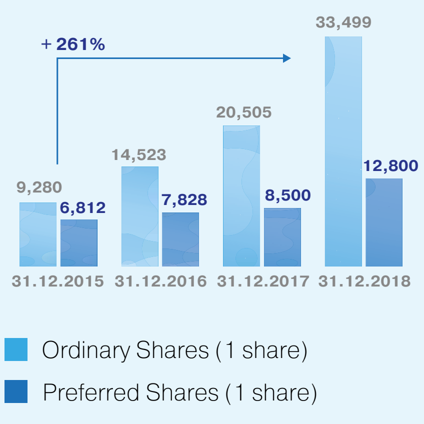
Capital Stock Structure

The Company's authorized capital amounts to KZT 12,136,529 ths., consisting of 10,922,876 ordinary shares and 1,213,653 preferred shares. The nominal value of one share is KZT 1,000. The percentage of the preferred shares of Kazakhtelecom JSC of the total number of emitted stock equals to 10%.

Ordinary and preferred shares of Kazakhtelecom JSC were included into the official list of Kazakhstan Stock Exchange JSC (hereinafter referred to as the Stock Exchange) under the A Category as from October 16th 1997. Starting from September 1st 2008, the shares have been transferred to the first category of the official list of the Exchange Stock.

At present, both ordinary and preferred shares of the Company are referred to the Premium category of the official list of Kazakhstan Stock Exchange JSC and are traded on the main board of the Stock Exchange.

Picture 1.



On April 28th 2006, the state-owned stake of Kazakhtelecom JSC was transferred to Kazakhstan Holding for Management of State Assets Samruk JSC founded under Decree No. 117 of the Government of the Republic of Kazakhstan as of February 23rd 2006 for the effective management of the governmental stock in a number of the largest national companies of Kazakhstan. Then, pursuant to Decree No. 962 of the Republic of Kazakhstan as of October 17th 2008 "On Measures for Implementation of Decree No. 669 dated October 13th 2008" of the President of the Republic of Kazakhstan, Sovereign Wealth Fund Samruk-Kazyna JSC (hereinafter referred to as SWF Samruk-Kazyna JSC or the Fund) was established by merging joint-stock companies of Kazyna Sustainable Development Fund and Kazakhstan Holding for Management of State Assets "Samruk". To date, the Fund is the largest shareholder of the Company.

SKYLINE INVESTMENT COMPANY S.A. has become a new significant shareholder of Kazakhtelecom JSC in July 2018.

Holders of Ordinary Shares of Kazakhtelecom JSC as of 01.01.2019

Shareholders	Number of shares	Percentage (%)*
SWF Samruk-Kazyna JSC	5,570,668	51.00
SKYLINE INVESTMENT COMPANY S.A.	2,671,481	24.46
ADR (nominee holder on behalf of BNY Mellon)	1,001,276	9.17
Other shareholders with less than 5% in possession **	1,679,451	15.37
Total declared ordinary shares	10,922,876	100

As of 01.01.2019, members of the Management Board and Board of Directors do not hold any ordinary shares of Kazakhtelecom JSC. No cross-shareholdings.

Share Value (KZT)***	31.12.2015	31.12.2016	31.12.2017	31.12.2018
Ordinary shares (1 share)	9,280	14,523	20,505	33,499
Preferred shares (1 share)	6,812	7,828	8,500	12,800

Securities

Information on the Registrar

The full official name: Central Securities Depository Joint-Stock Company.

August 16th 2018 was marked by the joint extraordinary general shareholder meeting of Central Securities Depository JSC (hereinafter referred to as the Central Depository) and Integrated Securities Registrar JSC (hereinafter referred to as the Integrated Registrar) where the decision on the reorganization of the Central Depository and the Integrated Registrar in the form of the merging of the Integrated Registrar with the Central Depository has been taken. The Central Depository has become the successor of all rights and obligations of the Integrated Registrar as from January 1st 2019.

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Republic of Kazakhstan,
050051, the city of Almaty, Samal-1 district, 28

tel.: +7 (727) 262 08 46
fax: +7 (727) 355 47 60

Telephone Hotlline: 8 800 080 86 68 (calls from fixed and mobile phones are free within the Republic of Kazakhstan)

E-mail: kacd@kacd.kz
More details on Central Securities Depository JSC are given at the corporate website of Kazakhtelecom JSC (section “About the Company” >> “For Investors and Shareholders” >> “Securities” >> “Information on the Registrar”) and on the website of the Central Depository (http://kacd.kz).

** Percentage values are based on the total number of placed ordinary shares*
***Including shares repurchased by Kazakhtelecom JSC*
****Closing price as of the last available date*

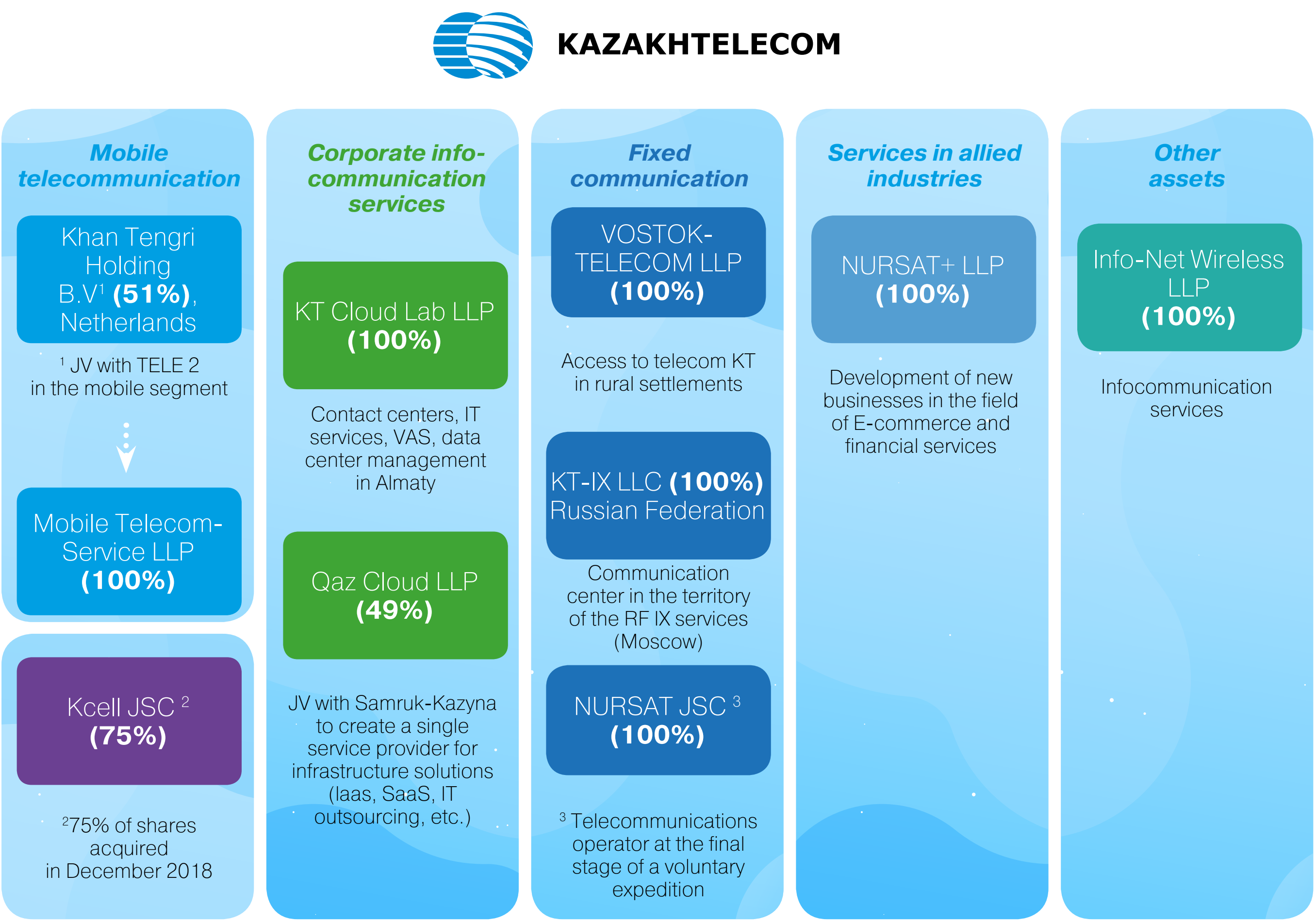
Issuance of Bonds

In the year of 2018, Kazakhtelecom JSC issued and placed bonds for the total amount of KZT 100,000,000,000. On November 6th and December 12th 2018, the Company's bonds have been included into the official list of the Astana International Financial Center – Astana International Exchange.

Company's Assets Structure: subsidiaries and other affiliates of the Company

The Company's subsidiaries strengthen positions of the Corporate Group of Kazakhtelecom JSC in the mobile segment of the telecommunications market and bring their own contribution into the development of the traditional telecommunications services and other related servicing industries that have potential for growth.

Structure of the Corporate Group of Kazakhtelecom JSC as of 01.01.2019



KCELL JSC

In December 2018, Kazakhtelecom JSC signed the agreement on the acquisition of 75% of the stake pack in Kcell JSC, the Kazakhstani mobile service Company. The decision on the acquisition of 75% of the voting shares of Kcell JSC was made by the Board of Directors of Kazakhtelecom JSC in conjunction with the Investment and Strategy Committee of Samruk-Kazyna JSC. The said transaction will allow Kazakhtelecom JSC to significantly expand its presence at the mobile service market in accordance with the Company's long-term development strategy.

It is expected that the acquisition of the control stock in Kcell will bring a favorable effect on the share value of Kazakhtelecom JSC as well as contribute to further development of the telecommunications industry of Kazakhstan in general, inter alia, due to the expansion of the assortment and improvement of the quality of services offered to the population of the Republic in the field of progressive telecommunications products. It is also planned to build an advanced integrated network to render high-quality services of the mobile and fixed communication.

Khan Tengri Holding B.V. (joint venture with Tele2 in the mobile market segment)

In pursuance of the strategic initiative to establish an integrated operator, the Company continues to place efforts in the development of the mobile business on the basis of the joint venture with the Tele2 Group in the mobile market segment, namely, Tele2/ALTEL JV managed by Khan Tengri Holding B.V. Tele2/ALTEL JV has been successfully implementing its activities, and the outcomes of Y2018 show that all major operational and financial & economic indicators have been achieved as planned. The revenues for Y2018 increased by 17.5% if compared with Y2017, having arrived at the level of KZT 122 bln. As of the end of 2018, the total user base of Tele2/ALTEL JV amounted to 7.2 mln users, while the number of base stations exceeded 6 thousand.

Tele2/ALTEL JV remains to be the technological leaders of the telecommunications industry of the country, continuously introducing progressive technical solutions for end consumers. As of the end of 2018, the technology of LTE Advanced has been implemented throughout the network, bringing the total population coverage up to 75%. Several mobile financial services have been also launched, due to which the users of Tele2/ALTEL JV can pay for goods and services through the balance of their cell phones.

On top of that, the project of the integration of Mobile Telecom-Service LLP with ALTEL JSC has been honored with the Global Carrier Award for being the best telecommunications project in Asia.

QazCloud LLP (joint venture with the subsidiary of Samruk-Kazyna JSC)

QazCloud LLP is a single provider of IT-services for the group of companies of Samruk-Kazyna JSC. Major spheres of activities:

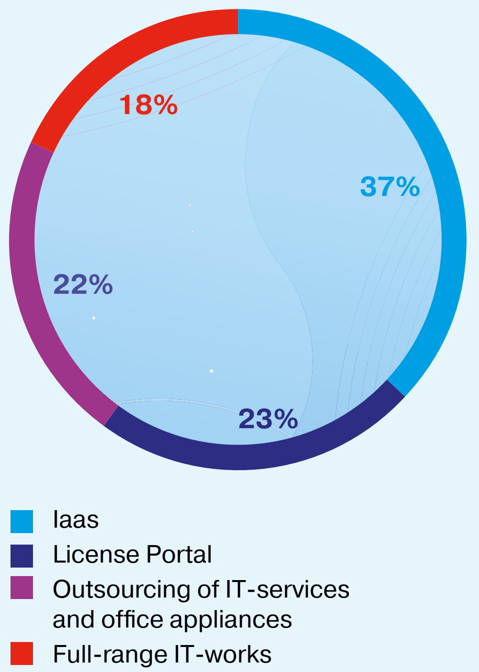
- IaaS – infrastructure-as-a-service;
- Services of the Information Security Management and Development Center;
- SaaS (Services of Microsoft, 1C Cloud);
- Outsourcing of IT-services, printing services and user equipment services.

In the year of 2018, the Company has started intensive activities to implement the business plan approved by the Investment Committee of SWF Samruk-Kazyna JSC. A team of specialists has been formed to support all directions of the business activities. Those specialists are certified at the international level in the field of project management, IT equipment management, and software management.

Outcomes of 2018:

- Creation of the Company's own virtual cloud to render IaaS services (infrastructure-as-a-service) and SaaS products (software-as-a-service);
- Commencement of the step-through migration of the information systems of portfolio companies of the Corporate Group of Samruk-Kazyna JSC;
- Introduction of the unique solutions, innovative for the Republic of Kazakhstan, in the sphere of IT infrastructure management, such as, SDS (Software-defined storage);
- Generation of revenues in the amount of KZT 3.7 bln.

Picture 2. Structure of QazCloud LLP revenues



KT Cloud Lab LLP

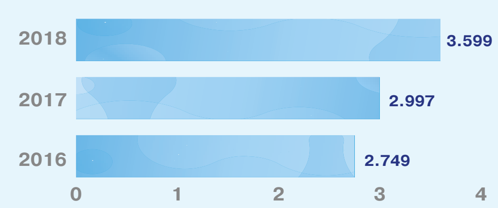
Major directions of business activities of KT Cloud Lab LLP:

- Services of the Republic Contact Center (CC);
- Services of the Infocommunications Center in the Innovative Technologies Park within the Special Economic Zone (DPC);
- Rendering of IT-outsourcing.

Outcomes of 2018:

- Expansion of client portfolio of the CC – contact centers have been arranged for Halyk Bank of Kazakhstan JSC, Astana International Financial Center JSC, Baiterek National Management Holding JSC, Youth Congress of Kazakhstan,' Kompetenz Insurance Company JSC, KTZ EXPRESS JSC, and others.
- Customer support functions for users of Kazakhtelecom JSC (CC 160) have been transferred to KT Cloud Lab LLP. As a result of the set of activities carried out to improve business process of CC 160 as well as unification of services and human resource management, the quality of the customer service for the Company's users has raised from 82% to 92%, which is currently consistent with the leading international customer service standards.
- Ongoing work to implement effective projects, including the project of Contact Center 111 for the protection of rights of children and youth, and the Company received a testimony letter from the Children's Ombudsman in the Republic of Kazakhstan.
- Commencement of the provision of services on the technical support and administration of internet-portals. The Company is the provider of such services for the portals of Kazakhtelecom JSC, Samruk-Kazyna JSC, t.sk.kz, privatization portal of privatization.sk.kz, and transformation portal of transformation.sk.kz, the website of the Children's Ombudsman, www.balaombudsman.kz, has been developed and is under administration.
- Ongoing activities on the development of new products and services on the basis of the data processing center (DPC). New products have been selected and implemented, including the services for the localization of the virtual platform for project management processes for Kazpost JSC and KEGOC JSC.

Picture 3. Revenues of KT Cloud Lab LLP, bln KZT



NURSAT+ LLP

“NURSAT+ LLP” is a subsidiary of Kazakhtelecom JSC, developing new business directions in the field of financial payments and e-commerce.

In 2018, the Company has been mostly engaged in the promotion of the following key business directions:

Payment System Services (Fintech):	**ktpay payment system** ▪ The Company has developed the ktpay payment system and launched it in the trial mode; ▪ A mobile application of the product has been created for iOS and Android platforms, now the work is focused at the creation of the payment widget platform; ▪ Authorization function in the application has been developed with the use of Touch ID/Face ID; ▪ In conjunction with Kazakhtelecom JSC, the work is carried out to organize receipt of payments for telecommunications services from users.
E-commerce Services:	**Internet-shops: www.Chocomart.kz and www.Intermarket.kz** ▪ Integration of internet-shops with the processes and resources of the Corporate Group has been accomplished in the beginning of 2018; ▪ The assortment of products has been raised from 30 to 40 thousand items; ▪ The number of product suppliers has increased from 45 to 90; ▪ Visitor traffic of the Internet-shops exceeded 100,000 seances per months with over 6,000 of repeated clients. **KT Store Marketplace Platform** ▪ The MVP version of the market place has been launched inside the Corporate Group in October 2018. This project provided for the integration with such e-shops as chocomart.kz and intermarket.kz. ▪ The next phase of the works plans for the connection of other online-shops and further development of the product.

VOSTOKTELECOM LLP

In 2018, VOSTOKTELECOM LLP ensured the uninterrupted operation of the wireless access network in the rural settlements of the Republic of Kazakhstan which serves as a basis for the voice communication services and Internet access for those users of Kazakhtelecom JSC who are located in rural communities, and also provided technical maintenance of antenna-feeder devices at the basic stations of Tele2/ALTEL JV.

In addition to that, in 2018 VOSTOKTELECOM LLP has obtained radio frequencies within the range of 800 MHz for the deployment of the 4G network (LTE) across the entire territory of the Republic of Kazakhstan. It is planned to use them for the deployment of the LTE/WLL-800 network to provide good-quality services of BBA in all rural settlements.

KT-IX LLC

KT-IX LLC is a peer-to-peer center, serving as a communications hub of Kazakhtelecom JSC within the territory of the Russian Federation (Moscow).

In the year of 2018, the Company provided for the flawless and accident-free operation of the communications hub of telematic services and network data transmission to Moscow Long-Distance Telephone Station No. 9. In cooperation with Kazakhtelecom JSC and “MSK-IX”, such projects as “Aggregation-25” and “Aggregation-50” aimed at the aggregation of channels and provision of the high- quality television contents under Ultra HD and 4K standards for users in the Republic of Kazakhstan have been launched in a trial mode. The commercial operation of the projects will start in 2019.

Dividend Policy

The goal of the Dividend Policy of Kazakhtelecom JSC resides in ensuring the balance of the interests of the Company and its shareholders along with the predictability and transparency of the approach applied when determining the size of the dividends and terms and procedures of payment thereof. The Dividend Policy Regulations of Kazakhtelecom JSC approved by the extraordinary General Shareholder Meeting as of 18.01.2013, Protocol No. 49, envisages for the concrete approach to the determination of the size of the dividends which shall be the maximum value of the following: i) 15% of the net profit, and ii) calculation based on the formula which takes into account the Company’s financial and economic situation (indicators of the Company’s stability and liquidity). Dividend payment procedures and terms of payment to shareholders in respect of the outstanding dividends are governed by the Dividend Policy Regulations of Kazakhtelecom JSC.

In June 2018, in pursuance of the resolution of the annual General Shareholder Meeting (Protocol No. 62 as of 30.05.2018), the dividends in the amount of KZT 1,595.79 per one ordinary share of the Company have been paid in accordance with the outcomes of 2017. The assured amount of the dividends on preferred shares equals to KZT 300 per one preferred share. Subject to Decision No. 48/221 as of 26.11.2018 of the Management Board, assured dividends for Y2018 have been paid in December 2018.

Kazakhtelecom JSC honors decisions of the General Shareholder Meeting of the Company and fully fulfills its commitments in respect of paying dividends to persons eligible to that extent.

Information Policy

One of the fundamental documents that defines the key principles and general requirements to the disclosure of information on the activities of Kazakhtelecom JSC is the Company's Information Policy. The Information Policy of Kazakhtelecom JSC has been developed and approved by the resolution of the Company's Board of Directors (Protocol No. 45 as of October 26th 2009) with the amendments introduced subject to Protocol No. 15 as of December 29th 2012.

Kazakhtelecom JSC provides for the timely disclosure of the trustworthy information on the Company's operation, including its financial situation, economic indicators, performance outcomes, ownership structure, and management processes. When disclosing information, the Company takes into account provisions of the legislation of the Republic of Kazakhstan in the field of commercial secrecy and other confidential data protected by law as well as respective requirements of its internal documentation.

The information is placed on the official web-portal of Kazakhtelecom JSC simultaneously in the Kazakh, Russian, and English languages and is also published in the Republican periodic, electronic and Internet mass media with the consideration of the list of data which constitute the insider information or commercial secret of the Company.

The policy of Kazakhtelecom JSC for the promotion within social media is based on the principles of transparency and fairness in disclosing information which are fixed in the Corporate Governance Code. The key goal of being represented in social media lies in developing the image of a customer-oriented Company and progressive infocommunications operator as well as stimulating the demand for the services due to the raised awareness.

Promotion in social media is based on such major principles as creation of the unique content and feedback generation. Effectiveness of the promotion activities of Kazakhtelecom JSC within social media is analyzed through the monitoring of the Internet environment.

The reporting period had 120 PR-events with 7,601 materials published at and announced through mass media sources.

Starting from the beginning of the current year, the PR-Service has received 30 official inquiries from various media representatives. All 100% of such inquiries have been responded in a due and comprehensive manner according to the timeline set forth by the applicable legislation.

In 2018, mass media paid a special attention to the following prioritized subjects:

- Fintech;
- Implementation of RS FOCL Project;
- M2M (cloud surveillance, Big Data, Smart City, Smart Home);
- Results of the surveys of international credit rating agencies);
- Transformation;
- Information on the Company's participation in international events;
- Operational activities of the Company's branches.

For the period of 12 months of 2018, the Company published 1,615 posts in social networks, 323 publications per each social network.

As to the applications, complaints and questions sent as personal messages to the corporate accounts, and also comments to the publications on the Company's Facebook page, the situation looks as follows: starting from January 1st and within 12 months of the year, 2,648 applications were received as personal messages on the Facebook page, 10,291 messages were posted as comments to the publications, while the number of individual messages sent through VK.com amounted to 1,428 with 12,768 posts as comments to the publications, Instagram Direct brought 4,056 messagesand 3,018 posts were made as comments to the publications therein, individual applicationsand personal messages in Twitter amounted to 71 and 25 more were received as comments to the publications therein. In total, the Company received 34,305 applications, messages, questions and inquiries, of which 90% were properly handled.

The number of the Company's references in the Internet for 12 months arrived at 62,201 times, of which 26,109 are unique sources which suggests for the influx of new authors of such messages along with the improved efficiency of the centralization of all platforms and webpages. For 12 months of the current year we managed to develop and improve relations with our users, having introduced application handling rules. It is noteworthy that the number of the demonstrated negative applications has reduced, while the overall tonality of messages and comments can be characterized as neutral.

Such approach contributes to the increased visitor loyalty to our webpages and brand and strengthens trust to the published messages, stimulating communications between our users and branches and serving as another full-fledged channel of public relations and access point for customer applications. Thus, the number of our subscribers

for all platforms has exceeded the point of 275,466 users, of which 84,828 belong to Facebook, 79,100 prefer Twitter, 43,825 use VK.com, 52,500 are subscribed to our Instagram page, and 15,213 visit Moi Mir (My World).

In 2018 we have perfected stylistics of the visual images and developed requirements to the visualization in accordance with the brandbook and global trends in the field of appearance and design of text messages in social media. The number of created visual materials, i.e. posters, visualizations to posts, infographics objects, amounted to 323 pieces within 12 months.

Website

The Company's website is well structured and convenient for navigation. It contains all information required for concerned parties to get an understanding of the Company's activities. This resource serves as a key instrument in the promotion of the Company's services and its positioning at the market, assuring the maximum openness and accessibility of the information.

Policy of handling conflicts of interest

The Conflict of Interest Policy of Kazakhtelecom JSC (hereinafter referred to as the Policy) has been approved by the respective Decision of the Board of Directors of Kazakhtelecom JSC (Protocol No. 10 as of 24.10.2011). The Policy has been prepared in accordance with the applicable laws of the Republic of Kazakhstan and in pursuance of the Company's Charter and its Corporate Governance Code. The Conflict of Interest Policy of Kazakhtelecom JSC defines procedures of prevention, identification, and handling conflicts of interest as well as procedures of liaison and coordination of the Company's bodies in case a conflict of interest occurs or may occur. The goal of the Policy lies ensuring the appropriate handling of conflicts of interest within Kazakhtelecom JSC to exclude possibilities of possible appearance of any adverse consequences. Subject to the decision of the Board of Directors of 'Kazakhtelecom' JSC (Protocol No.13 as of 26.11.2013), the Policy has been supplemented with Section 5-1 SITUATION OF INTERESTS CONFLICT, which enlists situations of conflict of interest or situations which may lead to the conflict of interest. When entering employment, each new employee of the Company signs the appropriate Acknowledgement Form to confirm familiarization with the conflict of interest procedures of Kazakhtelecom JSC and his/her commitment to adhere to the requirements of the Policy and be guided by them in one's professional performance.

Relations with shareholders and investors

The Company is committed to strengthen its relations with the investment community.

The field of IR constitutes a prioritized direction of the activities of the Company, which acts as a public Company aimed to raise its investment attractiveness and maximize its market value.

Representatives of Kazakhtelecom JSC maintain a permanent contact with the analysts of investment banks and hold regular meeting with potential investors and shareholders of the Company.

The Company has developed and approved its Investor Relations Concept which contains the key IR principles.

The access of Kazakhtelecom JSC to the financial markets, specifically, its public placement of shares and attraction of additional financial resources within the domestic and external capital markets contribute to the increasing interest of the Kazakhstani and foreign investment community to the Company's activities.

In 2018, in the course of the implementation of the Resolution of the Government of the Republic of Kazakhstan "On Certain Matters of Privatization for 2016–2020", the Company organized the road-show for foreign investors which served as a platform for meetings of the Company's management with the investors in Shanghai, New York, London, and Moscow and also sessions with the analysts of the banks.

The Company's website, namely, the section dedicated to investors and shareholders, contains the regularly updated Investor's Calendar.

02

Strategic Report

Kazakhtelecom JSC market share*:

Fixed Telephony

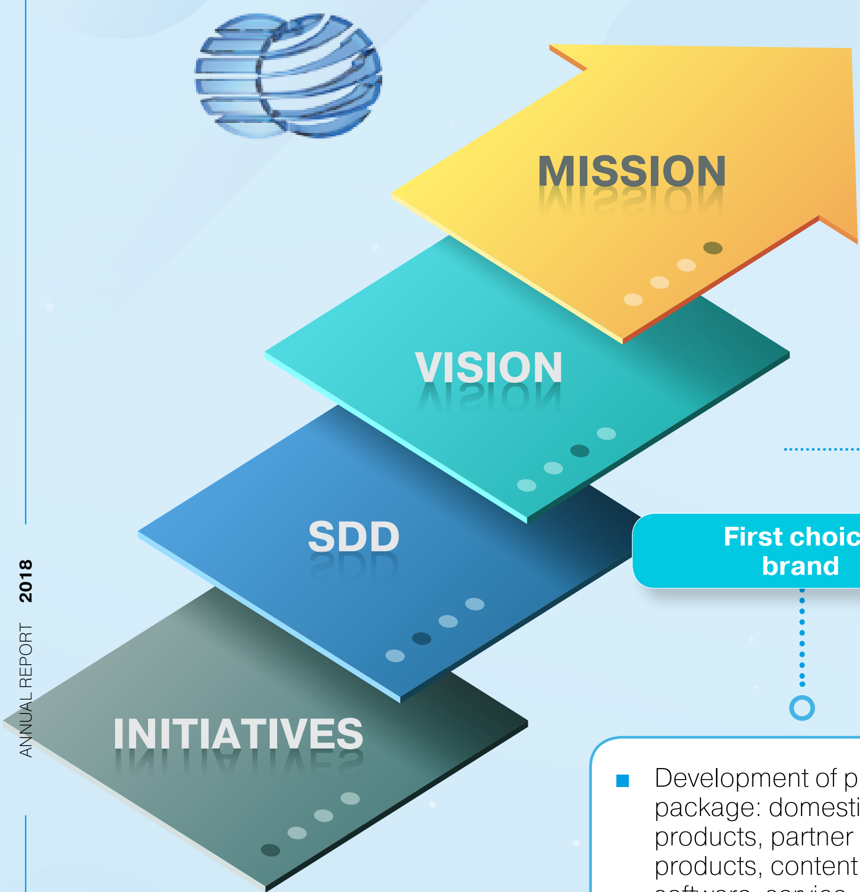
76%

Fixed Internet

71%

** In sale proceeds*

Mission, Vision



To become unreplaceable and traditional part of everybody`s life, surprising and exceeding the expectations!

Leading Kazakhstan integrated service provider in the market of info-communications

First choice brand

- Development of product package: domestic products, partner products, content, software, service platforms, launch of related directions of business (fintech, ecommerce, edutech, medtech);
- Formation of single brand (convergence of fixed and mobile business);
- Digitalization of promotion channels of sales and customer services with the purpose of quality improvement;
- Digitalization of products improvement (tariffs setting, marketing, appliance of data instruments).

Digital platform

- Digitalization of net resources (including FWA construction, 5G, virtualization, program defined nets, digital data account);
- Digitalization of information systems of business support (billing, issuing an invoice, order management, orchestration, relations with clients, quality support);
- Creation of digital service platforms for partners, API development, software ecosystems with open code
- Centralized data management (Big Data).

Expenses transformation

- Assets/balance optimization;
- Construction of effective organizing architecture of the Company;
- Decreasing of services price;
- Labor productivity improvement;
- Improvement of business units' marginality;
- CAPEX renovation;
- M&A efficiency increasing.

Kazakhtelecom JSC, flexibly responding to external challenges, including the requirements of state programs (also "Digital Kazakhstan"), changes the focus of the strategy from five strategic directions of development (Supermarket of services for the whole family, Information basis for Kazakh business, Integrated operator, Effective business model, New businesses) into three strategic directions of development – the Brand of the first choice, the Digital platform and the Transformation of costs. It is assumed that Kazakhtelecom JSC will be an active participant in the mobile business with implementation of the project "Fiber-optic communication lines in rural settlements", will lay down the basis for the Digital transformation with its subsequently realization.

Company values

Thus, in April of 2018 within the project on transformation of the corporate culture of Kazakhtelecom JSC, the new model of corporate values CREDO was presented. The new model, which contains five main directions, will allow employees to move from the culture of performance discipline, which is inherent in many large companies, to the culture of successful entrepreneurial thinking, as well as to integrate personal values with corporate values of Kazakhtelecom.

Thanks to the consistent work, HR subdivision has obtained the nomination "Best employer", as well as the largest international business award WOW!HR_KZ for the project "Talent management".

Corporate culture transformation of Kazakhtelecom JSC

The corporate culture of Kazakhtelecom JSC is aimed at creating an effective working environment leading to the implementation of the Company's long-term strategy.

Changes in personnel behavior is the ultimate goal of corporate culture transformation, which is achieved by changing its ideological component and business processes.

New corporate values of Kazakhtelecom JSC

All 5 new values are combined in one word – CREDO and include important statements and guidelines for each employee of Kazakhtelecom JSC.

About 16,000 employees of Kazakhtelecom JSC participated in a research, since it could be considered that the model of new corporate values was created by the entire Company. Following the study, a strategic session was organized with the participation of the Company's top management, during which the target image of the corporate culture was determined to which Kazakhtelecom JSC aspires. It became the culture of success.

Project of "CREDO: way to culture of success" proved its effectiveness is currently launched in the Directorate of Information Systems, the Division for Corporate Business and the Central RTD. It is planned to launch the project in other branches in the future.

CLIENT

To exceed client ‘s expectations

Key meanings:
- Striving to accurately and fully satisfy the needs of external and internal clients;
- Continuous improvement of client service based on client feedback;
- To be one step ahead – to anticipate the expectations of the client, it is pleasant to surprise him.

RESPONSIBILITY / responsibility for the result

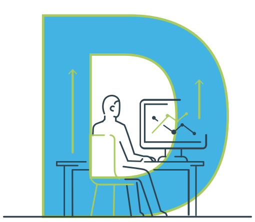
Have committed themselves – responsible for the result

Key meanings:
- Take personal responsibility for the final result;
- Exercise autonomy in decision-making;
- Focus on results rather than processes.

ENTREPRENEURSHIP / Entrepreneurial spirit

Entrepreneurial courage of market leader

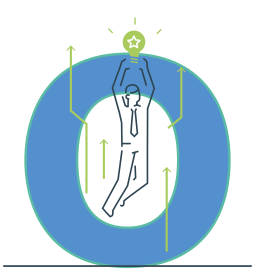
Key meanings:
- Show entrepreneurial initiative: feel free to put forward new ideas, be ready to take risks and win;
- To be ambitious, to strive for accomplishments;
- Constantly look for new opportunities for business development.



DIGITAL CULTURE /

Digital communication technologies in work and in life

Key meanings:
- Be open to new things and strive for development;
- Acting innovatively: to change the business using digital technologies;
- Be ready for changes.



OUTSTANDING DECISIONS

Quality solutions for business success

Key meanings:
- When making decisions, take into account the interests of all parties and all the variety of factors;
- Use non-standard approaches to solving problems;
- Maintain the balance of IQ + EQ + DQ* – make decisions, combining logic, knowledge of new technologies, social and psychological trends of the new world.

** IQ + EQ + DQ – intelligence, emotional intelligence, digital intelligence.*

Strategic directions of the Group’s development

Telecommunications industry of the Republic of Kazakhstan is changing rapidly, following global trends. User preferences are changing, and individuals are increasingly interested in digital entertainment, digital communications, security, high-quality financial services and other digital services (e-payments, e-education, security, smarthome, smartbuilding, e-health, etc.). In addition to traditional telecommunications services, the legal entities are needed of QOS, cloud services, customer-oriented business solutions, information security provided by services, etc.

In such conditions, Kazakhtelecom JSC undergoes evolutionary changes in strategic priorities that adapt the Company to changes in the external environment. Kazakhtelecom JSC systematically moves from the model of traditional Telecom operator to the model of integrated service provider.

The Company faces the tasks to transform the business model related with the searching of new growth points: improving of existing services; integration with mobile assets of a group; organizational transformation; improving of customer service up to the level of best practices and experience; efficiency improvement (optimization of capital costs with a focus on return on investment, reduction of production costs, increase in labor productivity); recourse to new markets through the elaboration of business areas related with telecommunications.

As part of the Company transformation into an integrated service provider, Kazakhtelecom JSC sees its further development in the implementation of three main strategic initiatives:

1. Brand of the first choice;
2. Digital platform;
3. Transformation of costs.

1. Brand of the first choice

The strategic direction of development “Brand of the first choice” is intended to shape a sustainable perception of the Kazakhtelecom JSC brand as the best supplier of any info-communication service among consumers in Kazakhstan. The tasks set by the Company to itself are aimed to improve farther of Kazakhtelecom JSC in the market as the number one choice.

Telecommunications industry is changing rapidly with the amplification of the information space and the global spread of the Internet. Info-communication services successfully develop not only traditional telecommunication operators, but also many new forms of online services (Netflix, WhatsApp, Amazon, Google, Yandex, etc.).

The need for rapid innovation, greater convergence and new services means the telecommunications companies will fill key gaps in potential using new models of innovation and updated strategies. Consumers are increasingly demanding high requirements to the speeds, a wide range of products and ecosystems, and as connection safety.

Following the new trends, Kazakhtelecom JSC shall qualitatively change the approaches of products development and their presentation on the market by running the following initiatives:

1.1. Extension of the product portfolio and digital platforms;
1.2. Formation of a single brand;
1.3. Digitalization of promotion, sales and customer service channels;
1.4. Digitalization of products intention.

2. Digital platform

The strategic direction of development "Digital platform" allows carrying out tasks on digitalization and improving infrastructure efficiency, optimizing technological processes and providing support to initiatives of the "Brand of the first choice" strategic direction of development.

Constant growth in user number and traffic consumption requires a fundamental transformation of the telecommunications industry. However, a capability of a physical infrastructure in differentiation had significantly decreased: it requires repeated procedures to select a new hardware device, design, integration, network deployment for new services. Multiple growths of user number, devices and traffic requires new approaches to the operators' business development.

SDN and NFV have become key networking technologies that able to:

- Provide innovations, it means, enable corporate users to create new types of applications, services and business models;
- Offer new services that generate new cash flows;
- Reduce the capital expenditures, CAPEX;
- Reduce the operating expenditures, OPEX, by an automating and an algorithmic method of a control using programmable network elements, which greatly simplifies the network design, deployment, administration and scaling operations;
- Provide with the Agility (efficiency, speed and flexibility) allowing quickly deploying new applications in networks, services and infrastructures that quickly adapt to changing requirements.

This initiative involves the progress of the following drivers for Kazakhtelecom JSC for 2018–2028:

2.1. Digitalization of the network resources;
2.2. Digitalization of the business support information systems;
2.3. Creation of the digital service platforms for partners;
2.4. Centralized data administration (Big Data).

3. Transformation of costs

Global structural changes occurring in the telecommunication market and associated with a traffic increase and a growth in a loading on the telecommunication infrastructure with increasing costs, as well as followed by low ARPU growth dynamics, dictate the need for constant work to improve operational efficiency and return on the resources spent.

Based on the above changes, the Company has created the "Transformation of costs" strategic direction of development designed to carry out internal transformational changes that will be aimed to improve the operational efficiency, revise the business models, processes, their simplifying and streamlining, and building an effective organizational architecture. This strategic direction includes several initiatives:

3.1. Optimization of assets/balance sheet;
3.2. Building an effective organizational structure of the Company;
3.3. Cost reduction of services;
3.4. Productivity increase;
3.5. Increase of the business unit profitability;
3.6. CAPEX renovation.

An overview of the telecommunications market for 2018

(presented according to the Committee of Statistics, Marketing data on communication market in Internet sources and expert assessments)

Main trends in telecommunications market for 2018

- At the end of 2018, the volume of the telecommunication market in monetary terms increased by 2.5% compared to 2017 and amounted to KZT 728.7 bln.
- In 2018, the communication market showed growth in all major business areas, except of traditionally declining fixed telephony (–4% or KZT –2,8 bln).
- At the end of 2017, the main drivers of revenue growth in the communication market were the following directions:
  - Data transmission services (+6.3%);
  - Fixed BBA (+3%);
  - Mobile communications, including mobile Internet (+3.7%);
  - Digital and satellite TV (+8.3%);
  - ICT services (+3.4%).
- In 2018, the market has remained a main trend, which is a traffic increase in networks – revenues from mobile Internet access remain the leadership in the communication market. In 2018 according to the Committee of Statistics of the RK, several mobile communication subscribers with access to the Internet increased by 4.2%.

- Continued growth in a segment of smartphones has been a major factor in the growth of mobile Internet access. More than 97% of Internet users use mobile phones to access the Internet according to the Committee of Statistics of the Republic of Kazakhstan.
- The reduction in fixed lines by 374,000 units (-10%) is connected with general decrease trend in a fixed telephony market.
- There was also a decrease in a market of fixed access to the Internet by 4%, which is explained by the gradual replacement by mobile access.
- The most anticipated event of the year occurred – Kazakhtelecom JSC acquired 75% of shares of “Kcell” JSC in 2018.

Telecommunication market in 2018

The telecommunication market of the Republic of Kazakhstan amounted to KZT 728.7 bln in 2018 according to the Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan. Over the past 5 years since 2013, steady growth in revenue has been demonstrated in the telecommunication market, with the exception of decrease for 1% in 2016. The market increased by 2.5% in 2018, compared to 2017.

The communication market has different trends in its submarket sections:

- Fixed telephony still decreasing since 2007, an outflow of fixed lines amounted to 374 ths in 2018, out of which the B2C segment outflow amounted to about 230 ths subscribers.
- There were no significant changes in the volume of the client base in mobile communication in 2018, a negative increase amounted to about 465 ths subscribers and amounted to 26 mln people.
- Mobile Internet is developing with the positive dynamics. So in 2018, the client base of mobile BBA increased by 485 ths subscribers and amounted to 14,4 mln subscribers.
- Fixed BBA demonstrated a fall in 2018, compared to 2017, the subscriber base decreased by 4% and amounted to about 2,5 mln.
- The markets of Pay TV and ICT services (telecommunication segment) are actively developing, but they are not making a significant contribution to the growth of the entire communication market due to their small volumes.

The communication market structure consists of 7 dedicated submarkets, according to the results in 2018:

1) Mobile communication (voice, VAS, BBA) 48%;
2) Broadband Internet (fixed) 14%;
3) Fixed telephony 9%;
4) Operator services 10%;
5) ICT services 10%;
6) Pay TV 5%;
7) Data transmission services 4%.

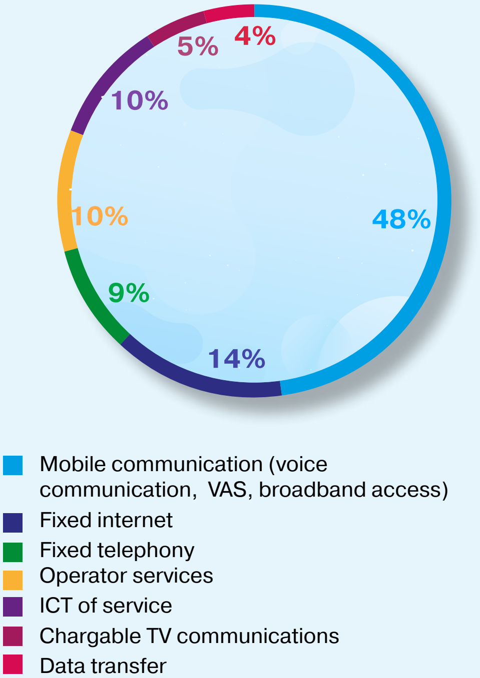
Picture 4. Scope and growth of telecommunication market of the RK 2014-2018

Source: data of the Statistics Committee of the RK

Over the 20 years of telecommunication development, the structure of the communication market has changed irreversibly and stills changing every 5 years. In the period up to 2000, the fixed telephony market dominated (up to **90%** of the communication market and the operator segment was **9%**).

Currently, the mobile market dominates (48%) due to mainly the mobile Internet service.

Picture 5. Revenue structure of the telecommunication industry of the Republic of Kazakhstan by type of service *(with sharing of the Internet revenue by technologies)*



Market (bln KZT)	**728.7**
Telephony	68,2
Internet	99,9
Data transfer	31,3
Operators	69,9
ICT	72,3
TV (including satellite)	35,5
Mobile communication (voice, Internet)	351,4

Kazakhtelecom JSC status on the market

Share of the Group of Kazakhtelecom JSC remained at 30% in general communication market in accordance with the data of the Statistics Committee for 2018.

In terms of market segments, the position of Kazakhtelecom JSC in sale proseeds is as follows:

- Fixed telephony – 76%;
- Fixed internet – 71%;
- Mobile communication (excluding KHAN TENGRI) – 2%;
- Chargeable TV – 43%;
- Information transfer – 64%;
- Service ICT – 10%;
- Operator business – 58%.

Volume of the telecommunication market is represented by two large B2C segments – services rendered to the public, and B2B – services rendered to the corporate sector, including large, medium and small businesses, services to the government sector, as well as services to operators.

Volume of communication services rendered on telecommunication market of Kazakhstan in 2018:

- B2C amounted to KZT 400,7 bln, which is higher by 1,8 bln KZT than in 2017.
- B2B amounted to KZT 328 bln, which is higher by KZT 16 bln than in 2017.

Fixed telephony

Dynamics and capacity of the fixed telephony market in 2014–2018

Capacity of the fixed telephony market in 2018 amounted to KZT 68,2 bln. The fixed telephony market has rapidly lost its position in total revenues for over the past 5 years. This trend stills remain in

Picture 6. Benefits dynamics of the fixed telephone market of the RK 2014–2018

Source: Committee on statystics of the RK, 2018

2018, which is explained by the decrease in demand for fixed telephony services.

The decline in the market in monetary terms is mainly associated with significant reduction in number of fixed-line subscribers by 374 ths subscribers. The total number of fixed lines was 3,323 ths as for the end of 2018.

The outflow of fixed telephony subscribers at the current stage of evolution corresponds to the development scenario of the leading global telecom markets and indicates the extremely high prevalence and availability of mobile services, which are inevitable substitutes for fixed telephony in a mature market. In other words, a slight outflow of fixed telephony subscribers on a background of the general development of the market characterizes it as healthy and developing in relevant areas.

Mobile communication

Volume of the mobile market in Kazakhstan amounted to KZT 351.4 bln as for the end of 2018 and increased by 3.7% compared to the previous year.

Revenues from mobile Internet showed an increase – their share in the total revenue structure of cellular communication increased to 39% in 2018.

Density of mobile subscribers decreased slightly to 142 users per 100 people in 2018, while the density of subscribers with Internet access increased, reaching 79%.

Driver for the extension of the mobile Internet market has been and remains the rapid growth in the number of smartphone users. The Kazakhstan mobile phone market stills to increase the smartphone sales in 2018 after the break caused by the fall of the national currency in August 2015. Currently in Kazakhstan, 97% of all subscribers of mobile operators use the Internet on their smartphones according to the Statistics Committee of the RK.

Market of fixed access to the Internet

Total market capacity of fixed broadband access to the Internet, amounted to KZT 99.9 bln according to estimates, while revenue growth was 3% in 2018 compared to 2017 data. Growth of mobile broadband access subscribers on the Internet and the extension of 4G in Kazakhstan influenced the decline in the fixed Internet subscriber base by 4%, which amounted to 2.5 mln subscribers.

Total number of subscribers in the market decreased by 110 ths and amounted to 2.5 mln, the depth of Internet extension amounted to 42 subscribers per 100 families in 2018.

The market share of Kazakhtelecom JSC was 71% in relation to revenue and 69% in terms of volume.

The growth of the subscriber base amounted to more than + 30,7 ths ports to the size of the base in 2017. The growth of the customer base was connected mainly with broadband access in rural settlements.

Picture 7. Benefits dynamics of the market of fixed BBA for 2014–2018

Source: Committee on statystics of the RK, 2018

In general, ARPU of fixed BBA increased by 1% and amounted to KZT 3,297 In 2018. Main factors affecting the Internet traffic consumption market are an availability of wireless Internet, spread of media traffic in the retail segment, outflow from voice cellular communication in the Internet, extension of the cloud software rent and the rapid deployment of LTE subscriber base.

Data transmission market

The data transmission market is a well-established segment of the telecommunication market in the Republic of Kazakhstan. This market segment has demonstrated a steady growth for every year. The market volume increased by 6% in 2018, compared to 2017 and amounted to KZT 31,3 bln.

ICT service market

There is also a tough competition in the market of other ICT services provided by licensed telecommunication companies, both as a provider of data center services, hardware engineering, and as a provider of various IT outsourcing services.

However, the ICT service market in the communication market is not the crucial, but auxiliary, its share is steadily growing in the total income structure. ICT revenues amounted to KZT 72,4 bln as a part of the overall revenue structure of the telecommunication market in 2018.

Pay TV

Revenues from the Pay TV services amounted to KZT 35,5 bln. The growth rates of revenue were 8% or + KZT 2,7 bln in 2018, compared to 2017. The key peak in revenue growth was observed in 2014, it was associated with the maximum number of connections to Pay TV services. The growth rate of revenues has slowed down that indicates a gradual saturation of the market since 2015.

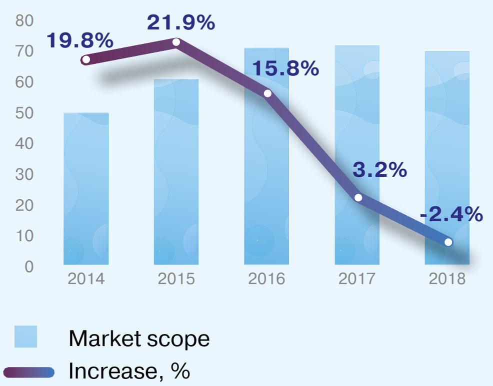
The total number of subscribers of digital, satellite and cable television amounted to about 1,8 mln in 2018 according to forecasting.

Picture 8. Benefits dynamics from Pay TV services for 2014–2018

Operator market of telecommunication services

The revenue of the operator segment amounted to about KZT 70 bln among market participants in 2018. There was a slight decrease of market due to a decrease in demand for traffic transit from operators of Central Asia in 2018.

Picture 9. Benefits dynamics from operator segment, 2014–2018



Industry regulatory review

The Telecommunication Committee of the Ministry of Digital Development, Defense and Aerospace Industry of the Republic of Kazakhstan (hereinafter – the MDDDAI Committee of the Republic of Kazakhstan) regulates and controls the activities of the joint-stock Company as the authorized body.

The MDDDAI Committee of the Republic of Kazakhstan is also an authorized body within the natural monopolies in telecommunication market. In addition, the Committee on Regulation of Natural Monopolies, Protection of Competition and Consumer Rights of the Ministry of National Economy of the Republic of Kazakhstan regulates and controls in terms of protecting competition with respect to a Joint Stock Company.

Kazakhtelecom JSC is currently in the republican section of the State Register of Natural Monopolies.

In accordance with the Business Code, the State Register of market entities holding a dominant or monopolistic position in regulated markets was canceled from January 1, 2017, whereby a joint-stock Company has been referred to 16 services and the activities of Company were subject to price regulation according them. At the same time, it should be noted that price regulation is canceled with the replacement to anti-monopoly regulation instruments.

The activities of Kazakhtelecom JSC were subject to state regulation in terms of tariff setting in three areas in 2018:

1. Natural monopoly services

State regulation of activities in the natural monopolies is performed by forming, establishing and approving a rate as per subparagraph 2) of Article 6 of the Law of the Republic of Kazakhstan "On Natural Monopolies". Service of leasing (rent) or using cable duct system is regulated as per Article 5 of the Law in the sphere of natural monopoly with the exception of the activities of small businesses.

2. Universal telecommunication services

The List of universal telecommunication services approved by the Government of the Republic of Kazakhstan dated May 2, 2017 No. 238 includes the following types of services:
1) Local telephone services;
2) Individual Internet access services with a connection speed of at least 1,536 Kbps.

3. Services provided to law enforcement agencies, as well as to the operator of the "Electronic Government" information and communication infrastructure

Service rates stipulated in the Rules for regulating prices (rates) for provision of communication lines and channels, channels in cable ducts system and areas necessary for the placement of technical equipment for the needs of the authorized state bodies, military authorities, national security and internal affairs of the Republic of Kazakhstan, as well as the operator of the "Electronic Government" information and communication infrastructure, approved by the Decree of the Government of the Republic of Kazakhstan dated April 14, 2009 No. 514 shall be approved by the authorized body. At the same time, a new service rates were introduced for a lease (rent) of digital communication channels at the channel and/or network level of data transfer rendered to this category of users from January 1, 2017.

At the same time, the Joint Stock Company shall agree with the state authorities on issues of permissions to use the radio frequency spectrum and numbering resource for activities within a framework of introducing new services, for further upgrading of a telecommunication network.

For this purpose, the Company is working with a state authority to issue permits for use of the radio frequency spectrum of the Republic of Kazakhstan, as well as to use the numbering resource. The Company shall submit an appropriate application on the elicense.kz state portal. The application shall be reviewed by the state authority within the time limits established by the legislation, after which the relevant decision shall be issued.

State subsidies and guarantees for telecommunication market

In order to reduce the information inequality between the city and rural settlements, the legislation of the Republic of Kazakhstan provides a universal service mechanism that provides socially significant services of the established quality to any user, wherever he/she is located and at a reasonable price for user. Kazakhtelecom JSC has been assigned to provide universal services for many years.

Kazakhtelecom JSC and the state authority for communication market signed an agreement "On subsidies for cost of universal communication services fixed in the telecommunication sector in rural settlements" dated July 12, 2018. As of 2018, the fact of services rendered amounted to KZT 6,183.58 mln. As part of the provision of universal telecommunication services, the Company provided 745,289 subscribers with local telephone services and 188,882 subscribers with individual Internet access services.

In accordance with the State program "Digital Kazakhstan" in order to reduce the "digital gap" of regions of the Republic of Kazakhstan, the project of the public-private partnership "Provision

of broadband access to rural settlements of the Republic of Kazakhstan with use of fiber-optic communication line technology" (hereinafter – PPP Project) in 2018.

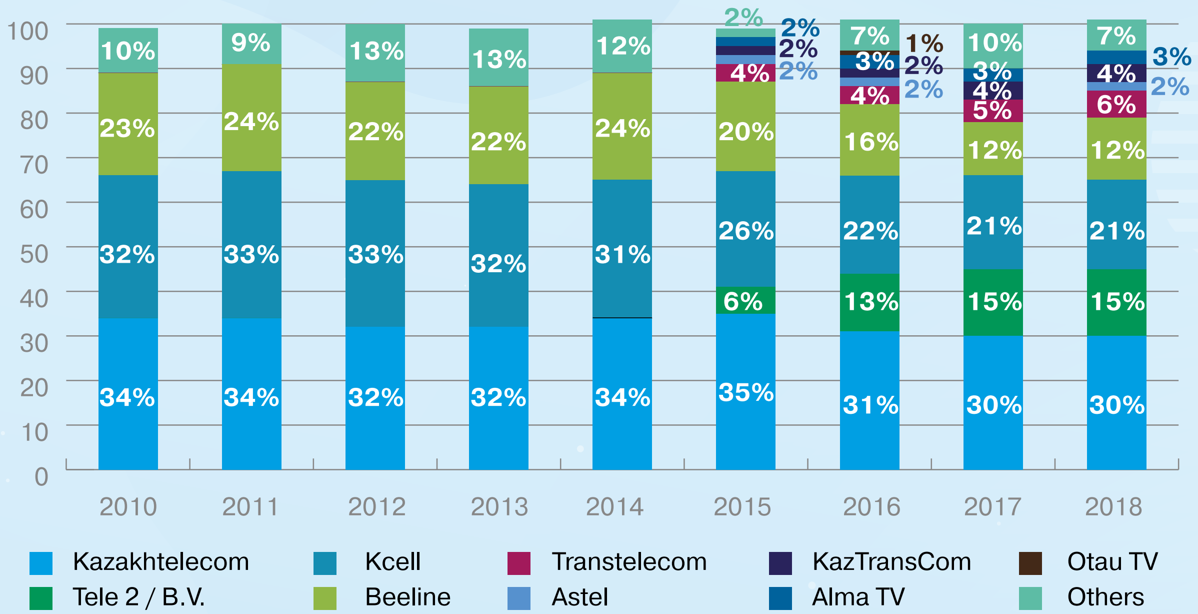
Measures of state support are provided in order to implement objectives of the PPP Project as type of state consumption guarantees of the following services:

1) broadband Internet access for schools;
2) broadband Internet access for other state agencies;
3) regional IP VPN for the General Prosecutor's Office;
4) republican IP VPN for other state agencies.

Company status in the industry

Competitive situation in the telecommunication market of Kazakhstan

Picture 10. Dynamics of the telecommunication market, 2010–2018



Source : annual reports, expert evaluation, Statistics Committee of MNE of the RK.

Overall dynamics in the market demonstrates the retention of Kazakhtelecom JSC share in terms of revenues for the last 3 years. Rapid growth of the Altel/Tele 2 group of companies is also observed since merger of them.

03

Corporate Governance

In 2018:

117

the Board of Directors decisions

248

the Management Board decisions

Corporate Governance Structure

The Company's Corporate Governance resides in the effective management system which implies respecting rights and interests of all persons concerned with the Company's activities and contributes to its successful operation, including improvement of its reputation and maintenance of its financial stability and profitability.

The Corporate Governance system of Kazakhtelecom JSC constitutes an integrity of processes ensuring a due management of and control over the Company's operations as well as the system of interrelations between the Company's executive body, Board of Directors, shareholders and other concerned parties. Respective competences of the bodies and decision-making procedures are defined and formalized in the Charter of Kazakhtelecom JSC.

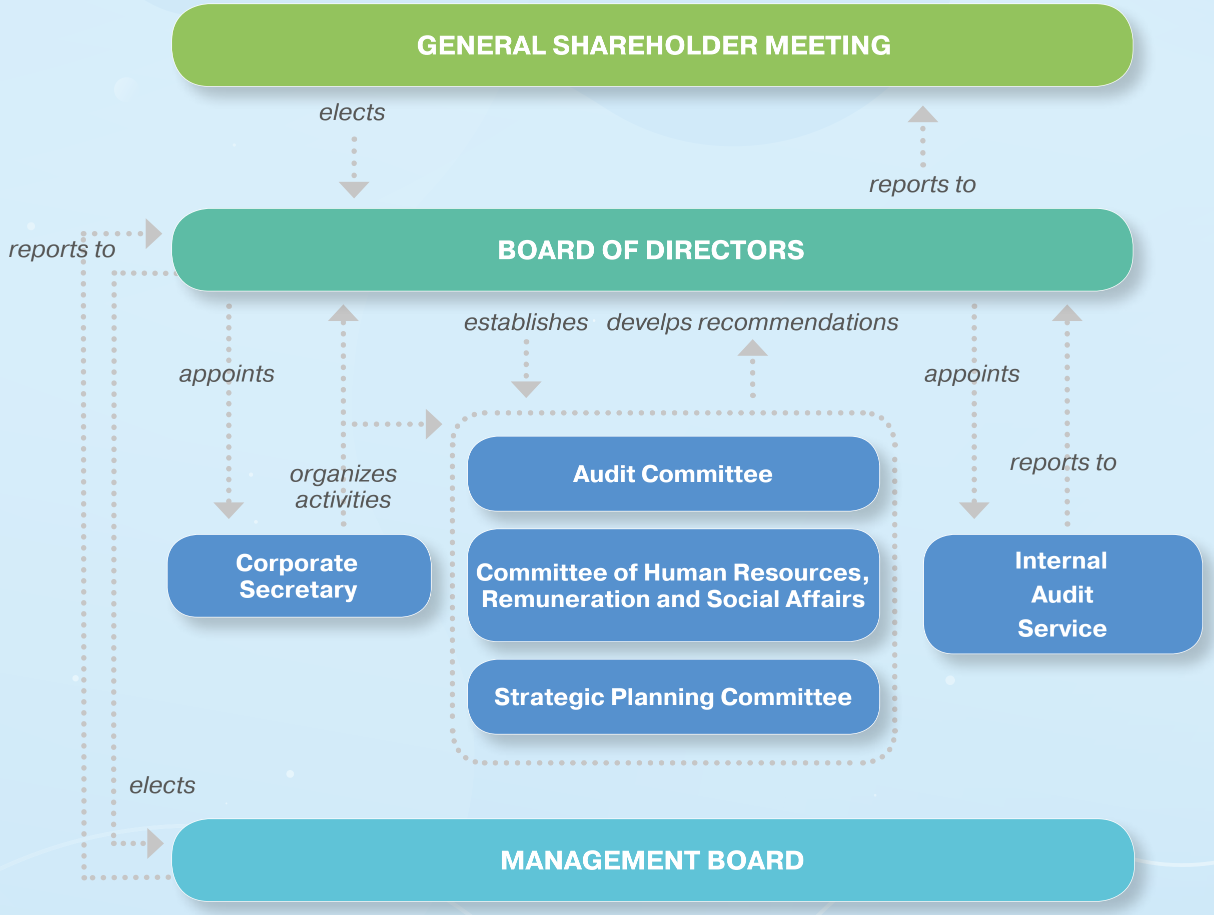
The system of the Key Performance Indicators serves as the fundamental element of the performance evaluation of the executive body of Kazakhtelecom JSC. The list of the Company's KPIs and their targeted goals are approved by the Company's Board of Directors. In pursuance of the set KPIs, the Company prepares relevant development plans for implementation.

Governing Bodies

The Company has the following governing bodies:

1) The General Shareholder Meeting which is the superior governing body;
2) The Board of Directors which acts as the management authority;
3) The Management Board which serves as the executive body;
4) The Internal Audit Service which exercises control over the Company's financial and business activities, conducts assessment in the field of internal control, risk management and implementation of the corporate governance documents and advises for the improvement of the Company's operations.

Corporate Structure of Kazakhtelecom JSC



The Board of Directors of Kazakhtelecom JSC

The Board of Directors constitutes the Company's management authority charged with the general governance over the Company's activities, except for those affairs deemed to be the reserved matters of the General Shareholder Meeting as set forth by the Law of the Republic of Kazakhstan "On Joint-Stock Companies" or stipulated by the Company's Charter, and also with the control over the activities of the Company's Management Board.

The members of the Company's Board of Directors are elected by the annual General Shareholder Meeting and may be re-elected by the respective extraordinary General Shareholder meeting in case of the powers of the previously elected members of the Company's Board of Directors have been brought to an early termination as set forth by the laws of the Republic of Kazakhstan, the Company's Charter, and the Regulations of the Board of Directors of Kazakhtelecom JSC.

The shareholders appoint the members of the Board of Directors through a cumulative voting with the use of voting ballots, except when there is only one candidature standing for one seat at the Board of Directors.

Candidates who run for the post of a member of the Company's Board of Directors may come from:
1) shareholders, who are natural persons;
2) persons named (recommended) to be elected in the Board of Directors to serve as representatives of the shareholders;
3) natural persons who are neither shareholders of the Company nor persons named (recommended) to be elected in the Board of Directors to serve as representatives of the shareholders.

Candidates to and members of the Board of Directors must have adequate professional experience, knowledge, qualification, positive achievements and flawless reputation in the Company's business and/or industry sector as required for the proper fulfillment of their respective duties and organization of the effective operation of the overall Board of Directors to the benefit of the shareholders and the Company.

Starting from January 1st 2018 and through May 30th 2018, the Company's Board of Directors was comprised of the members appointed by the decision of the extraordinary General Shareholder Meeting of Kazakhtelecom JSC as of 30.06.2015 (Protocol No. 55).

The annual General Shareholder Meeting of Kazakhtelecom JSC as of May 30th 2018 (Protocol No. 62) brought the powers of all members of the Board of Directors Kazakhtelecom JSC to an early termination, and also appointed a new composition of the Board of Directors of Kazakhtelecom JSC.

The authority of the member of the Board of Directors of Kazakhtelecom JSC, Prikhozhan D.A., was early terminated by the decision of the Extraordinary Shareholder Meeting dated 19.11.2018.

As of 01.01.2019, the composition of the Board of Directors of Kazakhtelecom JSC has been as follows:

Members of the Board of Directors:

- Baidauletov Nurzhan Talipovich
- Yessekeyev Kuanyshbek Bakytbekovich
- Alimov Abay Savitovich
- Kussainov Yerulan Aitashovich
- Saudabayev Serik Bolatovich

Members of the Board of Directors, Independent Directors:

- Buyanov Alexey Nikolayevich
- Garrett Martin Johnston
- Zaika Dmitriy Alexandrovich
- Naizabekov Timur Kurmangaziyevich

Pursuant to the decision of the Board of Directors of Kazakhtelecom JSC as of May 31st 2018 (Protocol No. 6), Baidauletov Nurzhan Talipovich has been appointed as the Chairman of the Board of Directors of Kazakhtelecom JSC.

Baidauletov Nurzhan Talipovich

Date of Birth:
September 1st 1960

Citizenship:
Republic of Kazakhstan

Date when first elected as a member of the Board of Directors:
May 8th 2012

Date of the current appointment as a member of the Board of Directors:
May 30th 2018

Status:
Chairman of the Board of Directors Representative of the shareholder, namely, Samruk-Kazyna JSC (5,570,668 ordinary (voting) shares)

Shares owned:
None

Education:
2017–2018
International Chartered Director Program of the Institute of Directors of Great Britain

09.1977–06.1986
Moscow Institute of Railway Transport
Qualified in: Railway Transportation Process Management

Current occupation and recent posts for the past five years:

17.04.2016 – till now
Samruk-Kazyna JSC
Representative of Samruk-Kazyna JSC in the Boards of Directors of Air Astana JSC, of Kazakhtelecom JSC, of Qazak Air JSC, and of National Company Kazakhstan Temir Zholy JSC.

02.06.2014–17.04.2016
Samruk-Kazyna JSC
Senior Asset Management Officer

27.11.2008 – 01.06.2014
Samruk-Kazyna JSC
Managing Director

Yessekeyev Kuanyshbek Bakytbekovich

Date of Birth:
June 10th 1975

Citizenship:
Republic of Kazakhstan

Date when first elected as a member of the Board of Directors:
December 16th 2006

Date of the current appointment as a member of the Board of Directors:
May 30th 2018

Status:
Member of the Board of Directors Chairman of the Management Board of Kazakhtelecom JSC

Shares owned:
None

Education:

2015–2017
Hult Business School, London, GB
Qualified in: Finance
Degree: Executive MBA

2001–2002
Kazakh State Management Academy
Qualified in: Management

1991–1995
Kazakh State University named after Al-Farabi
Qualified in: Applied Math
Candidate of Mathematics

Current occupation and recent posts for the past five years:

15.03.2010 – till now
Kazakhtelecom JSC
Chairman of the Management Board, Member of the Board of Directors

23.02.2007–15.03.2010
Informatization and Communications Agency of the Republic of Kazakhstan
Chairman

Alimov Abay Savitovich

Date of Birth:
October 29th 1975

Citizenship:
Republic of Kazakhstan

Date when first elected as a member of the Board of Directors:
November 19th 2018

Date of the current appointment as a member of the Board of Directors:
November 19th 2018

Status:
Member of the Board of Directors
Representative of the shareholder, namely, Skyline Investment Company

Shares owned:
None

Education:

1998 –2000
Kazakh National Management Academy named after T. Ryskulov
Qualified in: Finance and Credit

1993–1997
Kazakh State University named after Al-Farabi
Qualified in: Law Science

Current occupation and recent posts for the past five years:

05.2018–till now
Skyline Investment Company
Representative

01.2018–till now
Parasat Advising Group LLP
Managing Officer

08.2016–12.2017
KIPROS LLP
Managing Officer

03.2010–12.2015
PetroKazakhstan Oil Holding
Officer of Legal Affairs

Kussainov Yerulan Aitashovich

Date of Birth:
January 28th 1976

Citizenship:
Republic of Kazakhstan

Date when first elected as a member of the Board of Directors:
May 30th 2018

Date of the current appointment as a member of the Board of Directors:
May 30th 2018

Status:
Member of the Board of Directors
Representative of the shareholder, namely, Skyline Investment Company

Shares owned:
None

Education:

2012–2013
Comenius University (Prague, Czech Republic)
Master of Business Administration

2001–2005
Zhezkazgan University named after O.A. Baikonurov
Qualified in: Finance and Credit

1993–1996
Karaganda Banking College under the Kazakh State Management Academy
Qualified in: Banking

Current occupation and recent posts for the past five years:

12.2014 – till now
Damina Educational Center
CEO

04.2016–07.2017
Kazkommerts Bank JSC
Executive Director, Member of the Management Board, Managing Director

07.2014–10.2014
Samruk-Kazyna Invest LLP
General Director Deputy

08.2006–12.2013
Temirbank JSC
Advisor to the Chairman of the Management Board, Managing Director, Member of the Management Board, Branch Director, Managing Director – Member of the Management Board, Deputy Chairman of the Management Board – Member of the Management Board

Saudabayev Serik Bolatovich

Date of Birth:
December 8th 1977

Citizenship:
Republic of Kazakhstan

Date when first elected as a member of the Board of Directors:
July 12th 2010

Date of the current appointment as a member of the Board of Directors:
May 30th 2018

Status:
Member of the Board of Directors
Representative of the shareholder, namely, Samruk-Kazyna JSC (5,570,668 ordinary (voting) shares)

Shares owned:
None

Education:

2004–2006
Kazakh Economic University named after Ryskulov
Qualified in: Economics

1995–1999
Almaty State University named after Abai
Qualified in: Law Science

Current occupation and recent posts for the past five years:

02.05.2018 – till now
Samruk-Kazyna JSC
Communications Sector Head under the Asset Management Directorate

11.07.2016–01.05.2018
Samruk-Kazyna JSC
Communications Directorate Director

11.05.2014–10.07.2016
Samruk-Kazyna JSC
Deputy Senior Director in Asset Management

17.06.2010–10.05.2014
Sovereign Welfare Fund Samruk-Kazyna JSC
Communications Asset Management Director

Buyanov Alexey Nikolayevich

Date of Birth:
August 5th 1969

Citizenship:
Russian Federation

Date when first elected as a member of the Board of Directors:
June 30th 2015

Date of the current appointment as a member of the Board of Directors:
May 30th 2018

Status:
Independent Director

Shares owned:
None

Independence Criteria
Consistent with the criteria specified in article 1 subclause 20) of the Law of the Republic of Kazakhstan "On Joint-Stock Companies"

Education:

1986–1992
Moscow Institute of Physics and Technologies (MIPT)
Qualified in: Applied Physics and Math
Graduated as: Physics Engineer

Current occupation and recent posts for the past five years:

From January 2016 – till now
Bengala Investments SA (Investment Company)
Director

2014–2016
Managing Director in **Redline Capital Management**, Member of the Stock Exchange Council of **Moscow Stock Exchange JSC**

Garrett Martin Johnston

Date of Birth:
July 22nd 1968

Citizenship:
Ireland, Russian Federation

Date when first elected as a member of the Board of Directors:
June 30th 2015

Date of the current appointment as a member of the Board of Directors:
May 30th 2018

Status:
Independent Director

Shares owned:
None

Independence Criteria
Consistent with the criteria specified in article 1 subclause 20) of the Law of the Republic of Kazakhstan "On Joint-Stock Companies"

Education:

1990–1991
Trinity College, Dublin, Ireland
Qualified in: International Trade
TMI Degree (Postgraduate Diploma International Commerce)

1985–1990
University of Dublin
Qualified in: Economics

Current occupation and recent posts for the past five years:

15.06.2015 – till now
Macroscope consulting
Owner and CEO

01.10.2014 – till now
Appselekt.com
Chief Marketing Officer

15.01.2014–30.09.2014
Digicel Caribbean and Central America
CEO Enterprise Solutions

27.12.2011–11.01. 2014
Rosnano MedInvest (RMI Partners)
Vice President in Marketing and Strategy

Zaika Dmitriy Alexandrovich

Date of Birth:
April 27th 1975

Citizenship:
Republic of Kazakhstan

Date when first elected as a member of the Board of Directors:
June 30th 2015

Date of the current appointment as a member of the Board of Directors:
May 30th 2018

Status:
Independent Director

Shares owned:
None

Independence Criteria
Consistent with the criteria specified in article 1 subclause 20) of the Law of the Republic of Kazakhstan "On Joint-Stock Companies"

Education:

2003–2005
Kazakh State Economic University
Specialized in: Financial Management
Qualified as: Economist (graduated with honors)

1992–1998
Almaty Institute of Energy and Communications
Specialized in: Radio Equipment
Qualified as: Radio Engineer

Current occupation and recent posts for the past five years:

20.04.2012–15.08.2016
ALTEL JSC
Independent Director

29.08.2011 – till now
KhimPharm JSC
Independent Director

Naizabekov Timur Kurmangaziyevich

Date of Birth:
April 21st 1983

Citizenship:
Republic of Kazakhstan

Date when first elected as a member of the Board of Directors:
May 30th 2018

Date of the current appointment as a member of the Board of Directors:
May 30th 2018

Status:
Independent Director

Shares owned:
None

Independence Criteria
Consistent with the criteria specified in article 1 subclause 20) of the Law of the Republic of Kazakhstan "On Joint-Stock Companies"

Education:

2014–2015
University College of London (UCL) (graduated with honors)

2005–2007
University of International Business
Master of Finance (graduated with honors)

2000–2004
Kazakh National University named after Al-Farabi
Bachelor of Math and Information Systems in Business (graduated with honors)

Current occupation and recent posts for the past five years:

04.2016–09.2017
Estate Management Company JSC
Chairman of the Management Board, Member of the Board of Directors, Member of the Internal Audit Committee, Member of the Strategic Planning, Personnel & Remuneration Committee

09.2015–04.2016
Commercial RE LLP
CFO, CEO

09.2014–09.2015
Union Bancaire Privee (Great Britain) Financial Analyst/European Stock Markets

10.2012–07.2014
National Investment Corporation
Managing Director, Member of the Management Board/Advisor to the Chairman of the Management Board

During the reporting year, the Board of Directors comprised of **4 independent Directors** who were fully consistent with the corresponding requirements applicable by the legislation of the Republic of Kazakhstan to the notion of an independent Director.

Pursuant to article 54 clause 5 of the Law of the Republic of Kazakhstan "On Joint-Stock Companies", **minimum 30%** of the total composition of a joint-stock Company's board of Directors shall be independent Directors.

Kazakhtelecom JSC honors this requirement, and the number of its independent Directors exceeds the minimum threshold, equaling to **44%**.

Independent Determination Criteria for Independent Directors

Based on article 1 subclause 20) of the Law of the Republic of Kazakhstan "On Joint-Stock Companies", **an independent Director** is a member of the board of Directors:

- who is neither affiliated with that joint-stock Company at the moment not has been its affiliate within three years preceding his/her election as a member of the Board of Directors (except when such person served as an independent Director of the said joint-stock Company);
- who is not affiliated with the affiliates of the said joint-stock Company;
- who is neither related through subordination with the officials of the said joint-stock Company or its affiliated organizations nor has been related through subordination with such persons within three years preceding to his/her election as a member of the board of Directors;
- who is not a governmental officer;
- who is neither a shareholder representative at the meetings of the bodies of the said joint-stock Company nor acted as such within three years preceding to his/her election as a member of the board of Directors;
- who neither participates as an auditor in the audit of the said joint-stock Company nor participated in such audits within three years preceding to his/her election as a member of the board of Directors.

Committees under the Board of Directors of Kazakhtelecom JSC

In the pursuance of the effective fulfillment of the functions of the Board of Directors along with the more in-depth and decent addressing its issues, the following committees have been established under the Board of Directors:

1. Audit Committee;
2. Committee of Human Resources, Remuneration and Social Affairs;
3. Strategic Planning Committee.

The Company's Board of Directors makes decisions on the establishment of committees, defines its size and composition, appoints their chairmen and term of office, and also determines their functions and operative procedures.

Activities of all committees are governed by the respective internal documents adopted by the Board of Directors which contain regulative provisions on the composition and competence of such committees, procedures of electing their members, their operative procedures as well as rights and obligations of their members.

The Audit Committee is a consultative and deliberative body of the Board of Directors of Kazakhtelecom JSC that runs its activities under the Regulations of the Audit Committee approved by the decision of the Board of Directors (Protocol No. 2 as of 01.03.2010).

The activities of the Audit Committee are aimed to assist the Board of Directors through developing recommendations on the establishment of the effective system of control over the financial and business operations of the Company and exercising control over the reliability and efficiency of the internal control and risk management systems as well as over the independence of both the external and internal audit.

Subject to the Corporate Governance Code of Kazakhtelecom JSC, the Committee is comprised of the independent Directors only, who comply with the independence criteria stipulated by article 1 subclause 20) of the Law of the Republic of Kazakhstan "On Joint-Stock Companies".

As of 01.01.2019, the composition of the Audit Committee under the Board of Directors of Kazakhtelecom JSC was as follows:

The Committee's Chairman:

- Naizabekov Timur Kurmangaziyevich – an independent Director.

The Committee's Members:

- Buyanov Alexey Nikolayevich – an independent Director;
- Garrett Martin Johnston – an independent Director;
- Zaika Dmitriy Alexandrovich – an independent Director.

The Audit Committee holds regular in-person meetings every quarter as minimum, and also extraordinary meeting, whenever necessary.

In 2018, the Audit Committee held 11 meetings, of which one was held in absentia, where 33 matters were considered, and respective recommendations provided to the Company's Board of Directors, including in the field of: operations of the Internal Audit Service, internal controls and risks, financial reporting, external audit, and other important issues.

Participation in the meetings of the Audit Committee in 2018:

Members of the Board of Directors	No. 1 15.01	No. 2 22.01 in absentia	No. 3 01.02	No. 4 12.02	No. 5 07.03	No. 6 14.03	No. 7 21.05	No. 8 12.07	No. 9 14.09	No. 10 28.09	No. 11 30.10	Participation percentage
Naizabekov T.K.	Didn't' participate as he was elected to be a member of the AC as from May 31st 2018							+	+	+	+	100%
Garett Martin Johnston	+	+	+	+	+	+	+	+	+	+	+	100%
Buyanov A.N.	+	+	+	+	+	+	+	+	+	+	+	100%
Zaika D.A.	+	+	+	+	+	+	–	+	+	+	+	90.9%

The Audit Committee provides a thorough supervision over the audit process, regularly communicating with the Internal Audit Service and holding meetings with the external auditor as well as with the representatives of other companies who render audit and advisory services.

In its activities, the **Committee of Human Resources, Remuneration and Social Affairs** fully reports to the Company's Board of Directors and operates in accordance with the respective Regulations on the Committee of Human Resources, Remuneration and Social Affairs under the Board of Directors of Kazakhtelecom JSC, approved by the decision of the Board of Directors (Protocol No. 2 as of 18.03.2015).

The key objectives of the Committee reside in developing recommendations for the Board of Directors in the following spheres:

1) appointments of the members of the Company's Management Board and Board of Directors as well as appointments to the senior positions in the subsidiary organizations and other managing posts in accordance with the List of the managerial posts;
2) systems of motivation and remuneration for employees and officials of the Company;
3) social support to the Company's personnel;
4) sponsorship support and charity;
5) any other matters falling within its competence as may be directed by the Board of Directors and/or provisions of the internal regulations of the Company.

In 2018, prior to the holding of the annual General Shareholder Meeting on 30.05.2018, the Committee of Human Resources, Remuneration and Social Affairs comprised of the following persons: Zaika D.A., Buyanov A.N., Garrett Martin Johnston, Saudabayev S.B., and Prikhozhan D.A.

The currently effective composition of the Committee of Human Resources, Remuneration and Social Affairs under the Board of Directors of Kazakhtelecom JSC was approved on May 31st 2018 as follows:

The Committee's Chairman:

- Zaika Dmitriy Alexandrovich – an independent Director.

The Committee's Members:

- Kussainov Yerulan Aitashovich– a member of the Board of Directors;
- Saudabayev Serik Bolatovich – a member of the Board of Directors;
- Buyanov Alexey Nikolayevich – an independent Director;
- Garrett Martin Johnston– an independent Director;
- Naizabekov Timur Kurmangaziyevich – an independent Director.

In 2018, the Committee of Human Resources, Remuneration and Social Affairs ran 8 in-person meetings where 24 matters were considered and respective recommendations provided to the Company's Board of Directors, in particular, in the field of: appointments of employees to the posts in the Company's Management Board, appointments of chief executive officers of subsidiary organizations, approval of KPIs for the managerial staff, labor remuneration, human resources management, and other issues.

Pursuant to the Regulations on the Committee of Human Resources, Remuneration and Social Affairs, the Committee's Chairman invited the following persons to act as presenters and observers of the Committee's sessions and also to provide relevant information on the meeting agenda points:

- members of the Board of Directors;
- employees of the Company (top-managers, managers of business units, and specialists);
- candidates to the managerial positions as provided for by the List of the managerial posts.

Participation of the members of the Committee of Human Resources, Remuneration and Social Affairs in the Committee's meetings in 2018

Members of the Board of Directors	No. 1 15.01	No. 2 07.03	No. 3 21.05	No. 4 17.07	No. 5 23.07	No. 6 14.09	No. 7 05.11	No. 8 11.12	Participation percentage
Zaika D.A.	+	+	+	+	+	+	+	+	100%
Saudabayev S.B.	+	+	+	+	+	+	+	+	100%
Buyanov A.N.	+	+	+	+	+	+	+	+	100%
Garrett Martin Johnston	+	+	+	+	+	+	+	+	100%
Kussainov Ye.A.	Didn't participate since they were appointed to the Committee only as from May 31st 2018			+	+	+	+	+	100%
Naizabekov T.A.				+	+	+	+	+	100%

In its work, the Committee has been strictly keeping to the Charter of Kazakhtelecom JSC, Company's Corporate Governance Code, and Regulations on the Committee of Human Resources, Remuneration and Social Affairs.

The Strategic Planning Committee under the Board of Directors of Kazakhtelecom JSC was established on the basis of the decision of the Board of Directors in the year of 2010. The Strategic Planning Committee is a consultative and deliberative body of the Board of Directors of Kazakhtelecom JSC and operates in accordance with the respective Regulations on the Strategic Planning Committee adopted by the decision of the Board of Directors (Protocol No. 14 as of 19.11.2010).

The major goals of the Committee are to develop and present recommendations to the Company's Board of Directors in the field of identifying top priority business directions of the Company and its growth strategy, including various activities contributing to the improved efficiency of the Company's operations in the long-term perspective.

Before 30.05.2018 the Strategic Planning Committee consisted of the following persons: Buyanov A.N., Zaika D.A., Saudabayev S.B., Sarsenov A.G., and Prikhozhan D.A.

The currently effective **composition of the Strategic Planning Committee under the Board of Directors of Kazakhtelecom JSC** has been approved as from May 31st 2018 as follows:

The Committee's Chairman:

- Buyanov Alexei Nikolayevich – an independent Director.

The Committee's Members:

- Garrett Martin Johnston– an independent Director;
- Zaika Dmitriy Alexandrovich – an independent Director;
- Naizabekov Timur Kurmangaziyevich– an independent Director;
- Kussainov Yerulan Aitashovich– a member of the Board of Directors;
- Saudabayev Serik Bolatovich – a member of the Board of Directors;
- Alimov Abai Savitovich – a member of the Board of Directors (elected in the composition of the Strategic Planning Committee on December 12th 2018).

According to clause 15 of the Regulations on the Strategic Planning Committee, it holds meetings under the annual plan approved by the Committee, but minimum every quarter as well as extraordinary sessions, whenever necessary.

In 2018, the Strategic Planning Committee ran 7 in- person meetings where 17 matters were considered, and respective recommendations provided to the Company's Board of Directors. These matters covered the transaction on the acquisition of the shares of Kcell JSC, business planning, approval of the Strategy on increasing the Company's shareholder value, involvement of advisory services, implementation of strategic projects, and other important issues within the Company's operation.

The Committee's Chairman invited the following persons to act as presenters and observers of the Committee's sessions and also to provide relevant information on the meeting agenda points:

- members of the Board of Directors;
- managerial and other employees of the Company and its subsidiaries;
- representatives of consulting companies.

Participation of the members of the Strategic Planning Committee in the meetings of the Committee in 2018

<table>
<tr><th>Members of the Board of Directors</th><th>No. 1 05.04</th><th>No. 2 19.04</th><th>No. 3 30.05</th><th>No. 4 23.07</th><th>No. 5 24.09</th><th>No. 6 06.11</th><th>No. 7 11.12</th><th>Reason for absence</th><th>Participation percentage</th></tr>
<tr><td>Buyanov A.N.</td><td>+</td><td>+</td><td>+</td><td>+</td><td>+</td><td>+</td><td>+</td><td></td><td>100%</td></tr>
<tr><td>Zaika D.A.</td><td>+</td><td>+</td><td>+</td><td>+</td><td>+</td><td>+</td><td>–</td><td>Conflict of Interests</td><td>85.7%</td></tr>
<tr><td>Saudabayev S.B.</td><td>+</td><td>+</td><td>+</td><td>+</td><td>+</td><td>+</td><td>+</td><td></td><td>100%</td></tr>
<tr><td>Garrett Martin Johnston</td><td>+</td><td>+</td><td>+</td><td>+</td><td>+</td><td>+</td><td>+</td><td></td><td>100%</td></tr>
<tr><td>Kussainov Ye.A.</td><td colspan="3" rowspan="2">Didn't participate since they were appointed as members of the Committee on May 31st 2018</td><td>+</td><td>+</td><td>+</td><td>+</td><td></td><td>100%</td></tr>
<tr><td>Naizabekov T.K.</td><td>+</td><td>+</td><td>+</td><td>+</td><td></td><td>100%</td></tr>
<tr><td>Alimov A.S.</td><td colspan="9">Didn't participate as he was appointed as a member of the Strategic Planning Committee on December 12th 2018</td></tr>
</table>

The Committee comprehensively deals with the challenges on the determination and presentation of recommendations in the field of identifying top priority directions of the Company and its growth strategy, including various activities contributing to the improved efficiency of the Company's operations in the long-term perspective, into consideration of the Board of Directors.

In assessing the performance of the committees, it is noteworthy that the committees under the Board of Directors of Kazakhtelecom JSC, in their work, act to the benefit of the Company and in a bona fide and reasonable manner. Based on the outcomes of 2018, the committees have met all objectives, tasks and functional responsibilities set by the Company's Corporate Governance Code, respective Regulations on the committees, decisions of the Company's Board of Directors, directions of the Board of Directors as well as operational plans of the committees for the year of 2018.

Corporate Secretary

In pursuance of the effective corporate governance system, the Company has its Corporate Secretary.

The Board of Directors decides on the appointment of the Corporate Secretary and defines his/her term of office, functions and operating procedures.

In performing his/her duties, the Corporate Secretary reports to the Board of Directors of the Company and provides for the clear and effective coordination between the Company and its shareholders and also between the bodies of the Company as stipulated by the regulatory provisions of the legislation of the Republic of Kazakhstan and the Company's Charter, Corporate Governance Code and other internal documents.

The Corporate Secretary of Kazakhtelecom JSC, Abdykalykov B.K., is the recipient of several state awards and holds the honorary sectoral title of Uzdik Bailanysshy (the Best Communications Operator). He was recognized as one of the best corporate secretaries of SWF Samruk-Kazyna group of companies, being the permanent member of many workgroups for further improvement of the corporate governance and functions of corporate secretaries.

Major issues considered by the Board of Directors in 2018

The Board of Director of Kazakhtelecom JSC holds regular meetings in accordance with the annual operational plan as well as whenever necessary. The year of 2018 witnessed 13 meetings of the Board of Directors of Kazakhtelecom JSC, of which 9 were in-person sessions, and 4 were held through the absentee voting.

In 2018, 117 agenda points were brought into consideration of the Board of Directors of the Company, and the following most important decisions taken by the Board of Directors of Kazakhtelecom JSC in 2018 are worth being emphasized:

- On the approval of the 2019–2023 Development Plan of Kazakhtelecom JSC;
- On the adoption of the Sustainable Development Policy of Kazakhtelecom JSC and Stakeholder Map of Kazakhtelecom JSC;
- On the approval of the Operating Rules and Procedures of Kazakhtelecom JSC;
- On the approval of the Performance Evaluation Rules of the Board of Directors of Kazakhtelecom JSC and its committees, and members of the Board of Directors and Corporate Secretary of Kazakhtelecom JSC;
- On the election of the members of the Management Board of Kazakhtelecom JSC for another term;
- On the preliminary approval of the annual financial statements of Kazakhtelecom JSC for Y2017;
- On the approval of the staff schedule for the Central Office of Kazakhtelecom JSC;

- On the establishment of the Compliance Service of Kazakhtelecom JSC;
- On the participation of Kazakhtelecom JSC in the large-sized transaction.

The following reports of the Management Board of Kazakhtelecom JSC are being reviewed on a regular basis (quarterly):

- On the implementation of large investment projects;
- On the implementation of the Company's Development Plan;
- On risks;
- On the transparency of Kazakhtelecom JSC and on the assessment of the effectiveness of the information disclosure processes;
- On the concluded transactions which constitute related-party transactions, the decisions on which were taken by the Management Board of Kazakhtelecom JSC;
- Reports of the Internal Audit Service.

Participation of the members of the Board of Directors in the meetings of the BoD in 2018

Members of the Board of Directors	No. 1 01.02	No. 2 15.02 abs.	No. 3 16.03	No. 4 05.04	No. 5 30.05 abs.	No. 6 31.05	No. 7 24.07	No. 8 25.09	No. 9 09.10	No. 10 12.10 abs.	No. 11 06.11	No. 12 04.12 abs.	No. 13 12.12
Baidauletov N.T.	+	+	+	+	+	+	+	+	+	+	+	+	+
Yessekeyev K.B.	+	+	+	+	+	+	+	+	+	+		+	+
Prikhozhan D.A.	+	+	+	+	+	+	+	+	+	+	+	On 19.11.2018 his powers were terminated by the decision of the extraordinary shareholder meeting	
Alimov A.S.	Appointed to be a member of the BoD by the decision of the extraordinary shareholder meeting as of 19.11.2018											+	+
Sarsenov A.G.	+	+	+	+	+	On 30.05.2018 his powers were terminated by the decision of the annual shareholder meeting							
Kussainov Ye.A.	Appointed to be a member of the BoD by the decision of the annual shareholder meeting as of 30.05.2018					+	+	+	+	+	+	+	+
Saudabayev S.B.	+	+	+	+	+	+	+	+	+	+	+	+	+
Buyanov A.N.	+	+	+	+	+	+	+	+	+	+	+	+	+
Garrett Martin Johnston	+	+	+	+	+	–	+	+	+	+	+	+	+
Zaika D.A.	+	+	+	+	+	+	+	+	–	+	+	+	+
Naizabekov T.K.	Appointed to be a member of the BoD by the decision of the annual shareholder meeting as of 30.05.2018					+	+	+	+	+	+	+	+

Information on the Performance of Evaluation Policy of the Board of Directors of Kazakhtelecom JSC

All matters related to the performance evaluation of the Board of Directors in the reporting year were regulated by the Performance Evaluation Rules applicable to the Board of Directors of Kazakhtelecom JSC and its committees, and also to the members of the Board of Directors and Corporate Secretary of Kazakhtelecom JSC, as approved in February 2018.

Performance of the BoD is evaluated to analyze operating productivity of the BoD, both in general and specifically in respect of its committees, Chairman of the BoD, each member of the BoD, and its Corporate Secretary, revealing strengths and weaknesses of the work of the BoD when compared with the best international practice and standards, and also identifying undisclosed reserves and underutilized capabilities of the BoD.

Such evaluation helps to assess the contribution of the Board of Directors and each of its members in the growth of the long-term value and sustainable development of the Company as well as to find promising directions and recommend activities for the further improvement of the performance of the BoD.

The Corporate Governance Code of Kazakhtelecom JSC and above-mentioned rules envisage for the annual evaluation within the structured process approved by the Board of Directors of the Company. In doing so, at least every three years the evaluation shall be conducted with the involvement of independent consultants. Directors shall not be allowed to participate in the process of his/her performance evaluation, except for as a respondent in a questionnaire and/or interview.

In 2018, under the framework of the diagnostics of the corporate governance of Kazakhtelecom JSC, PricewaterhouseCoopers LLP conducted an independent assessment of the performance productivity of the Company's Board of Directors. Based on the outcomes of the diagnostics, the Board of Directors of Kazakhtelecom JSC received a positive evaluation of its performance.

Committees under the Company's Board of Directors were also positively evaluated by the Board of Directors following the outcomes of their activities in 2018.

Information on remuneration of the members of the Board of Directors

The terms of remuneration of independent Directors are reflected in the respective agreements signed with them. The members of the Board of Directors of Kazakhtelecom JSC, except for the independent Directors, fulfill their duties on the uncompensated basis.

The members of the Board of Directors acting as independent Directors receive annual fixed remuneration as well as additional remuneration for their participation in each in-person meeting of the Committee under the Board of Directors of Kazakhtelecom JSC.

An independent Director is compensated for the relevant costs (travelling, accommodation, per diems, telephone communications within the Republic of Kazakhstan, services of scanning, copying, facsimile, printing out, typing of documents, access to Internet in the Republic of Kazakhstan, and courier and mail services) associated with the attendance at in-person meetings of the Board of Directors and its Committees and participation in the annual General Shareholder Meeting as well as meetings convened by shareholders, Chairman of the Board of Directors and/or Management Board held outside the location of the permanent residence of such independent Director.

Remuneration for the fulfillment of the functions of a member of the Board of Directors of Kazakhtelecom JSC is payable only to the independent Directors elected to the membership of the Company's Board of Directors.

The amounts of the annual fixed remuneration and additional remuneration for the participation in each in-person meeting of the Committee under the Board of Directors are defined in accordance with the respective decisions of the General Shareholder Meeting of Kazakhtelecom JSC, Protocol No. 39 as of September 4th 2009, and No. 46 as of December 29th 2011:

1. The size of the annual fixed remuneration for each independent Director of Kazakhtelecom JSC is as follows:
   - for non-residents of the Republic of Kazakhstan – USD 45,000;
   - for residents of the Republic of Kazakhstan – KZT 6,660,000.
2. The size of the additional remuneration for each independent member of the Board of Directors of Kazakhtelecom JSC for his/her participation in each in-person meeting of the Committee under the Board of Directors, including through tele-video conference communications means, is as follows:
   - for non-residents of the Republic of Kazakhstan acting as a member of the Committee – USD 500;
   - for non-residents of the Republic of Kazakhstan acting as a member of the Committee – KZT 75,000.

Payments to the Independent Directors within Y2018

No.	Members of the BoD – Independent Directors	Currency	Amount of the annual fixed remuneration	Amount of the additional remuneration for the participation in the activities of the Committees	Total for Y2018
1	Non-residents of the RoK (2 persons)	USD	90,000	23,500	113,500
2	Residents of the RoK (2 persons)	KZT	10,582,000	2,625,000	13,207,000

Kazakhtelecom JSC discloses information on the amounts of remuneration of the members of its Board of Directors to all concerned parties as stipulated by the legislation of the Republic of Kazakhstan and Charter of Kazakhtelecom JSC.

The Management Board

The Management Board constitutes a collective executive body that exercises operational management of the Company's activities in pursuance of its goals and implementation of its strategy.

The Management Board operates under the principle of the maximum observance of the interests of the Shareholders and full answerability to the decisions of the General Shareholder Meeting and Board of Directors.

The Management Board consists of 7 members, namely, the Chairman of the Management Board and other persons elected by the Board of Directors of the Company.

Yessekeyev Kuanyshbek Bakytbekovich

Date of Birth:
June 10th 1975

Citizenship:
Republic of Kazakhstan

Date when first appointed as a member of the Management Board of Kazakhtelecom JSC:
December 15th 2006

Date of the current appointment as a member of the Management Board of Kazakhtelecom JSC:
February 5th 2016

Status:
A member of the Board of Directors, the Chairman of the Management Board of Kazakhtelecom JSC

Education:
University Degree, Candidate of the Math Science
2015–2017
Hult Business School, London, GB
Qualified in: Finance
Degree: Executive MBA

2001–2002
Kazakh State Management Academy
Qualified in: Management

1991–1995
Kazakh State University named after Al-Farabi
Qualified in: Applied Math, Candidate of the Math Science

Current occupation and recent posts for the past five years:

15.03.2010 – till now
Kazakhtelecom JSC
The Chairman of the Management Board, a member of the Board of Directors

23.02.2007–15.03.2010
Informatization and Communications Agency of the Republic of Kazakhstan
The Chairman

Outside employment and membership in the Boards of Directors in other organizations:
A member of the Board of Directors of "Khan Tengri Holding B.V", a member of the Supervisory Council of "Mobile Telecom-Service" LLP

Ownership of the shares of the Company, its suppliers or competitors: None

Uzbekov Askhat Arkhatovich

Date of Birth:
June 18th 1980

Citizenship:
Republic of Kazakhstan

Date when first appointed as a member of the Management Board of Kazakhtelecom JSC:
27.09.2016

Date of the current appointment as a member of the Management Board of Kazakhtelecom JSC:
14.03.2017

Status:
A member of the Management Board of Kazakhtelecom JSC, Chief Financial Officer of Kazakhtelecom JSC.

Education: University Degree

1996–2000
University of Turan
Qualified in: International Economics

Current occupation and recent posts for the past five years:

01.2015 – till now
Kazakhtelecom JSC
Managing Officer – Chief Treasurer, Managing Officer – Financial Controller, Chief Financial Officer

02.2012–12.2014
KMG EP International
Financial Officer

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

Ownership of the shares of the Company, its suppliers or competitors: none

Makhanbetazhiyev Batyr Apenovich

Date of Birth:
March 12th 1972

Citizenship:
Republic of Kazakhstan

Date when first appointed as a member of the Management Board of Kazakhtelecom JSC:
07.06.2010

Date of the current appointment as a member of the Management Board of Kazakhtelecom JSC:
17.03.2017

Status:
A member of the Management Board of Kazakhtelecom JSC, Chief Strategy Officer of Kazakhtelecom JSC

Education: University Degree

2015–2017
Hult Business School, London, GB
Qualified in: Finance
Degree: Executive MBA

1989–1994
Moscow State University named after M. Lomonosov
Qualified in: Economic Cybernetics, Mathematical Economist

Current occupation and recent posts for the past five years:

04.2010 – till now
Kazakhtelecom JSC
Chief Administrative Officer, Chief Strategy Officer of Kazakhtelecom JSC

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

Ownership of the shares of the Company, its suppliers or competitors: none

Abykhanov Rafael Yelamanovich

Date of Birth:
June 7th 1971

Citizenship:
Republic of Kazakhstan

Date when first appointed as a member of the Management Board of Kazakhtelecom JSC:
09.09.2013

Date of the current appointment as a member of the Management Board of Kazakhtelecom JSC:
14.03.2017

Status:
A member of the Management Board of Kazakhtelecom JSC, Chief B2B Officer – Chief Officer of B2B division, Kazakhtelecom JSC branch

Education: University Degree
1990–1996
Kazakh National Technical University
Qualified in: Radio Equipment

Current occupation and recent posts for the past five years:

As from 09.09.2013 – till now
Kazakhtelecom JSC
Chief B2B Officer – Chief Officer of B2B division, Kazakhtelecom JSC branch

07.05.2009–08.09.2013
Kazakhtelecom JSC
Managing Operators Director

Outside employment and membership in the Boards of Directors in other organizations:
The Chairman of the Supervisory Council of KT-IX LLC

Ownership of the shares of the Company, its suppliers or competitors: none

Lezgovko Alexander Vladimirovich

Date of Birth:
September 15th 1961

Citizenship:
Republic of Kazakhstan

Date when first appointed as a member of the Management Board of Kazakhtelecom JSC:
26.03.2007

Date of the current appointment as a member of the Management Board of Kazakhtelecom JSC:
14.03.2017

Status:
A member of the Management Board of Kazakhtelecom JSC, Chief Technical Officer of Kazakhtelecom JSC

Education: University Degree.

1978–1983
Almaty Energy Institute
Qualified in: Automatic Telecommunications

Current occupation and recent posts for the past five years:

03.2007 – till now
Kazakhtelecom JSC
Vice-President – Chief Technical Officer. Chief Technical Officer of Kazakhtelecom JSC

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

Ownership of the shares of the Company, its suppliers or competitors:
holds share of Kazakhtelecom JSC

Abdildabekov Marat Mukhtarovich

Date of Birth:
October 13th 1967

Citizenship:
Republic of Kazakhstan

Date when first appointed as a member of the Management Board of Kazakhtelecom JSC:
08.06.2007

Date of the current appointment as a member of the Management Board of Kazakhtelecom JSC:
14.03.2017

Status:
A member of the Management Board of Kazakhtelecom JSC, Chief Information Technologies Officer of Kazakhtelecom JSC

Education: University Degree
1984–1991
Kazakh State University named after S.M. Kirov
Qualified in: Mechanics and Applied Math

Current occupation and recent posts for the past five years:

05.2007 – till now:
Kazakhtelecom JSC
Vice-President – Chief Information Technologies Officer, Chief Information Technologies Officer of Kazakhtelecom JSC

Outside employment and membership in the Boards of Directors in other organizations:
The Chairman of the Supervisory Council of KT Cloud Lab LLP, a member of the Supervisory Council of QazCloud LLP.

Ownership of the shares of the Company, its suppliers or competitors: none

Kukelis Kaspars

Date of Birth:
November 3rd 1971

Citizenship:
Latvia

Date when first appointed as a member of the Management Board of Kazakhtelecom JSC:
01.06.2017

Date of the current appointment as a member of the Management Board of Kazakhtelecom JSC:
01.06.2017

Status:
A member of the Management Board of Kazakhtelecom JSC, Chief B2C Officer – Chief Officer of B2C Division of Kazakhtelecom JSC branch

Education:
University Degree
2001–2004
Harvard Business School, Boston, USA
EMBA (Marketing Strategy, General Management, Accounting & Control, Leadership & Organizational Efficiency, Information Technologies).

1989–1994
Almaty Technological University
Qualified in: Economics

Current occupation and recent posts for the past five years:

01.06.2017 – till now
Kazakhtelecom JSC,
Chief B2C Officer - Chief Officer of B2C Division of Kazakhtelecom JSC branch

01.02.2017–01.06.2017
Kazakhtelecom JSC
Chief B2C Officer

01.09.2015–20.03.2016
ALTEL JSC, an independent Director, a member of the Board of Directors

01.09.2013–01.02.2014
Kcell JSC, Commercial Officer

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

Ownership of the shares of the Company, its suppliers or competitors: none

Progress Report of the Management Board and most important decisions of 2018

The Management Board of Kazakhtelecom JSC runs in-person meetings once in a week, and, whenever necessary, schedules additional sessions.

In 2918, the Management Board of Kazakhtelecom JSC held 54 in-person meetings where 248 decisions were taken by the Management Board along with 2 decisions which were adopted through the absentee voting.

In the course of the reporting period, the Management Board considered and took decisions in respect of the following major points.

Matters considered: preliminary annual financial statements of Kazakhtelecom JSC and its subsidiaries, Sustainable Development Report of Kazakhtelecom JSC for 2017, quarterly risk management reports, Risk Registry and Risk Map for 2019, Indicator Limits of the Corporate Risk Management System of Kazakhtelecom JSC, draft Strategy for the shareholder value increasing for 2018–2028, Operating Rules and Regulations of Kazakhtelecom JSC (update), and so on.

Documents approved: drafts of the Operational Budget, Capital Investment Budget and Development Plan for 2019–2023, Guidelines and Program for the implementation of initiatives in the field of sustainable development, Communications Plan of Kazakhtelecom JSC for the relations with stakeholders for 2018, Action Plan for the implementation of the Digital Transformation Program of Kazakhtelecom JSC, and others.

Restructuring of the organizational management system of Kazakhtelecom JSC implemented under the Orleu Transformation Program has led to the establishment of the general service centers for legal support, personnel management, and administrative and financial functions.

Information on the remuneration of the members of the Management Board

The terms and procedures related to the remuneration of the members of the Management Board of Kazakhtelecom JSC are defined by the Regulations of the Management Board of Kazakhtelecom JSC, Regulations on the labor compensation of employees of the Central Office of Kazakhtelecom JSC, and also by the Rules on paying compensation to senior officials of Kazakhtelecom JSC based on the reporting period performance which have been developed in accordance with the Policy of Samruk-Kazyna JSC in the field of performance evaluation and remuneration of senior officials.

Subject to the above-named documents, the Board of Directors, guided by the recommendation of the respective Committee thereof, defines the amounts of the official salaries along with the terms of labor payment and bonus awarding of the Chairman and members of the Management Board.

The fundamental term for paying remuneration resides in the existence of the consolidated final profit for a reporting year.

Senior officials are remunerated on the basis of the yearly performance outcomes, depending on their fulfillment of respective incentive key performance indicators approved by the Company's Board of Directors. Exceeding the targeted goals of the set corporate KPIs is a result of the individual contribution of each member of the Management Board. Thus, efficiency of the incentive KPIs of the Chairman of the Management Board arrived at 100% for the year of 2018.

Significant Transactions of the Company

Pursuant to article 33 clause 1 subclause 33) of the Charter of Kazakhtelecom JSC, making decisions on the participation in large-sized transactions and in transactions in which the Company holds an interest shall be referred to the reserved matters of the Board of Directors of the Company, except when otherwise stipulated by the Company's Charter.

In 2018, the Management Board of Kazakhtelecom JSC approved and brought into consideration of the Company's Board of Directors 9 Decisions related to the participation in transactions in which the Company had an interest, including:

1) Additional Agreement No. 2 to Contract No. ALM-OTD-1231/16/37/No. 624-43-DTO on technical maintenance services for communications objects as of 23.12.2016 entered by Mobile Telecom-Service LLP and Kazakhtelecom JSC;
2) Additional Agreement No. 2 to Contract No. 639-43-DTO/01/176-DU/16 on technical maintenance services for antenna mast structures, antenna feeder units and radio link equipment as of 28.12.2016 entered by VOSTOKTELECOM LLP and Kazakhtelecom JSC;
3) Additional Agreement No. 1 Contract No. 443-43-DTO/17086 on technical maintenance services for communications objects as of 28.07.2017 entered by VOSTOKTELECOM LLP and Kazakhtelecom JSC;
4) Cooperative Activity Agreement No. 523-24-DZ on the delivery and promotion of services for affiliates as of 06.08.2018 entered by QazCloud LLP and Kazakhtelecom JSC;
5) Additional Agreement No. 7 to Cooperative Activity Agreement No. 743/12-DO/1171-03-DSD as of 14.12.2012 signed with Mobile Telecom-Service LLP in respect of the prolongation of the contracts for the delivery of telecommunications and Internet-services until December 31st 2020;
6) Lease agreements for the occupancy of steel structures entered by Mobile Telecom-Service LLP and branches of Kazakhtelecom JSC:
   Central RTD, No. 351/18/11 as of 04.06.2018;
   Southern RTD, No. ALM-PMO-464/18/11 as of 20.08.2018;
   Almatytelecom RTD, No. ALM-PMO-550/18/11 as of 20.08.2018;
7) Agreement No. 361-15-CPC as of 27.06.2018 on the termination of Credit Facility Agreement No. 1923 dated February 25th 2016;
8) Collaboration Agreement No. 506-18 as of 05.06.2018 on the promotion of telecommunications services without involving the property of Kazakhtelecom JSC signed between Kazakhtelecom JSC and QazCloud LLP (the Agent);
9) Cooperative Activity Agreement No. 778-27-DSD as of 24.10.2018 to unite efforts and resources for the joint delivery and promotion of payment channels for payers for telecommunications services among customers of Kazakhtelecom JSC;
10) Additional Agreement No. 1 to Contract No. 123-27-DU named "On Sale of the Unified and Converged Service Packs of Fixed and Mobile Communications" as of February 29th 2016 to introduce relevant amendments for the simplification of the procedure of signing communications services contracts with natural persons;
11) Additional Agreement No. 8 to Cooperative Activity Agreement No. 743/12-DO/1171-03-DSD as of 14.12.2012 signed with Mobile Telecom-Service LLP on the increase of the capacity of the delivered services due to the reduction of the nominal price for 1 Mbps of additional volumes for the period of Y2019.

Company's Internal Audit

The Internal Audit Service (IAS) is charged with the organization and implementation of the internal audit in Kazakhtelecom JSC, which reports and answers directly to the Board of Directors. The Audit Committee under the Company's Board of Directors supervises activities of the IAS.

The key goal of the activities of the IAS lies in providing the Company's Board of Directors with the independent and objective information intended to ensure effective management of the Company through the introduction of the systemic approach when improving the systems of risk management, internal control, and corporate governance within the Company's operation.

The IAS serves in accordance with the Regulations on the Internal Audit Service of Kazakhtelecom JSC and Internal Audit Organization Policy of Kazakhtelecom JSC, approved by the Board of Directors of Kazakhtelecom JSC.

Audit inspections are revised as scheduled by the Annual Audit Plan concurred with the Audit Committee and approved by the Company's Board of Directors.

All activities of the Internal Audit Service of Kazakhtelecom JSC comply with the International Standards for the Professional Practice of Internal Auditing – as evidenced by the findings of the external evaluation of the internal audit system carried out by the independent consultant, specifically, KPMG Tax and Advisory LLP, in 2018.

In the year of 2018, the IAS conducted 17 (seventeen) scheduled audit inspections in accordance with the approved Annual Audit Inspection Plan along with 5 (five) unscheduled audit sessions under the directions of the Board of Directors and requests of the Company's management. The goals of the audit activities have been met. The work has been successfully completed by 10 specialists of the Internal Audit Service.

04

Risk Management and internal control

The CRMS Effectiveness made up

99.2%

Risk management system

The corporate risk management system (hereinafter referred to as “CRMS”) is a key component of the corporate governance system aimed at timely identification, assessment, monitoring and reduction of potential risk events that may adversely affect the achievement of strategic and operational goals of Kazakhtelecom JSC and its subsidiaries.

The main principles of the risk management system are:

- openness – consideration of CRMS as a stand-alone or separate system is not allowed;
- structural properties – availability of clear structure inherent in the integrated risk management system;
- awareness – support of the risk management process with objective, reliable and up-to-date information;
- continuity – implementation of the risk management process on an ongoing basis;
- cyclicality – the risk management process is a constantly repeating cycle of its main components.

Risk management is provided within the Company with involvement of the Board of Directors, the Internal Audit Service, the Management Board, structural subdivisions, the Risk Management Service, as well as the Internal Control Service.

Risk Management in 2018

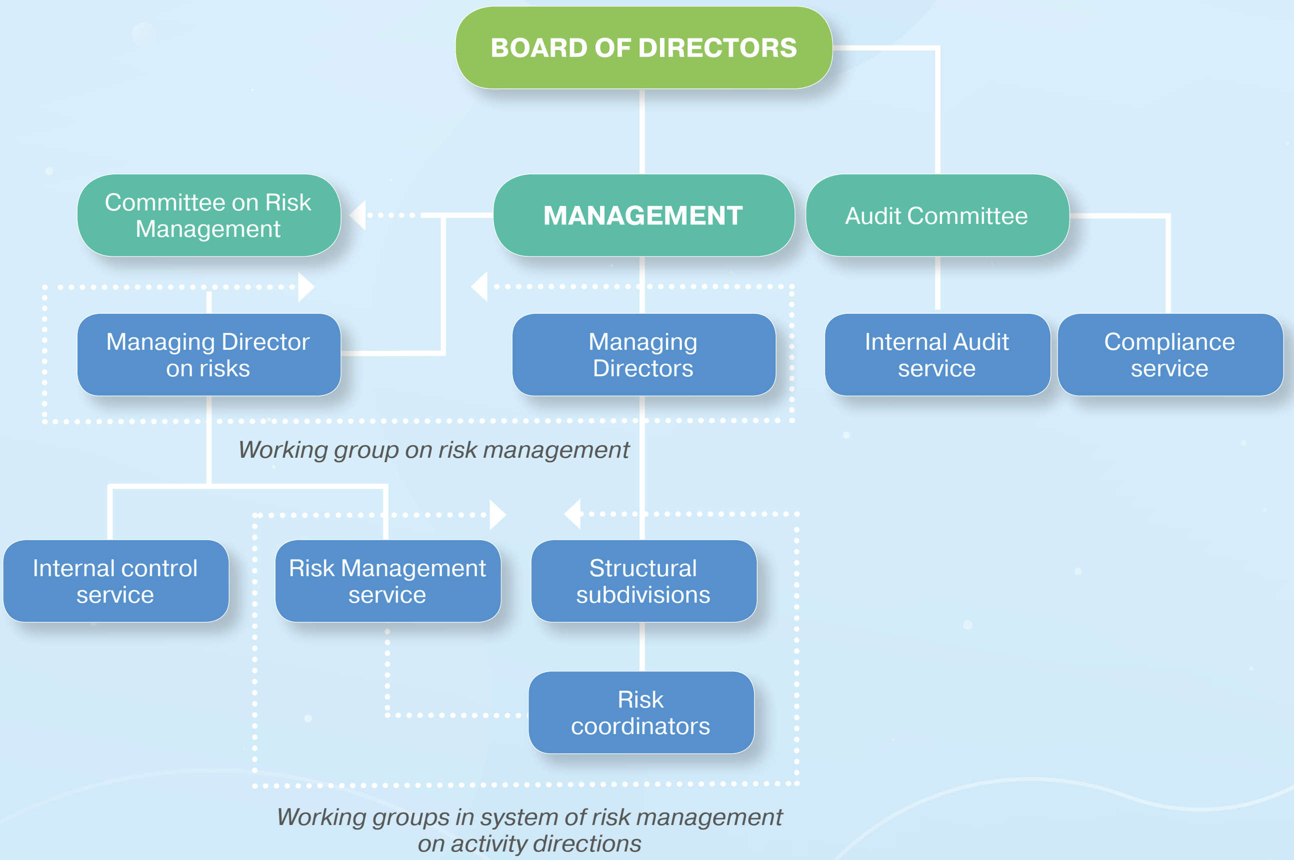
There were no significant changes in the main processes of the corporate risk management system and the internal control system in 2018. In accordance with the current Risk management policy, the Board of Directors reviews reports of the Risk Management Service of the Company on a quarterly basis, obtains information on annual performance assessment of corporate risk management and internal control systems, performed by both internal audit and independent external expert.

Development of RMS has been provided based on the road map developed as per recommendations of independent external expert, which assessed maturity and effectiveness of risk management systems of Kazakhtelecom JSC in 2017. In 2018 main activities of ICS were oriented on updating documentation of the system, due to the ongoing transformation of the organizational structure of the Company and the main business processes.

All risk area of the Company is classified into such categories as strategic, financial, operational, legal. As part of the risk management process, the Company maintains a corporate risk register,reflecting the risks that may affect the achievement of long-term strategic goals and key performance indicators of the Development plan approved by the Board of Directors.

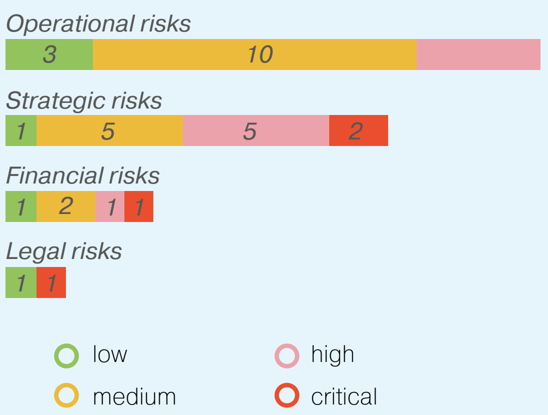
The Board of Directors of Kazakhtelecom JSC approves risk register and risk map of the Company on an annual basis. In 2018 the Risk Management System carried out works on monitoring of the risk register, updating data on risks, control of activities for risk minimization. Thus, according to the risk register and the risk map of the Company, by the end of 2018 there were only 38 risks in the corporate risk register.

Participants of the risk management process



Activities oriented on elimination of causes and minimization of consequences in case of occurrence of risk events, have been developed for certain risks specified in the risk register. Risk Management Service continuously monitored the dynamics of critical risks and implementation of activities for mitigation of risks. Monitoring results are directed in form of risk reporting to the Management Board and the Board of Directors of the Company on a quarterly basis.

Picture 11. Risk Radar in category range



Integration of risk management and internal control systems in branches and subsidiaries

Information on potential risks collected and updated at the level of branches and subsidiaries allows to cover and assess the factors affecting both at the local level and at the level of the whole group. It allows for more successful preventive risk management at the local level and integrated solutions based on integrated data from all facilities.

Branches and subsidiaries reassess and update risk registers and maps on a quarterly basis. Projects in relation to significant risks, affecting indicators both at local and corporate levels with planned implementation in the next year and requiring financing for its reduction by branches, have been developed and presented.

In 2018 the Internal Control Service jointly with the Risk Management Service carried out audit of certain business processes of Company's RTD in order to identify deviations adversely affecting the corporate risk register and increasing likelihood of risk occurrence and migration of certain risks into the risk map critical zone. Recommendations on improvement of efficiency of regional internal control systems were developed as per the results.

Key risks

No.	Risk	Description of risk and consequences	Response measures	Control level in 2018
1	Failure to achieve target indicators for the segment “fixed telephony”.	Decrease of use value of conventional services and traffic outflow from the fixed telephony segment to the mobile communications segment may significantly affect the Company’s revenues in this segment.	New services and packaged solutions have been developed and introduced for increase of use value and competitiveness of the product; New rate card has been approved. Service standards have been approved in order to increase the level of customer-oriented approach.	Middle
2	Failure to achieve target indicators for the segment “fixed broadband access to Internet”.	Active displacement and replacement of fixed broadband access with mobile access types, as well as the emergence of strong competitors with their own infrastructure, with extensive investment opportunities and the latest technologies in the Kazakhstan market of fixed broadband access services, entails the loss of current and potential customers, which, in turn, may affect the Company’s revenues.	New services and packaged solutions have been developed and introduced for increase of use value and competitiveness of the product. New rate card has been approved. Service quality has been improved.	Middle
3	Growth of overdue receivables of customers.	Due to abandoning of fixed-line communications by customers, increase of share of doubtful and overdue receivables can be observed, which can be written off after debt collection measures.	Common center of receivables management (CCRM) has been established in the Company. Third party organizations for debt collection from subscribers are involved. It is planned to introduce a system of notification of ID TV subscribers on debt.	Middle
4	Arising of obligations of the Company under the claims, orders and other demands.	The Company received a statement from the minority shareholders demanding the redemption of their shares in connection with their disagreement with the decision of the Board of Directors of the Company on conclusion of the large transaction on acquisition of shares of Kcell JSC. Financial liabilities to minority shareholders may arise in case of court proceedings and court decision against the Company.	Application on pre-trial investigation on fact of use of insider information and damage to the Company by a group of shareholders has been submitted to the State Revenue Department. The Commission on issue of stock redemption by demand of shareholders has been established.	Middle

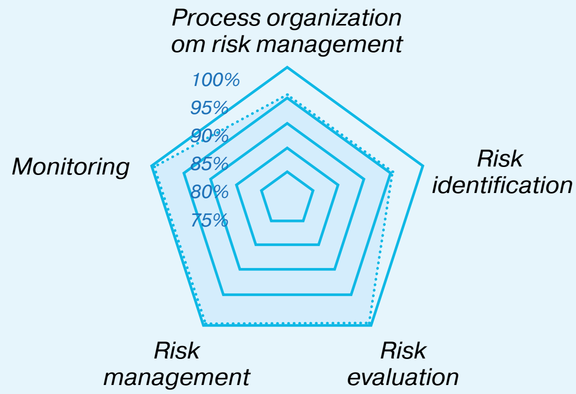
Further improvement of the corporate risk management and internal control system

Risk culture of the Company is developed through involvement of structural subdivisions of Kazakhtelecom JSC and subsidiaries in the risk management process, as well as through regular exchange of information between the Board of Directors, the Management Board, Risk Management Committee and employees of the Company. Methodological, consulting and educational support to employees of the Company and subsidiaries on risk management and internal control is provided by the Risk Management Service and the Internal Control Service.

In IV quarter of 2018 the Internal Audit Service (hereinafter referred to as IAS) of Kazakhtelecom JSC carried out assessment of CRMS effectiveness in accordance with the internal regulatory documents. According to the results of the activities, the aggregate score of the effectiveness of CRMS amounted to 99.2%. (In 2017 the aggregate score of the effectiveness of CRMS amounted to 97.1%).

In 2019 works on improvement of corporate risk management and internal control systems will be continued in the framework of the Road map developed on the basis of recommendations of independent external expert, expectations of shareholders and the best world practices.

Picture 12. CRMS Assessment



Risk management and internal control plans for 2019

In 2019 Kazakhtelecom JSC plans to develop risk management system as follows:

- To improve methodological base of risk management system;
- To develop application of risk key indicators;
- To extend risk identification and assessment tools;
- To improve risk culture of risk management;
- To introduce tools for monitoring and post-monitoring of investment project risks;
- To develop an automated risk management system.

05

Operating results

Consolidated net profit

42,883

mln KZT

*which is **72%** higher than the planned value*

In 2018 the impact on free cash flow amounted to

34.9
bln KZT

with increase by 17% as compared with the previous year.

Reorganization of

14 regional front offices

Orleu Transformation Program

Beginning of the ambitious of Orleu Transformation Program in Kazakhtelecom JSC was announced in spring 2014. For 5 years Kazakhtelecom JSC has been consistently implementing activities aimed at improvements, introducing a number of changes that have already brought financial and qualitative impact. Impact on free cash flow (amount of gained and leftover funds) was equal to KZT **106.2** bln over almost 5 years of implementation of the transformation program.

Among the key events implemented within the framework of Orleu Transformation Program the events that taught us how to use funds rationally and gain extra funds shall be pointed out:

- launching the common network control center of Kazakhtelecom JSC;
- implementation of remuneration system on the basis of grades;
- acquirement of management skills in relation to customer outflow;
- packaged offering for customers;
- centralized functions of HR, legal and financial support, payroll, IT-services, procurement, repair office, contact center;
- reorganization of 14 regional front offices into 6 regional offices;
- establishment of B2B and B2C divisions.

In 2018 in the framework of the Orleu Transformation Program activities for improvement of organizational efficiency, perception of corporate culture, development of new businesses, development of sales channels, control of customer outflow and optimization of internal processes were continued.

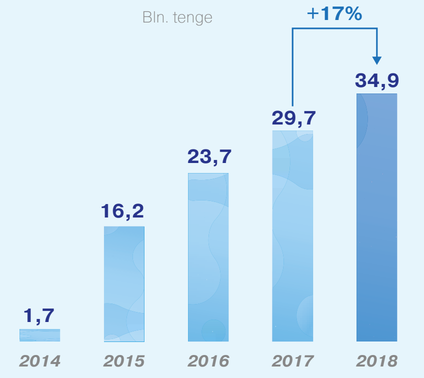
Work on centralization and consolidation of functions, improvement of efficiency of internal processes and customer relations has been continued to implement organizational and operating improvements. Corporate values "CREDO", one of the most important elements of corporate culture, have been developed. Projects on new businesses are being implemented. Work on commercial projects has been continued and new initiatives have been launched in the environment of divisional structure.

As a result, **ANNUALLY DEMONSTRATED IMPACT FROM IMPLEMENTATION OF ORLEU PROGRAM CONTINUED ITS GROWTH.**

In 2017 this amount was equal to KZT 29.7 bln and in 2018 the impact on free cash flow amounted to KZT 34.9 bln with increase by 17% as compared with the previous year.

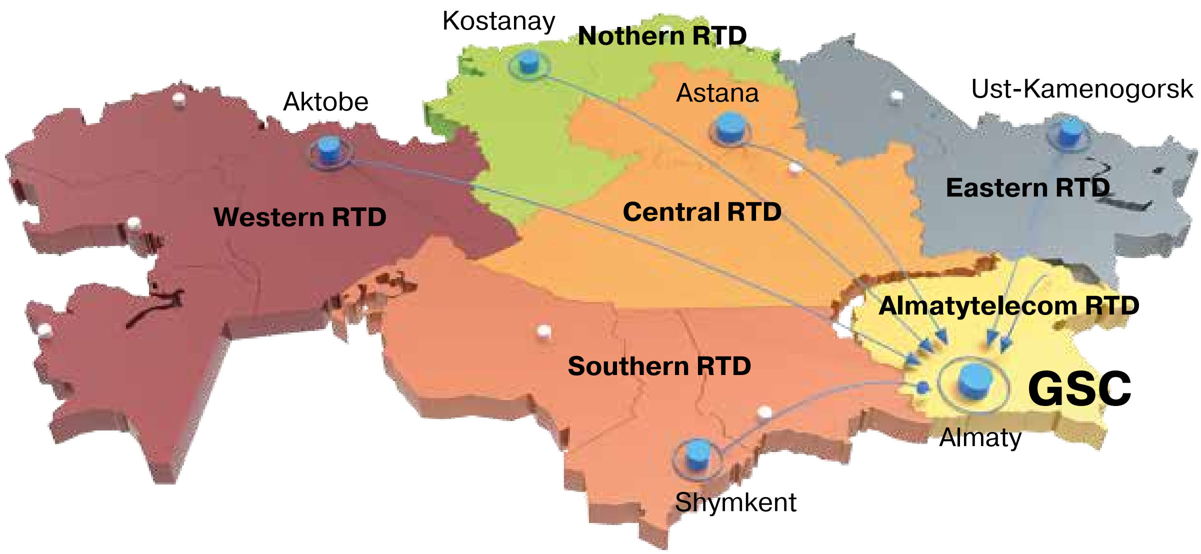
As a logical follow-up for formation of segment-oriented structure, B2B and B2C divisions have centralized a number of functions, such as contact-centers, receivables management, service management, marketing and advisory service. Operating processes and approaches have been unified and standardized due to these measures. In general, the past year was dedicated to formation of interaction processes both in divisions and with other subdivisions of the Company.

Picture 13. Effect on free cash flow for 2014–2018



Shared services centers (hereinafter referred to as SSC) for legal support and the financial SSC have been established, and that allowed standardization of processes and thus increasing productivity, reduction of time required for operations.

Administrative department and Property management service have been separated from the structure of the central office into newly created administrative SSC. This step is the beginning of consolidation of administrative and economic functions, transport support and property management. Thus, 5 SSC are currently in the structure of Long Distance Communication Association. It is planned to separate the SSC into the branch "Service factory", which will provide support for business of the Company as a whole.



In 2018 one of the key indicators included promotion of services FMS – converged end-to end solutions of fixed and mobile communications. During the year, the customer base has extended more than twofold, increasing from 398 thousand to 896 thousand.

It is important not only to sell, but also to keep our customers in a competitive environment. Reactive approaches have been revised and new proactive approaches have been developed for control of customer outflow. As a result, we have kept 200 thousand customers. Connection of tariff plans with annual contract has become an additional new tool for keeping customer base and guarantee of service consumption. Number of such connections amounted to 145 ths.

Vacation and sale of premises for KZT 1 bln have been performed in the framework of optimization of property management.

Implementation of projects of direction "New businesses" has been continued: Internet-retailer chocomart.kz and intermarket.kz sold products for KZT 550 mln in the project of e-commerce service development; coverage was extended to approximately 45 ths cameras to "Cloud- based video surveillance" platform on segments B2C/B2B/B2G, wireless a low-power wide-area networks LoRaWAN have been built in 14 cities of Kazakhstan.

Project "Open digital platform for small and medium business" is being implemented in the framework of the State program "Digital Kazakhstan". The platform is an aggregator of services required to ensure functioning of business throughout the life cycle of an enterprise. At the end of 2018 approximately 140 services were available on ismet.kz.

Operating results

Key achievements by products and segments

B2B

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

- fixed services;
- converged services;
- information and communications, including cloud services.

Fixed communication services in this segment include services of traditional telephony and broadband Internet access under Megaline Business and ID Net Business brands.

At year-end 2018, more than 20 thousand points have been connected into corporate networks in Kazakhstan and abroad by services of VPN (virtual private network) of Kazakhtelecom JSC. VPN services are the basis for establishment of distributed corporate networks for a large scope of businesses in the country and offer a wide range of opportunities of overlay network structure with L2- and L3-technologies.

Rafael Abykhanov
Chief B2B Officer – Chief Officer of B2B division of Kazakhtelecom JSC branch

"This year we summarized results of strategic cycle and dramatically reconsidered trends of the outgoing year. 2018 for us has become a year of transformation start for strengthening competitive advantages, including technological leadership and a diversified portfolio of services. Investments in infrastructure allow us to be one step ahead in terms of providing services to our customers. We have confidence about our future and successfully implement complex long-term projects with our strong team of professionals."

Intellectual services of Kazakhtelecom JSC are universal solution for B2B segment, which allows to organize operative collection or provision of any information by phone in automatic or semi-automatic mode, as well as to provide its customers with other additional services: free call, fee-based information service, TV voting.

Development of ready-made solutions for business included a large scope of preliminary work, including segmentation of the market of legal entities. For optimization of work, customers were divided into the following segments: state organizations, large corporate clients, medium business, small business, individual entrepreneurs.

It is important for Kazakhtelecom JSC as the leading telecommunication and infocommunication operator of Kazakhstan to be at the forefront of technology development and new services.

Offers of telecommunication services for the B2B segment within the segment-oriented model are focused on providing comprehensive solutions for the customer, developed with consideration of specifics of a legal entity, instead of offering services of a single type. In view of this, solutions for each segment were developed: from large corporate clients to individual entrepreneurs:

- end-to end solutions for medium and small business, including high-speed Internet access, telephony services, unlimited long-distance calls in Kazakhstan and in the network ALTEL/TELE2;
- service “Cloud-based video surveillance”: transport and data storage system – connection of customers’ camera to protected communication channel and cloud-based data storage with capacity up to 30 days;
- package “Universal number for business” – option for call forwarding from mobile phones and fixed-line numbers to mobile phone of a customer. The package includes unlimited calls and 4G Internet access;
- Wi-Fi for business enables managers and owners of business centers, restaurants, cafes, universities, schools, parks and other public places to provide their visitors with high-speed Internet, posting useful information, advertising, information about promotions and offers, while potentially increasing the loyalty of customers and visitors, customer traffic and own revenue;
- IT solutions for business with services: cloud webinar, cloud videoconferencing, data storage system, virtual number, Colocation.

In order to implement a flexible tariff policy for large corporate clients and medium businesses, the Company has implemented a mechanism for formation of product packages using the automated discount system module, which allows to take into account the interests of both customers and the Company. Ready-made SOHO package products have been developed and are distributed actively for small business and customers of SOHO segment.

Internet access services for public authorities are provided by centralized connection through a single gateway with maximum coverage of the territory: availability of services in more than 100 settlements of Kazakhstan.

In 2018 Kazakhtelecom JSC continued implementation of strategically important innovative projects in relation to B2B segment. The following services have been launched and put into commercial operation:

1. "Online access to cameras for video surveillance";
2. "Cloud-based information accounting and planning system for administrative and economic activities" (Cloud-based accounting);
3. "Connection to the common platform "Digital map of medicine of Kazakhstan";
4. Test-market sales of FMC services have been launched – One contact (fixed mobile convergence) – technology integrating fixed and mobile communications) with further transfer to commercial service;
5. In December 2018 the pilot project "Cash register leasing" was launched in Astana, Almaty, Shymkent with test-market sales of 300 CR.

In 2018 product "Video Surveillance platform and data storage system in B2B, B2G segments" was launched. In relation to this product Kazakhtelecom JSC and MUS "Municipal monitoring and response activity center" of Astana administration have signed the Memorandum on collaboration for implementation of the project "Municipal video surveillance system". Estimated up to 32,000 video cameras will be connected.

The result of further development of converged products is the launch of FMC solutions in B2B segment and M2M projects. These services for B2B segment include telephony, data transmission services for small and medium businesses and M2M solutions based on fixed and mobile networks. Mobile office, Cash register (FDR) services have been developed and introduced in this direction. According to the Decree of the Government of the Republic of Kazakhstan, Kazakhtelecom JSC is defined as a legal entity providing transfer of information on cash payments on an on-going basis to tax authorities through public telecommunications. In 2015 the project on introduction of cash register equipment with data transfer function was launched for the purpose of modernization of existing system of application of cash registers in the Republic of Kazakhstan, as well as for improvement of monitoring and analysis of cash transactions. Number of connected cash registers amounted to 156,073 CR at the end of 2018. In December 2018 the pilot project "Cash register leasing" was launched in Astana, Almaty, Shymkent. In order to extent the project for the whole country in the second quarter of 2019, it is planned to distribute approximately 3,000 cash registers under rate "Cash register leasing".

One of the main directions of the state program "Digital Kazakhstan" is the project "Smart City", and in the framework of this program Kazakhtelecom JSC, as an infrastructure operator, took an active part in the project "Smart Aqkol" jointly with partners Tengrilab LLP and Eurasian Group LLP. The main goal of the project is creation of a conceptual model "Smart City" on the basis of aggregation of information flows for establishment of cities managed by data.

The following activities have been implemented within the project by efforts of Kazakhtelecom JSC :

- 17.5 km of fiber-optic communication line has been laid to 9 social facilities (schools, hospital, District Department of Internal Affairs, municipal and district administrations (akimats), cultural center);
- public Wi-Fi (central square, school, hospital, total 34 connection points) has been arranged;
- Wi-Fi has been provided in municipal transport;
- complete coverage of LoRa network for reading 4,500 water meter counters has been provided;
- municipal video surveillance system has been arranged (62 cameras for public and road safety, 24 cameras for hall video surveillance);
- Smart Building system gas been installed in district administration (akimat) and School No. 1

- (smoke/fire sensors, door opening, motion sensors, video camera and sensor controller for data collection);
- environmental monitoring system (3 sensors record air pollution (SO_2), nitric oxide (NO), benzene (C_6H_6), nitric oxide (NO)) has been installed;
- automated system of remote traffic control (3 crossroads) has been installed; remote control of fire safety systems (8 facilities) have been installed.

In the framework of program “Digital Kazakhstan” situation center of Aqkol has been built, the center is equipped with required infrastructure for visualization of solutions for control of utilities, aggregation of reliable and timely data on urban resources, ensuring security.

The total area of the situation center is more than 400 square meters. The facility has been designed with use of the best world practices. The main premises of the center are: operational room for 9 operators, equipped with a video wall to display the most relevant information and a crisis room for more than 12 people with a video conference system for interdepartmental interaction.

Data aggregation and processing is carried out in the data processing center of Kazakhtelecom JSC of bunker type, which is unique and allows, without limitation, to reserve the necessary engineering infrastructure, to minimize the risks of forced penetration and data destruction. The bunker has been built underground as per high standards in 1973 in geographical distance from industrial zones.

Tengri Lab LLP has created the intellectual and analytics platform for data processing, data correlation and forecasting events. Furthermore, under the project the following facilities have been implemented:

- geographic information system consisting of 18 layers;
- access control and management systems in educational facilities;
- smart public lighting system, (250 lighting facilities);
- integration of industry and government information systems.

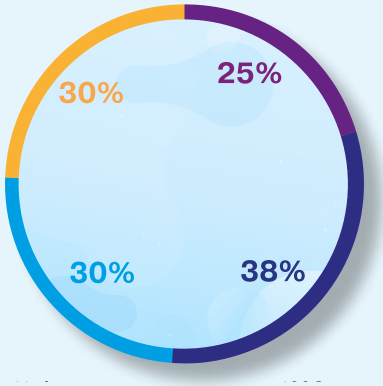
Urban mobile application for access to municipal services and messenger has been developed for simplification of communication between citizens and officers of administration (akimat) and municipal services.

It should be pointed out that in relation to Internet of Things Kazakhtelecom JSC has completed the first stage of the project on construction of the largest in the Central Asia network M2M/Internet of Things on the base of LORA and Zigbee technologies (network data cover all market segments of Internet of things: apartments, detached houses and entrances in B2C segment; street confines of the city, apartment houses, administrative buildings, industrial facilities and roads in B2B/B2G segment).

B2O

In operator segment (B2O) Kazakhtelecom JSC, providing services for connection of telecommunication networks and transmission of inter-network traffic, access to the Internet and renting channels, provides interaction of networks of communication operators of Kazakhstan, strictly adhering to the current legislation and principles of mutually beneficial partnership. The Company is committed to the preservation and development of competitive advantage factors – availability of required amount of network resources to connect the networks of operators and pass all kinds of traffic, an extensive telecommunications network built on modern digital equipment with high bandwidth capacity, providing high-quality and reliable service to operators and their subscribers. Over the past years, group of companies of Kazakhtelecom JSC constantly takes steps to ensure the competitiveness of Internet access services for ISP-providers of Kazakhstan and lease of main communication channels, with annual reduction of rates and improvements of reliability and quality, expanding the geography of transit services in Europe, Russia, Central Asia and China.

Picture 14. Kazakhtelecom JSC market share in operator segment



- Uzbekistan market is estimated at 400G of transit. Kazakhtelecom sales – 100G. Market share 25%
- Kyrgyzstan market is estimated at 180G of transit. Kazakhtelecom sales – 90G. Market share 38%
- transit market China-Europe through the territory of Kazakhstan is equal to 300G. Kazakhtelecom sales – 100G. Market share 30%
- total market volume 910G of transit, sales of Kazakhtelecom – 290G. Market share 30%

Kaspars Kukelis
Chief B2C Officer – Chief Officer of B2C Division of Kazakhtelecom JSC branch

“2018 was a year of establishment and start-up, a year with challenges for the B2C Division: highly competitive environment required adaptation of the business model, development of product packages that accurately satisfy needs of Kazakhstan people. This could not happen without significant changes in all areas of the B2C segment: from planning and finance, to sales and customer experience management. Significant basis was founded in 2018: unprecedented for Kazakhstan rate card has been launched, internal processes have been simplified and become more convenient for customers. These initiatives started in 2018, but B2C team has a lot of work to do in the coming years.”

B2C

In the retail market of communication services (B2C) Kazakhtelecom JSC provides innovative high-tech telecommunication solutions for end users in the following directions:

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

Fixed-line services

Fixed-line services include traditional telephony and broadband Internet access using advanced technologies. In this direction, the following services have been launched into the mass market B2C:

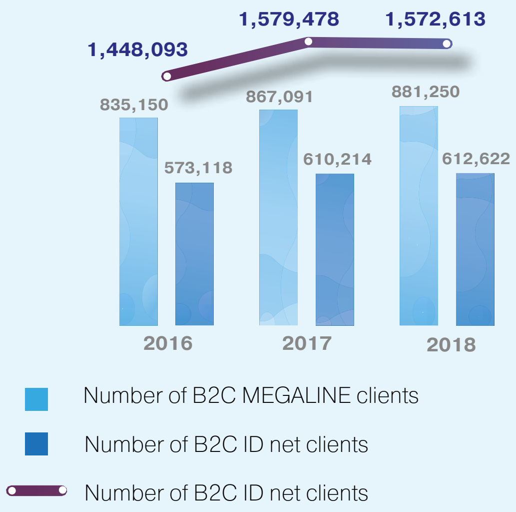
Virtual telephony

The service was launched in 2009, and now more than 150 ths. subscribers are connected to the service in all regions.

Broadband access to Internet

Access services have been available since 2005. At the present time the range of tariff plans for this service contains offers in various price segments, depending on parameters of the service. Kazakhtelecom JSC provides access to the Internet by high-speed FTTH technology with access speed up to 1 Gbit/s, which significantly exceeds the capabilities of competitors. According to data of 2018, more than 1.6 mln households in all cities and towns of Kazakhstan are connected to the service.

Picture 15.



Kazakhtelecom JSC also offers its subscribers Internet access service based on wireless solutions, such as WLL CDMA EVDO in rural settlements, Internet access via Wi-Fi technology in public places. Despite fixed mobile substitution, in 2018 Kazakhtelecom JSC preserves its leading positions by share of fixed-line service market in B2C segment – 94%. Now fixed telephony services of Kazakhtelecom JSC may be obtained with the package of unlimited calls in different regions of Kazakhstan and CIS countries. In the competitive environment, where subscribers move to mobile network as per world telecommunication market trends, customer base of broadband Internet access services of Kazakhtelecom JSC reached about 1.6 mln subscribers in 2018.

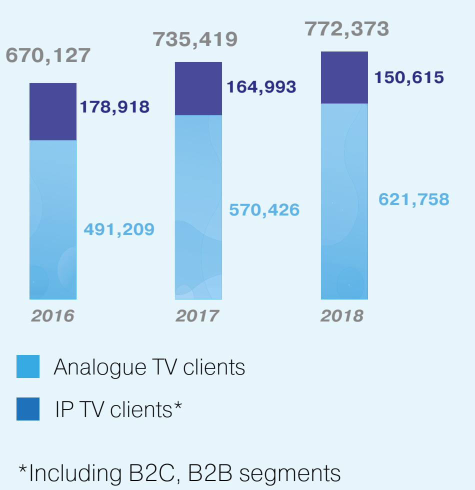
In order to increase ARPU of subscribers, revenue of the Company, as well as increase loyalty to the services, Kazakhtelecom JSC takes additional efforts for development of additional services and modernization of existing ones.

Pay TV services

In 2018 the Company continued to develop and promote digital TV services, including video by request and subscription, karaoke, HD TV package and online access to broadcast TV. In 2018 customer base of Pay TV services including B2B segment amounted to more than 770 thousand subscribers, of which more than 620 thousand subscribers are subscribers of digital television IP TV.

Development of this business area involves preservation of one of the leading shares in the market of paid TV from the one side, and from other side – ensuring implementation of principle of packaged offers (sale of package of services: high-speed Internet access, IP TV and telephone connection) through a wide range of service packages including integrated solutions, as well as provides growth of long-term competitive advantage through the integrated provision of content via different devices: Smart TV, mobile devices, personal computer, etc. with provision of wide range of TV channels and video content.

Picture 16.



Converged services

In 2018 the important driver of development of the Company was active development of convergence of fixed and mobile networks. In the framework

of partnership with Tele2/ALTEL, the required technological base for development of such services was provided. This direction is presented in the market by FMS products. Services "Universal number" and FMS are prominent representatives of convergence of fixed services with mobile

services, and erase the boundaries of perception of subscribers in relation to traditional communication. Number of subscribers connected to FMS service - more than 850 ths, that represents 3% of the mobile communication market or 84% of the convergence market.

Package solutions

In accordance with the trends of telecommunication market development and changes in preferences of users of communication services, Kazakhtelecom JSC focuses on the development of packaged offers.

According to the profile of services consumption in the B2C segment, significant groups were identified for which the structure of package solutions was developed taking into account the needs of each subscriber (household) and aimed at meeting the family needs of different micro-segments. The package structure contains basic fixed communication services with various technical parameters and its additional services (VAS).

At the end of 2018, the customer base of subscribers connected to the Supertelephone service packages, amounted to about 1,537,998, to the packages with broadband access services – 1,572,613, with TV services – 751,345.

Special attention should be paid to the new rate cards, which was launched at the end of 2018. In 2018 the Company adopted a new business model in the B2C segment, which allowed to change the Company's positioning in the market. New positioning is oriented on increasing customer lifetime value (CLV). Increase of such indicator of subscribers is achieved through introduction of a system of long-term contracts with customers, which provides mutual guarantees, not previously in place on the market. The Company provides the customer with the opportunity to obtain higher parameters and a list of services at affordable rates at the conclusion of a long-term contract. Customer secures long-term loyalty by a contract. Termination of contracts is not economically beneficial to both parties. Contracts with duration up to three years allows the Company to increase the customer lifetime value (CLV) significantly and to reduce costs for maintenance of customer base. The new business model and product line are aimed both at keeping and at attracting new users in the market. All packaged offers (packages) are formed by FMS principle.

The business model has been implemented by launching a new rate card from December 1, 2018. Additional features of the new rate card are as follows:

1. Arrangement of unique offers, which are not subject to copying by competitors (new packages of TV channels, high speed broadband access with Ftth technology: from 200 Mbps to 500 Mbps.);
2. Impressive price level aimed at attracting new users in the market;
3. Implementation of the system of guaranteed contracts on a long-term basis with the offer of a more valuable product by increasing the term of the contract;
4. Providing the subscriber with an independent option to choose additional services.

Also, Kazakhtelecom JSC actively develops information security services and expands the range and functionality of services. Additional agreement with RentSoft LLC has been concluded in relation to inclusion of Kaspersky Internet Security into existing rate cards of Kazakhtelecom JSC at the exclusive price. Manuals for installation/uninstallation and control of Kaspersky Anti-Virus for the purpose of simplification of representation of the product and unloading technical support.

New business areas

The new strategy is a digital business strategy

New business areas and products in the Internet of things (IoT) market

Internet of Things (IoT) technologies allow to obtain universal method for data collection and management of automated system components, saving labor costs. Internet of Things market in Kazakhstan is at a nascent stage and has significant potential for growth of telecommunication market. Considering main trends in Kazakhstan and the world, Kazakhtelecom JSC actively participates in formation of Internet of Things (IoT) market, which will be a key growth driver for IT-industry incomes the nearest ten years. Kazakhtelecom JSC estimates that by 2025 Kazakhstan will have about 100 mln devices connected to the Internet of Things, which will be 3.5-fold more than in the mobile market. The market volume in the country will reach USD 251 mln by 2025.

Taking into account the potential of Internet of Things market growth in Kazakhstan, in 2017 Kazakhtelecom JSC initiated 2 projects in this area for B2C and B2B/B2G segments:

1. Project on development of Smart Home product for B2C segment;
2. Project on development of Internet of Things products for B2B/B2G segment based on LoRa network.

The projects above cover all segments of Internet of Things market: apartments, detached houses and entrances in B2C segment; street confines of the city, apartment houses, administrative buildings, industrial facilities and roads in B2B/B2G segment.

Batyr Makhanbetazhiyev
Chief Strategy Officer
Kazakhtelecom JSC

“Kazakhtelecom JSC, the industry and Kazakhstan face challenges of the digital age. The economy of the whole country is in the process of transformation, and it requires transformation of our approaches to business. Establishment of “Digital Kazakhstan” means national implementation of several technological innovations, launching new business areas and significant transformation of the existing industry of telecommunications.

And we do so. From the strategical point of view the Company moves in thedirections founded in 2018: technologies of Internet of Things (IoT) have become key elements of our investments, and such directions as e-commerce and Fintech require a non-standard approach from the Company in relation to establishment of new businesses”.

Smart Home product for B2C segment

In 2018 the project on development and launch of Smart Home product for B2C segments was implemented, aimed at household security. In 2018 as part of the project cloud-based platform Smart Home was developed and launched, which allows to users of Smart Home products to control Smart Home devices in own houses through a special mobile application. Smart Home platform is designed for 5 mln devices and up to one mln unique users.

Furthermore, in the framework of the project, the mobile application Smart Home was developed, which is available for download and installment at Android and iOS devices.

Users of Smart Home services have special controller Smart Home with technology ZigBee and the following Smart Home devices installed in their households: video camera, motion sensors, door and window opening/closing sensors, smoke sensors. All Smart Home devices operate on internal battery and do not require power supply, as well as such devices are connected through wireless access technology ZigBee to personal controller Smart Home and do not require wired connection.

With use of cloud-based platform Smart Home and mobile application, users of Smart Home may watch video stream from cameras in an apartment in real-time mode, set various work and control scenarios of Smart Home devices, as well as to obtain notifications from sensors.

Internet of Things (IoT) products based on LoRa network for B2B/B2G segment

Furthermore, in 2018 Kazakhtelecom JSC implemented the first stage of the project on development of IoT products based on LoRa network for B2B/B2G segment. As part of the 1st stage, construction of the largest energy-efficient LPWAN network based on LORA technology in Central Asia has been started.

In 2018 97 LoRa base stations were installed covering all apartment buildings, buildings and rural settlements in Astana, Almaty, Shymkent and Aqkol.

In total, is is planned to install more than 400 LORA base stations in 19 cities, covering more than 30,000 apartment buildings, approximately 1.5 mln apartments and 6,926 square kilometers of urban area, in the framework of the project.

The advantages of the LoRa network is high scalability due to the large coverage radius (up to 25 km), long battery life of end devices (up to 10 years), and open nature of its protocol for a wide range of devices. This Internet of Things network will be the main infrastructure for implementation of solutions and products for the smart city:

- Smart Metering: automation of data collection from metering devices (water, electricity, gas, heat);
- Smart Lightning: smart lighting, remote control and monitoring of urban lighting;
- Smart Parking: smart parking;
- Smart Asset Management: smart management of city assets such as manholes, dumpsters, etc.

Project on development of smart city “Smart Aqkol”

In 2018 in the framework of main directions of the State program “Digital Kazakhstan”, Smart Aqkol project was implemented in Aqkol of Akmola region. In fact, Smart Aqkol is a demonstration platform of opportunities and solutions of Kazakhtelecom JSC for development of smart cities. Aqkol is the first city in Kazakhstan, where most of the available elements and solutions of smart cities are implemented.

Product “Cloud-based video surveillance” for B2C/B2B/B2G segments

In 2017 Kazakhtelecom JSC commenced implementation of the project on cloud-based video surveillance. The first stage of the project was oriented on preparation of the infrastructure in 8,911 entrance hallways and connection of 16,940 cameras to the cloud-based video surveillance platform, which ensures collection and storage of video data from cameras installed in hallways of apartment houses in 18 regions of Kazakhstan.

Advantages of cloud-based video surveillance include online access to video from a smartphone and other devices through developed mobile application and web-portal.

Furthermore, option to watch archive video records with a storage duration of up to 7 days is provided, security of video data storage in DPC of Tier 3 class and integration with OCC of MIA/DIA at the national, city and district levels. Territory of service provision: / Almaty, Nur-Sultan, Shymkent and 14 regional centers.

In 2018, the 2nd stage of the project was implemented, within the framework of which the resources and platform of “Cloud-based video surveillance” were expanded:

1. Coverage has been expended to 33,880 video cameras in 17,822 hallways in B2C segment;
2. Coverage of the B2B/B2B segment by cloud-based video surveillance cameras has been provided by over 11 ths cameras;
3. Video storage servers have been extended to about 12 Petabytes;
4. Network interface with the cloud-based video surveillance platform has been extended to 100 Gbit/s.

Thus, in 2018, ability to connect more than 45 thousand video cameras was provided.

Furthermore, product of cloud-based video surveillance was launched for B2B/B2G segments, and pilot projects with state authorities in relation to online access to video cameras, installed in public places, were implemented. In 2019, it is planned to increase the functionality of the platform, including customized characteristics and use of video analytics functionality.

Blockchain

In 2018 hardware and software system was implemented. This system represents four blockchain hardware nodes in Pavlodar, Aktobe, Shymkent, Karaganda, which operate under the control of the blockchain platform Hyperledger fabric. Also, within the framework of this project, a product for provision of computing and infrastructure resources of Blockchain under BaaS (Blockchain-as-a-Service) concept was formed. Furthermore, Kazakhtelecom JSC joined ALE “National Association of Blockchain and Cryptotechnology” in order to participate in the process of standartization of blockchain technology in Kazakhstan. In 2019, it is planned to put the Baas product into commercial operation.

E-commerce

At the end of 2017, Kazakhtelecom JSC completed the deal on acquirement of assets of online stores – chocomart.kz and intermarket.kz.

In 2018, the site was visited by more than 1 mln users, more than 30 thousand calls were processed. In order to develop these projects, works on increase of the range of products on the site from 30,000 to 40,000 products were carried out. Such categories as furniture, children goods, jewelry, flowers are connected. Large network partners of the country are connected. A separate brand book was created.

Technical integration with stores Homeshop and Forte Market was conducted. More than 3,000 products are presented on the showcase of the bank. Pick-up point of goods in the building of Kazakhtelecom JSC in Almaty was opened.

It is planned to expand the range of goods, establish cooperation with banks and redesign the site in 2019.

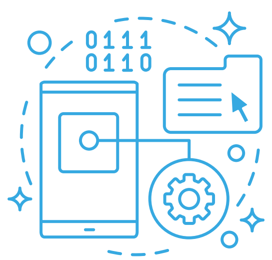
Ktstore – marketplace (platform for sellers of goods) has been developed by own means of Kazakhtelecom JSC. In 2018 a beta version of the product was developed, the product of Halyk Bank of Kazakhstan JSC – Home orange was integrated on the website. The layout of the showcase, personal account of the seller, technical infrastructure (CI, docker, ELK – monitoring) were developed. Marketing-kit for partners was created. Launch of ktstore is planned for the second quarter of 2019.

Fintech

Fintech is a payment system of ktpay developed by own means of Kazakhtelecom JSC.

In 2018, the MVP version of the electronic payment system was created. 406 services were implemented in ktpay product. Works on creation of a payment widget, an interface for accepting payments on various commerce platforms have been commenced. Security of the product was strengthened with 3D-secure code. Mobile application for iOS and Android was created. Works on authorization in the application using Touch ID/ Face ID were performed. Operation of the product is carried out in test mode.

Joint operation agreement for receiving payments has been concluded with Kazakhtelecom JSC. It is planned to introduce a widget on the website telecom.kz. Works on obtainment of license of payment organization are being carried out. Commercial launch is planned for the second quarter of 2019.



Telco Cloud

Kazakhtelecom JSC has commenced active development of technological and infrastructure projects in the framework of the Strategy for shareholder value increase. One of such projects includes “Migration of data transmission networks to SDN/NFV”, within which it is planned to create a new architecture, including replacement of a great number of nodes and OCC for high performance platform of virtualized network and computing services. In 2018 for these purposes 28 aggregation level switches were installed and connected for modernization of Metro Ethernet networks in Almaty, Atyrau, Shymkent, Taldykorgan and Kokshetau. Target architecture CORD (Central Office as a Data Center) was developed, which included server facilities OCP (Open Compute Platform) and plant Leaf & Spine. Operation of the virtual environment VIM based on RedHat OpenStack was checked and VNF (virtualized network function) – end services in the virtual environment were tested.

In 2018 bandwidth capacity of caching platforms was increased. Google Global Cache has been extended to 300Gb/s, and Akamai AANP – to AANP. Taking into account the connected cache cluster Facebook Network Appliance of 160 Gb/s, total cached traffic is about 500 GB/s and saves KZT 2.2 bln. It is planned to expand Google Global Cache and organize an interface with Amazon CloudFront service in 2019.

5G

In 2018 the Company commenced surveys in the field of development of 5G, signing the Memorandum on understanding on joint study of 5G technology capabilities with Samsung, and achieved agreements on pilot testing technologies jointly with Nokia corporation. Kazakhtelecom closely studies trends and considers 5G technology for creation of infrastructure services and new business opportunities. In 2018 works on active implementation of 5G technology in Kazakhstan were commenced:

- concept and plan of 5G testing in Kazakhstan were developed;
- frequencies and geographic locations for 5G testing were defined;
- agreement with the manufacturers to provide 5G equipment for testing was reached;
- testing of 5G Beamforming element (phase antenna array, forming a narrow beam) for application in fixed wireless networks 5G FWA was carried out.

Marat Abdildabekov
Chief Information Technologies Officer of Kazakhtelecom JSC

"Our future is in new development directions. All our projects and initiatives since 2018 are the key elements of the new strategy and the new Kazakhtelecom, an integrated digital service provider. We entered the e-commerce market, realizing that our value is the knowledge we have about the needs of our customers in the new economic realities. We strive to meet these needs, both in the market of end users, and in support to small and medium businesses, providing tools for interaction in the digital environment. Digital platform for small and medium businesses "ismet.kz", implementation of functions of the fiscal data operator, as well as the electronic payment system ktpay – our first steps to create a digital financial ecosystem based on big data and satisfaction the demand of customers and businesses in digital financial services."

Corporate information systems

As part of the automation of business processes of Kazakhtelecom JSC in 2018, centralization of Directories of the Company's branches was completed. CRM 2.0. was launched for order in 100 seconds. The distinctive features of CRM 2.0. include simplified user interface, possibility of flexible reconfiguration of the system without downtime, advanced integration with technical accounting systems change management system of telecommunications network (CMSTCN), billing, order management. As a result of launching of CRM 2.0, ordering time was reduced due to new model of data and optimization of user interface, control over data was increased, setting of product offer was centralized, control over connection of service package by segment, branch, sales channel.

Open digital platform for SMEs

In 2018 Kazakhtelecom JSC launched project "Open digital platform for business ISMET.kz". The project is implemented within the framework of initiatives on creation of information basis for Kazakhstani business and development of new businesses and markets by the infocommunication operator, introduction of digital marketing methods to provide customer- and segment-oriented approach to sales.

The platform aggregates digital services of Kazakhstan IT companies, which automate such processes as recruitment, partner search, document management, cash, accounting and tax accounting. Functionality for communications was implemented on ISMET.kz: blogs, section "Questions-answers", business news and informative articles on business topics. Also, IT Company, integrating its solution on ISMET.kz, has opportunity to enter the potential target market. The platform provides entrepreneurs with modern tools and knowledge for doing business. The portal aims at becoming a single resource for businessmen, whether it is a consultation, advice or software solution.

Digital map of medicine in Kazakhstan

In 2018 Kazakhtelecom JSC launched a new product for medical facilities into the market under the name "Digital map of medicine in Kazakhstan". The project is implemented based on cloud technologies. It integrates and standardizes the websites of medical facilities of Kazakhstan on a single platform. The main users of the service will be citizens of the Republic of Kazakhstan, for whom the portal will aggregate information about all medical facilities and physicians of the country with a system of ratings and reviews.

In 2018 the service was launched in pilot mode in 70 clinics of Kazakhstan.

Cloud-based accounting

Cloud-based accounting service was launched in 2018 in Pavlodar facilities. More than 100 schools and kindergartens are connected to the service. The system of cloud-based accounting automates accounting, personnel records and accounting of the population movement (students), which is most important in terms of introduction of per capita financing in education.

This service will allow bodies of state and local governance to obtain reliable and timely information on the results of financial and economic activities of educational institutions and the actual use of budgetary funds, with reference to students and teachers.

In 2019, the project is planned to be replicated in other regions of the Republic of Kazakhstan.

Single portal of Kazakhtelecom JSC – telecom.kz

At the end of 2018, the digital sales channel accounted for more than 15% of the total sales in the retail segment. Dynamics of visits to the site increased from a monthly figure 143,791 in August to 257,238 in December. In particular, on December 14, 2018, there was a peak daily attendance of 25,519 visits for the entire existence of the site. A new optimized design of the site was developed, the site map was optimized, which allowed search engines to see the resource as transparently as possible.

Online sales of new products and partner services were launched.

Big Data

The Project "Big Data" has been implemented in Kazakhtelecom JSC since 2018. A hardware and software complex for machine learning based on open source software has been launched, the main components of which are the subsystems Data Flow, Big Data Analytics System, Marketing Automation System and Event Processing System.

This project allows you to build a 360-customer profile, perform segmentation, targeting and identify the main interests of customers.

Joint IT and business subdivisions teams on data analysis were identified. Main priorities of 2018 included business cases for reduction of outflow, upselling, cross-selling of services of Kazakhtelecom JSC, e-commerce services, as well as issues of external data monetization.

Alexander Lezgovko
Chief Technical Officer of Kazakhtelecom JSC

“Digitalization of the country for us means, first of all, expansion of use of telecommunication services, thus we have launched project “Fiber-optic communication lines in rural settlements” as infrastructural basis for new digital economy. The main goal is to provide public and social facilities in rural area with services implemented under the project “Digital Kazakhstan”: for schools – access to educational content and projects offered by the Ministry of Education and Science of the Republic of Kazakhstan; for law enforcement authorities – ability to establish own corporate networks; for medical facilities – ability to use achievements of telemedicine and common information bases. All that is impossible where territories do not have telecommunication infrastructure, and, therefore, the public has not equal rights for use of all state services”.

Network infrastructure and communications

Project “Provision of broadband access by fiber-optic communication lines technology for rural settlements”

One of the key events of 2018 is the commencement of construction of fiber-optic communication lines under the project aimed at providing broadband access to rural settlements in accordance with the State program “Digital Kazakhstan”. It is planned to construct more than 15 ths. km of fiber-optic communication lines and connect almost 2.5 thousand public institutions in 828 settlements to the trunk channels within two years.

This is the first project of comparable magnitude implemented through the mechanism of public-private partnership: Kazakhtelecom as the private partner will build fiber-optic network, connect state facilities and state-funded organizations, provide services at its own expense by the end of 2020. Developed infrastructure may be used for provision of services to other market players, including through the provision of resources to mobile companies for construction of internal networks and rendering full scope of telecommunication services. By the end of 2018 Kazakhtelecom JSC provided connection of 27 SF/SFO in 7 rural settlements in the East Kazakhstan, Pavlodar, Aktobe and West Kazakhstan regions, constructed optical access networks to 79 SF/SFO in 27 rural settlements for connection in the first half of 2019. In addition design and survey works were commenced with development of DED for connection 1 352 SF / SFO in 462 rural settlements in the second half of 2019.

Development of the trunk transport network

In 2018 works on construction of the trunk network DWDM in the framework of the project on extension of bandwidth of the existing National information superhighway (NISHW):

- total capacity of external Internet channels was increased from 890 to 940 GB/s;
- Installed capacity of DWDM trunk network equipment was extended by 1 380 GB/s for extension of border transition, by 440 GB/s for pass of transit traffic, by 1 330 GB/s for pass of backbone data network traffic;
- DWDM control system software was updated, providing additional functional system options;
- Additional input/output structure at junctions ROADM was arranged in Karaganda, Pavlodar, Ust-Kamenogorsk, Taldykorgan, Taraz, Petropavlovsk, Kostanay to ensure traffic protection.

Backbone data network

Backbone data network was extended to 10 ports of 100G and to 296 ports of 10G. 1,497 channels with total bandwidth 585 Gb/s were arranged for B2O/B2B segments, and 300 channels with total bandwidth 1 Gb/s – for the B2G segment. Replacement for more productive core router of municipal networks of Pavlodar, Semey, Ust-Kamenogorsk, Kyzylorda was performed. / New equipment of municipal networks, supporting SDN technology, was installed in Atyrau, Kokshetau, Taldykorgan, Shymkent, and works on connection of access networks (DSLAM, MAD, etc,) to new equipment are being performed.

Introduction and development of IPTV service

- Network capacity was extended to 86,060 connection points to iDTV;
- New service has been introduced – remote connection of additional services IDTV (TV packages) through a call center;
- Servers for statistics collection have been updated;
- In Almaty IPTV Head End wase extended for receiving up to 40 TV channels in MPEG HD, FULL HD, 4K formats;
- Up to 70 HD channels are provided.

Local telecommunication networks

The local telecommunication network of the country is represented by 6,090 switching points (SP). Of which 3,158 SP are at urban telephone network (UTN), and 2,932 SP are at rural telephone network (RTN).

Total installed capacity amounted to 5,403,953 numbers, of which UTN capacity – 4,048,825 numbers, RTN – 1,355,128 numbers.

Kazakhtelecom JSC has also faced such world trend as abandoning fixed telephone lines, and negative growth of FL amounted to 447,087 units in comparison with the previous year, including 387,374 units by UTN, and 59,713 units – by RTN. Comprehensive measures carried out by the Company to prevent outflow, such as service bundling, improving service quality, switching telephony to the GPON network, allowed to keep an active subscriber base.

As of January 1, 2019, number of fixed lines amounted to 2,978,472 units, including 2,123,977 units by UTN, and 854,495 units by UTN.

In 2018 over 38 ths subscribers were switched from copper lines to FTTH network in the framework of optimization of telephone network of the Company. ATC-21 and RSU-238 were removed from service in

Ust-Kamenogorsk. By the end of 2018, the capacity of the broadband access network was increased by 116,433 ports and amounted to 2,420,855 ports, of which 41% is the capacity of GPON ports.

Providing rural schools with access to the Internet

At the end of 2018, out of 7,019 rural schools with a telephone line, 5,761 schools were connected to the Internet using broadband technology, including 75 schools in North Kazakhstan region and 40 schools in Kyzylorda region were provided with access to the Internet on the basis of radio access equipment with installation of switches at junction points.

Centralization of control of telecommunication

Project on centralization of control of telecommunication networks has been implemented in the framework of Orleu. Transformation program. At the end of 2018, automation level of the processes of the Unified network control center reached 95%, while labor productivity increased by 27%.

2018 is characterized by the qualitative development of management processes for changes in the telecommunication network (Change Management), elimination of damage of subscriber access network (incident Management) and, of course, quality management of telecommunication networks (Quality Management), along with the constant development of network performance management processes, resource accounting systems and troubleshooting of telecommunication network resources.

Effective operation of the three-level model of consistent specialization of personnel (Tier 1/2/3), established in accordance with the recommendations of TM Forum promote uniform distribution of the load on the staff and improves the quality of the network as a whole.

At the end of 2018, the average recovery time of the MTTR network decreased by 12% compared to 2017 and tends to decrease.

In fourth quarter of 2018 transition to seven-day service of subscribers in all regions of Kazakhstan was made without increase of personnel number in the framework of centralization of contact- centers. The average waiting time of a subscriber on the line decreased by 16% and amounted to 30 seconds. The efficiency of incident resolution has increased, which has led to a decrease in the number of claims filed by subscribers to the contact center “165” by more than 31%.

Implementation of technical solution for automatic activation/deactivation of TriplePlay services (high-speed Internet, digital TV and telephony as part of the packaged offer) on the basis of GPON equipment allowed significant reduction of terms for connection of such services for subscribers, as well as exclusion of errors of personnel in equipment configuration processes. The process of automatic activation of services is performed within one minute (instead of 4 hours in manual mode), which, of course, has a positive effect on the degree of customer satisfaction with the efficiency of work.

Management of mobile personnel

In the framework of the project "Management of mobile personnel", over one and half thousand of technical specialists – fitters and installers are equipped with mobile terminals, which allows them prompt processing of applications of subscribers online. Ensuring development of staff mobility has allowed to improve efficiency of tracking the progress of tasks and determine availability of specialists, that, in turn, made distribution works on the network more optimal.

In 2018 mobile personnel worked out more than 1 mln requests for installation of services and repair of damage. Application of this mechanism of technical staff management allowed to improve productivity of this category of specialists by 10%.

Centralized VCIP

Not less significant modernization stage of service provision included the development of the Centralized VCIP Data Base, being a common integrating hub for technical record systems. The resulting effect of VCIP development is represented by a significant reduction in the time of determining the technical possibility of providing services to subscribers on the optical network from 4–8 hours to 100 seconds in Almaty.

The local telecommunication network of the country is represented by

6,090
switching points (SP)

3,158 *SP*
are at urban telephone network (UTN)

2,932 *SP*
are at rural telephone network (RTN)

Total installed capacity AMOUNTED to

5,403,953 numbers

UTN installed capacity
4,048,825 *numbers*

RTN installed capacity
1,355,128 *numbers*

Total involved Capacity is:

3,074,653 numbers

UTN involved capacity
2,201,031 *numbers*

RTN involved capacity
873,622 *numbers*

Askhat Uzbekov
Chief Financial Officer
Kazakhtelecom JSC

"Financial stability of the Company is the key to the Company's survival in the market. Stable excess of income over expenses, free and efficient use of funds ensured sustainable development of the Company in 2018. The consolidated net profit of the Company in 2018 amounted to a record KZT 42.8 bln Kazakhtelecom JSC acquired controlling stock of Kcell JSC, that will allow to increase its share in the mobile market up to 64%, to increase business marginality and provide opportunities for its further growth. Maintaining the credit rating of Kazakhtelecom JSC at the level of "BB+" reflectsthe high level of creditworthiness of the Company, effective risk management and successful preservation of leading positions in the telecommunications market in the Republic of Kazakhstan".

Financial results

Key Financial Indicators

In 2018, the Company achieved positive results in implementation of the long-term strategy.

According to results of Kazakhtelecom JSC for 2018:

- the number of fixed lines in the network of Kazakhtelecom JSC amounted to 2,978,472 lines or 86.9% to the fact of 2017. The decrease in the number of fixed lines is due to abandoning fixed telephony services by users in favor of mobile communication, which corresponds to global trends;
- the number of broadband access subscribers amounted to 1,700,976 ports, or 101%, to the fact 2017;
- the number of paid TV subscribers amounted to 772,373 points or 105% to the fact of the last year, including ID TV – 621,758 points.

Consolidated revenues from the sale of services under Kazakhtelecom JSC amounted to KZT 222,726 mln, which is 6% higher than of the last year. The plan was fulfilled by 103.5%.

Consolidated net profit amounted to KZT 42,883 mln, which is 72% higher than the planned value.

Profit before taxes, interest on credit and depreciation – EBITDA is 14% higher than the planned value. As a result, **EBITDA** in 2018 amounted to KZT 79,887 mln with the planned value of KZT 69,376 mln.

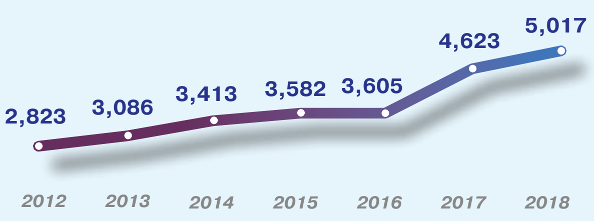
The **EBITDA margin level** of 35.9% exceeded the planned figures by 3.4%, which became possible due to implementation of the strategy aimed at improving efficiency of operating activities and cost optimization.

Consolidated expenses of the main activity of Kazakhtelecom JSC group of companies amounted to KZT 185,622 mln in the reporting period.

In 2018 **the amount of capital expenditure** in the group of companies of Kazakhtelecom JSC amounted to KZT 47,853 mln or 164.4% to the fact of the previous year. Imlementation of the plan was equal to 88.4%.

ARPU (average revenue per user) reached KZT 5,017.

Picture 17. Dynamic pattern of ARPU, 2012–2018 (KZT)



Credit rating dynamics

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

On December 18, 2018, International rating agency **Fitch Ratings** confirmed and placed ratings of Kazakhtelecom JSC and Kcell JSC in the list Rating Watch "Positive" upon signing of the agreement on acquirement of 75% of voting shares in Kcell JSC by Kazakhtelecom JSC. According to analysts of the agency, acquirement of a controlling stake in Kcell JSC improved the operational profile of Kazakhtelecom JSC and market positions of the Company. Strong position in the mobile segment will complement the leading position of the Company in the fixed-line segment, including broadband communication.

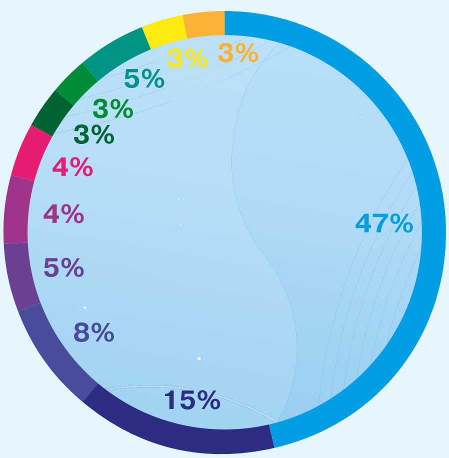
Standard & Poor's. In December 2018 upon signing of the Agreement for acquirement of 75% voting shares in Kcell JSC by Kazakhtelecom JSC, the credit rating of the Company was also confirmed by the agency as "BB+", outlook "Stable". The Agency noted that the transaction will allow Kazakhtelecom JSC group of companies to increase its share in the mobile market up to 64%, to increase business marginality and provide opportunities for its further growth.

Maintaining the credit rating of Kazakhtelecom JSC at the level "BB+" even after closing the transaction on acquisition of a share in Kcell JSC is a positive event reflecting the high level of creditworthiness of the Company, effective risk management and successful preservation of leading positions in the telecommunications market in the country.

Financial review

Consolidated revenues from distribution of services by Kazakhtelecom JSC amounted to KZT **222,726** mln for 2018.

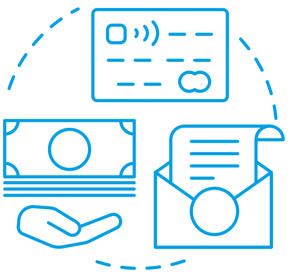
Picture 18. Revenue structure of Kazakhtelecom JSC group of companies



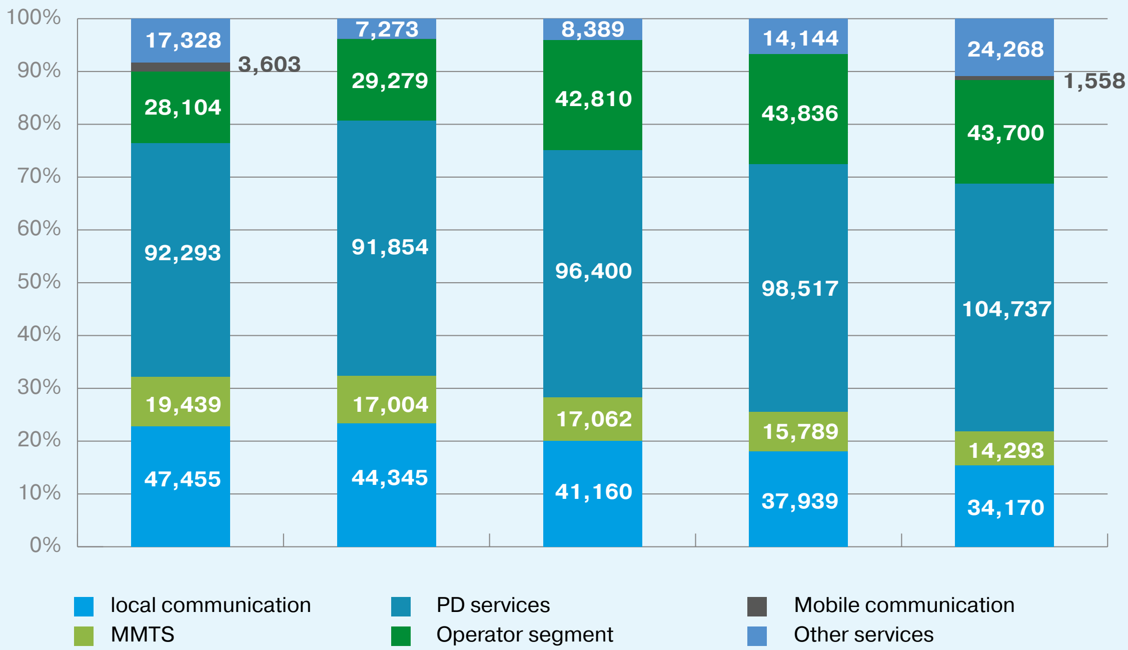
- Net of data transfer
- Local dialing
- Renting of transport channels
- Benefits on providing data transfer to communication operators
- Agreement with international operators
- Intercity international dialing
- Corporative info communication services
- Dialogues with clients of other operators, including mobile operators
- Other
- Benefits on providing of converged services (FMS/FMC)
- Benefits on agreement with communication operators, connected with Kazakhtelecom JSC

The largest relative share in 2018 belongs to revenues:

- from data transmission network services, the share in total revenue structure of Kazakhtelecom JSC amounted to 47.0%;
- from local telephone services, the share in the total revenue structure amounted to 15.4%;
- from leasing of the transport network channels, the share in the total revenue structure was 8.3%;
- from data transmission network services to communication operators, the share in the total revenue structure was 4.6%;
- under agreements with international operators, the share in the total revenue structure amounted to 4.0%;
- from long-distance and international telephone services, the share in the total revenue structure amounted to 3.6%.



Picture 19. Dynamics of the most significant revenue items for 5 years, mln KZT



Decrease of connections of fixed-line telephony and a decrease of voice traffic have been observed over last few years. As a result, the decline in growth rates of revenue from services of telephony services in the subscriber segment, due to:

- high level of penetration of mobile communication, low rates of mobile operators;
- the growing popularity of alternative types of dialing and substitute services (VoIP, Skype, WhatsApp, etc.).

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

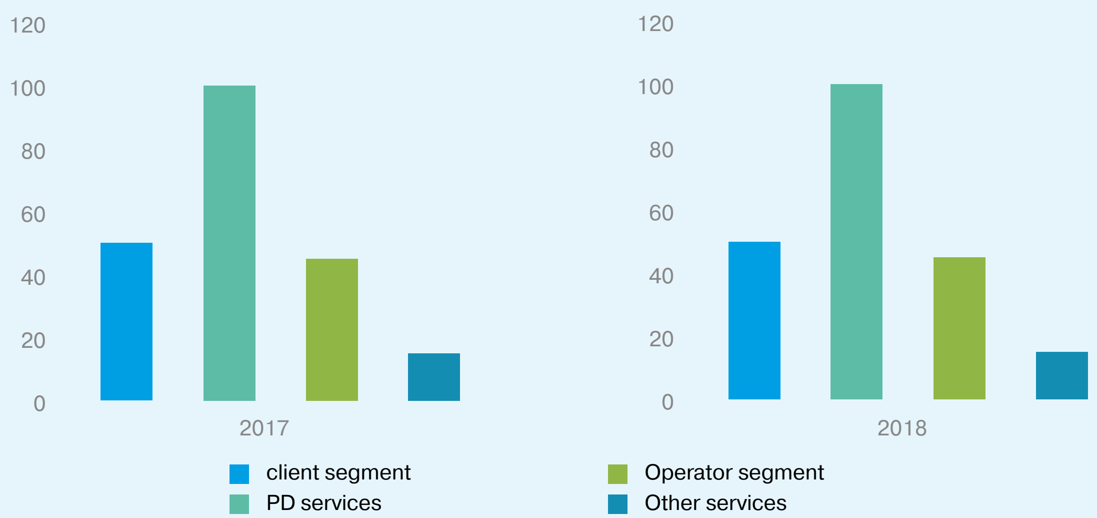
Kazakhtelecom JSC takes the following measures in order to compensate decrease of revenues from “aged” services and creation of balanced product portfolio:

1. Adherence to strategy of active growth and increase of market share in segments, where extensive growth is still possible, namely:
   - Pay TV services;
   - new services.
2. Timely implementation of additional services – it is, first of all, converged services, data center services, system integration, “Cloud-based computing” (SaaS, PaaS, etc.), content services for a wide range of users (thematic web-portals, mobile commerce, mobile marketing, multimedia content, etc.).

Revenues from new services, 2018

With the growth of penetration of broadband Internet access services and development of IT technologies, the manner of consumption of services has been changed. More and more customers tend to use voice services, using VoIP technology via Internet communication applications (Skype, WhatsApp, messengers), which affected the consumption of traditional telephony services. Data network services present the leaders.

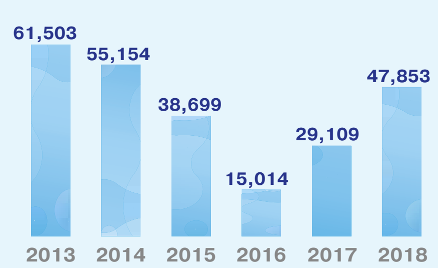
Picture 20. Changes in benefits` structure in 2018 related to 2017, mln KZT



Investment activity

In 2018, the portfolio of investment projects of Kazakhtelecom JSC, excluding subsidiaries and affiliates, amounted to about KZT 47.7 bln, and about KZT 35 bln was spent on technical development projects.

Picture 21. Investment dinamic, mln KZT



Kazakhstan content in procurement

In order to ensure procurement transparency, the procurement plan for the upcoming period and the long-term procurement plan, as well as information on the procurement and its results, are published on the e-procurement portal and the corporate portal of the joint-stock Company. In 2018, the group of companies of Kazakhtelecom JSC carried out procurement by open tender and request for quotes with reverse auction in the information system of electronic procurement (www.tender.sk.kz). In connection with the transition to a new platform of electronic procurement, since February 19, 2018, procurement from a single source and by method of requesting quotes, and since May 21, 2018, procurement by open tender have been carried out in the information system of electronic procurement on the new platform ISEZ 2.0 (ИСЭЗ 2.0), placed at: www.zakup.sk.kz.

The Company continuously monitors the indicators of local content in procurement through the information system "Electronic procurement plan and automated reporting system". The monitoring results are displayed in a visual form on the local content monitoring map (www.kmks.kz).

In total in 2018 the group of companies Kazakhtelecom JSC concluded 10,214 contracts for the amount of KZT 64,936 bln, and the local content was equal to 30.24% (goods for KZT 30,896 bln (LC share – 12.44%), works for KZT 16,491 bln (LC share – 58.31%), services – KZT 17,549 bln (LC share – 47.93%).

Share of goods in total procurement amounts to 47.6%, of works – 25.4%, of services – 27%.

In order to achieve indicators on local content, the Company carries out works on development of inter Company cooperation, giving priority to companies of the holding in procurement, to manufacturers of purchased goods, which listed in the register of holding manufacturers.

In 2018 the group of companies of Kazakhtelecom JSC continued work on support of previously concluded long-term contracts for the total amount over KZT 11,097 bln, and the local content was: in goods – 59.7%, in works and services – 94.7%. The purpose of long-term contracts is reduction of costs for goods, works and services, procurement of which is carried out on an annual basis, and development of relations with domestic manufacturers in part of procurement of goods produced in Kazakhstan, support in the development of new import-substituting goods, works and services.

06

Sustainable Development

96%

Employees covered by the collective agreement

9.8%

Labour turnover

19.8

The average number of training hours per 1 employee per year


THANK YOU

Sustainable Development Strategy

Kazakhtelecom JSC as a leading telecommunication Company makes a significant contribution to sustainable development of the country, contributes to the concept implementation for Kazakhstan's transition to a green economy and the Millennium Development Goals proposed by the United Nations.

The info-communication sector is becoming a fundamental element for the purpose of the society development, since it is here where technologies being introduced to create a comfortable living environment for people.

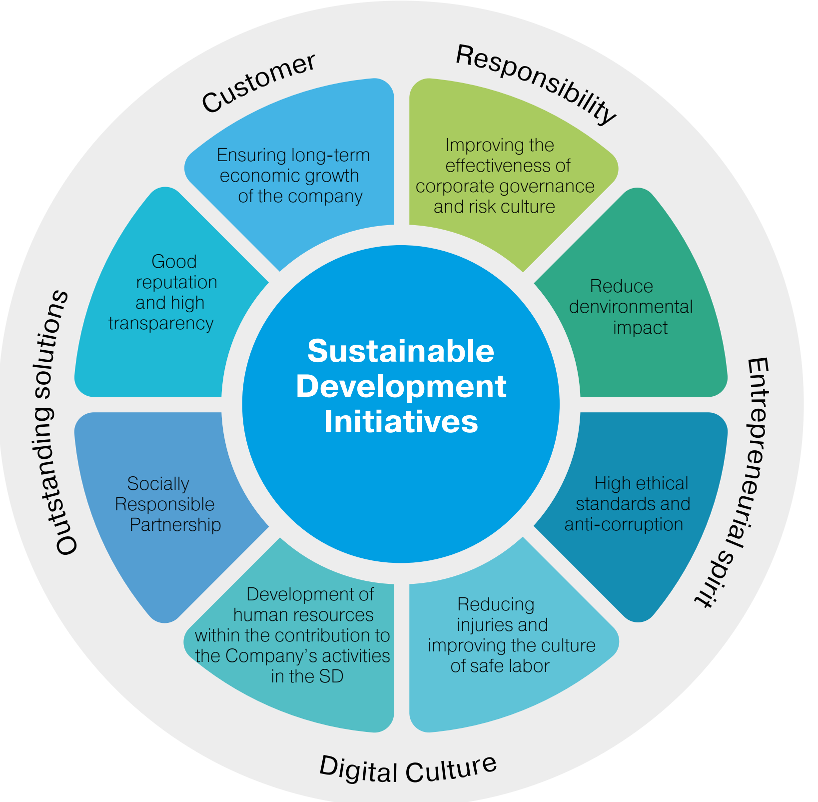
The starting point to determine the approach of sustainable development in Kazakhtelecom JSC is the triune model of sustainability, which equally includes economic stability, social development and the environment.

Kazakhtelecom JSC activities contributing to the long-term positive impact on all spheres of people's lives are following:

- distribution of broadband Internet technologies in rural settlements and an advance in digitalization level of the country;
- improvement of people life quality through the high-speed Internet technologies, telephony implementation, as well as provision of infrastructure for development of the Internet of Things (IoT) and other info-communication technologies;
- design and implementation of energy-efficient data transmission networks, provision of cloud storage and services that reduce the transport use, such as video conferencing software, interaction platforms, etc.;
- provision of data transfer and storage security for customers;
- Company's human resource development through the regular improvement of working conditions and advanced training of employees;
- reduction of negative impact on the environment, green technologies implementation,
- and improving energy efficiency as part of the implementation of own projects;
- constant monitoring of resource consumption and emissions of pollutants in accordance with the Environmental Code of the Republic of Kazakhstan.

Initiatives in the field of sustainable development

Kazakhtelecom JSC is a Company actively using sustainable development approaches in its activities. Activities aimed to improving the effectiveness of corporate management system in sustainable development in 2018, include a list of economic, social and environmental initiatives for sustainable development. The Company submits the Sustainability report under the international reporting standard GRI to the general public on an annual basis.



Personnel Administration

All efforts on this issue were aimed to improve the quality of service and efficiency of HR processes for the reporting year. A significant work was done on automation and optimization of business processes in personnel management. This way, the processes of recruitment, the conducting COR (career interview), the system of performance evaluation, setting KPI had been automated in the SSP unified information system.

In addition, the process of sending the workers on business trips was optimized by exclusion of a travel certificate. Branches of the Company had started the implementation of the project "Stop bureaucracy" allowing to review and optimize the internal documentation confirmation process in the Company.

All routine processes in personnel administration are transferring to HR SSC in order to improve the efficiency of personnel management and the concentration of employee activities on the main business processes. Thus, the HR SSC front offices were created in the branches of the Company in 2018, and their tasks include the following processes:

- maintenance of personnel profiles in electronic and paper basis,
- maintenance of employment history,
- keeping sheets of temporary disability,
- visa support.

The HR Department together with the HR SSC (shared service center) carried out a significant work to reduce the part of paper-based documentation in the personnel administration processes.

Therefore, the processes of employment contract termination, employee transferring process were automated; the application for leave was improved with reflecting vacation periods, balance of the leave days, that leading respectively to awareness of employees and reducing the number of appeals on emerging issues.

Work on automating business processes in SSC HR was continued, the integration of personnel management systems (PMS and SAP) was completed allowing to solve the problem of manual double-entry, minimize the risk of making mistakes, and reduce the time and labor costs for the process. In addition, the electronic registration of employment contracts had been introduced; the working time accounting and statistical reporting on vacancies have been automated. All these measures have improved the productivity of HR SSC employees.

Recruitment and Staff Adaptation

Revision of the task structure, selection of personnel, and function centralization had been carried out in the framework of the transformation of the HR function in 2018.

Function analysis demonstrated a low efficiency of the business process in the following areas: there were no due attention to the recruitment, no specialists to relevant competencies of the recruiter, no transparency in the process, and the process has been procrastinated. Based on the analysis, it was decided to centralize the recruitment function in the Shared service center for Personnel Management. In the period from April to August of the reporting year, a pilot project was conducted to centralize functions in the branches located in Almaty that demonstrated the success of the initiative. This initiative has been implemented in all branches of the Company in September.

The function centralization allowed to optimize and improve the efficiency of the recruitment in business process, to redirect the workers to solve more complex tasks and to improve the quality of the recruitment system. The transparency and objectivity of the recruitment procedure was improved, equal opportunities were provided for all candidates (regardless of age, gender, nationality and religion), process adaptability (maximum implementation of advanced technologies, process automation).

In addition, the project "PROtelecom" internship program was implemented within a framework of the Effective Personnel Management initiatives of the Orleu Transformation Program in 2018.

The student internship project considered the attracting talented young graduate students from the best universities of the Republic of Kazakhstan, creating an external personnel reserve, Kazakhtelecom JSC image creation as an attractive employer in the market, developing the institution of mentoring, improving cross-functional interaction of employees in the Company.

Students in profile and business specializations are involved to the trainings from universities of Almaty and Nur-Sultan. Each intern has a mentor from among highly skilled workers being key participants of the project.

According to the results of the project, the finalists were selected, who were hired, and 11 students were granted with scholarships by Kazakhtelecom JSC, and the top 5 mentors had been invited to study.

The Rules for the selection of employees of Kazakhtelecom JSC have been updated in order to ensure the effective selection of the most suitable candidates who meet the requirements of the qualifications, professional, business and personal qualities, as well as to form a highly professional, efficiently working team with a high level of motivation and ability to efficiently and operatively solve the tasks facing the Company by selecting both internal and external candidates. Special attention was paid to employees from the personnel reserve included in the replacement matrix.

Training

The Company is committed to ongoing personnel development in accordance with the new challenges of business transformation. Functional academies have been launched for purpose of targeted and pointed business training for employees within the framework of the Orleu Program in 2018 in the following areas:

1) “Sales Academy” Project is functioning, which is aimed to provide the employees of the commercial unit with business trainings (B2B, B2C);
2) “Technical Academy” Project has been created and launched. Job profiles have been developed for employees of the Main Telecommunication Network Operation Control Center and Unified Network Control Center T1 and T2, an assessment has been carried out, and training plans are being developed. A pilot project was launched for RTD (Regional Telecommunications Direction) to develop job profiles and conduct conformity assessment at the QCC (Quality Control Center) unit as part of the “Technical Academy” Project;
3) the profiling of positions has been carried out within the framework of the “Financial Academy” Project for the Financial Shared Services Centers (SSC), the Accounting and Reporting Department and the Financial Department of Central Office.

A modular training on Science and Coaching Art program had been conducted to train HRD branches and employees of the Department of Management and Personnel Development within the framework of HR initiatives of Orleu Program in order to build an effective personnel management system of Kazakhtelecom JSC.

Samruk-Kazyna JSC conducted training for top managers – chief and managing Directors of the Company, in order to improve the successful leadership skills in terms of business transformation and ongoing changes in the market within the implementation of the Road Map activities of the Transformation Program. This program is focused on an improving of integral leadership.

According to the results of the managers’ evaluation, a long-term “Manager-Leader” training program has been created and launched for top and middle managers of the Central Office and branches of the Company in order to improve management skills and create a CREDO system of corporate values.

The Company continues to operate a training system; the main components include internal training based on the Infocommunication Technologies Academy Directorate and distance training corporate system. Any employee of the Company is able to be involved to distance training by passing the courses presented in the electronic system, after which a certificate of training shall be issued.

Talent Management

As part of the implementation of instructions given by Samruk-Kazyna JSC and arising from the Personnel Management Strategy of Kazakhtelecom JSC, the Company is carrying out a "Talent Management" Project targeted to form and prepare the personnel pool as the main internal source of replacement of key positions of Kazakhtelecom JSC. This project is a tool to identify and keep talented employees with a high professional level. "Leadership school" operates in the framework of this project, in this program succession candidates passes staged training for development of management and leadership skills. Candidates of the Leadership school in 2016 have passed the 3rd stage of training, candidates of the Leadership school in 2017 have passed the 2nd stage of training, and candidates of the Leadership school in 2018 have started the 1st stage of the "Foundations of management skills" module program. During the reporting period, the total number of appointments amounted 25.7% (44 people) among candidates of Company. Key vacancies were taken by 24 succession candidates.

The Company has achieved the WOW-HR international prize for its talent management project in 2018.

"Z-telecom reload" forum of the youth organization of Kazakhtelecom had been hosted in Almaty in December 25. The participants had been assigned for CREDO projects, as well as other social projects.

New internal portal 4telecom

Following the values of DIGITAL CULTURE/Digital Culture, Kazakhtelecom JSC has created 4telecom.kz an internal corporate portal for employees. New functionality, actual design of the site with elements of a social network allows staff to achieve the specific information required for the work and to be in touch with the latest Company's news. Blogs of the Chairman of the Management Board and the Managing HR Director have been created on the portal. Thus, the Company's employees can easily ask questions and get answers from the heads of Kazakhtelecom JSC.

Environmental Protection

One of the important aspects of sustainable development is careful attitude to the environment. Despite the fact that the telecommunication industry is not considered as significant pollutant, Kazakhtelecom JSC constantly seeks to minimize the negative impact and improve the environmental management system.

A certification audit was successfully carried out for compliance with the environmental management system in accordance with the International Standard ISO 14001 and its Kazakhstan counterpart ST RK ISO 14001 in 2018. The audit was conducted by international auditors from TUV Nord.

Documented procedures have been developed allowing the quality environmental management of ecological aspects with the establishment of environmental goals and a program to achieve them as part of the environmental management implementation. Since 2018, cars have been transferred to gas as a motor fuel, as well as Autonomous heating systems has been transferred from diesel fuel to gas/Central heating. This will have a positive impact on reducing of pollutant emissions from autonomous and mobile pollutants in the future.

Kazakhtelecom JSC has created the following main directions for environmental protection:

- compliance with the requirements of the Environmental Code of the Republic of Kazakhstan and other regulatory legislation within the environmental protection;
- following the concept of sustainable development in the planning and implementation of the Company’s activities;
- constant improvement of the environmental management system.

Kazakhtelecom JSC implements energy-saving/energy-efficient projects based on LoRA and SDN networks by extending the advanced technologies in the telecommunication industry. As expected, all cities of Kazakhstan will be covered by these networks. The importance of such projects appears to be that they represent the basis for the development of Smart city, smart home, and other similar projects. The LoRA network has a unique combination of communication range and energy efficiency. Its difference from other networks is long battery life (10 years) with minimal maintenance costs. Smart metering (smart energy measurement) and Smart lighting are being implemented as a result of the of LoRA network extension. SDN (Software defined network) is a data network in which the level of network management is separated from data transmission devices and is implemented by software. One form of network virtualization reduces significantly the power consumption.

Health & Safety

The Company has a safety and health management system that provides constant methodological guidance, analysis and monitoring of the health and safety system. The system specified uniform requirements for the organization of occupational safety in accordance with the ILO OSH 2001 Guidelines for Labor Safety Management Systems, the International Standard OHSAS 18001:2007 and its Kazakhstan counterpart ST RK 18001:2008.

The main priorities of the Company in the field of industrial safety and labor safety are the creation of healthy and safe occupational conditions, a constant increase in safety level, a decrease in accident rates, industrial injuries, and occupational diseases.

The Company's activities within health and safety are conducted in accordance with the legislation of the Republic of Kazakhstan, as well as internal regulations and procedures specified the requirements for ensuring safe conditions and reducing occupational diseases and injuries:

- the Company shall carry out certification of workplaces with a frequency each 5 years. Thus, 3,638 workplaces had been certified for the period from 2014 to 2018;
- 11 corporate standards within the occupational safety had been updated by taking into account the changes in legal requirements and changes in the Company structure during the reporting year;
- Production councils had been created and operates in the branches of the Company, where the issues of health and safety are considered;
- medical examinations of mass profession workers and office workers are conducted on an annual basis. 16,785 workers were examined at medical centers;
- mass profession workers pass the training and regular test of acknowledge on health and safety annually. So, 15,447 employees of the Company passed training in 2018;
- mass profession workers of the Company, about 13,903 employees, pass instruction before to start work with registration in a log daily.

Once a year and every three years depending on the specialization of the employee, the Company conducts training and testing of acknowledge of industrial safety with the issuance of certificates for permit to certain jobs. Once every three years, the Company conducts training and testing of acknowledge of managers and responsible persons on occupational safety and health with the issuance of certificates.

Unscheduled briefings are held with all employees of structural divisions in case of accidents at work and under orders on compliance of production discipline, duties and safety measures in the all branches of the Company.

The contribution of Kazakhtelecom JSC in social development

Kazakhtelecom JSC takes a responsible approach to the issues of social security of our employees, maintaining the employee's confidence in the future. The Company interacts with representatives of employees on the principles of social responsibility towards a stakeholder represented by employees and fulfillment of contractual obligations under the Collective agreement, aimed at maintenance of decent life standard.

The social activity of Kazakhtelecom JSC is one of the important components of a corporate social responsibility of business, one of a key performance indicator in the field of a sustainable development of the Company. So, jointly with trade unions work on introduction of amendments into the Collective agreement of Kazakhtelecom JSC was carried out, which significantly improved social conditions for employees and pensioners of the Company for the reporting period. Kazakhtelecom JSC focuses on improving the quality of life of the population in places of presence by social and educational programs, transparency of its activities, reducing the negative impact on environmental issues.

The Company has developed and approved a corporate program for the implementation of social projects of Kazakhtelecom JSC for 2018–2021. The program includes internal projects of the Company such as the development of the volunteer movement, support for socially vulnerable employees, and external social projects, and cooperation with orphanages, charitable foundations.

Following the principles of sustainable development and the implementation of social goals of the Company, the Board of Directors of the Joint Stock Company has approved the Code of Business Conduct based on compliance risks in a new edition, which includes corporate values and business principles.

GLOSSARY

5G / LTE – high-speed wireless Internet technology of the fifth generation, which provides more efficient communication and access to data and communication services by increasing the speed of receiving/transmitting data and expanding the range.

ARPU (Average Revenue Per User) – average revenue per month per subscriber.

B2B (Business-to-Business) – a term denoting commercial relations between legal entities.

B2C (Business-to-Consumer) – a term denoting commercial relations between a legal entity and a consumer.

B2G (Business-to-Government) – a term denoting commercial relations between a legal entity and the state.

B2O (Business-to-Operators) – a term denoting commercial relations between a legal entity and a communication operator.

Big Data – processing of large amounts of data.

Blockchain – continuous chain of blocks containing information built according to certain rules. Most often, copies of block chains are stored on many different computers independently of each other.

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

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

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

FMC – One contact (fixed mobile convergence) – technology integrating fixed and mobile communications) with further transfer to commercial service.

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

GPON – Gigabit passive optical networks.

IoT (Internet of things) – a common name for technologies that allow devices embedded in individual objects, to send and receive information through the Internet (wired or wireless).

LoRa (Long Range) – a technology and modulation method of the same name. Wireless technology for long-range transmission of small data, designed for distributed telemetry networks, machine-to-machine communication and the Internet of things.

M2M (Machine-to-machine) – machine-to- machine interaction (machine-to-machine interaction) is a common name for technologies that allow machines to exchange information with each other or to transfer it unilaterally. It may include wired and wireless sensor monitoring systems or any device parameters.

SDN/NFV – software defined networking (Software –Defined Networks, SDN) and network functions virtualization (Network Function Virtualization, NFV).

VAS – Value-Added Services.

VPN (Virtual Privet Network) – a generalized name of technologies that enables to provide one or more network connections (logical network) on top of another network (for example, the Internet).

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ҚАЗАҚТЕЛЕКОМ

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

CONTENTS

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Independent auditor's report

To the Shareholders of
Kazakhtelecom JSC

Opinion

We have audited the consolidated financial statements of Kazakhtelecom JSC and its subsidiaries (hereinafter, the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition - accuracy of revenue recorded given the complexity of the billing systems	
There is a significant risk around the recognition and measurement of revenue from telecommunication services as the billing systems employed by the Group are complex, and effect of accounting treatment of changing tariff structures and multi-element arrangements could be significant. For that reason and additionally, due to the risks associated with the adoption of IFRS 15 "Revenue from contracts with customers" ('IFRS 15'), we identified revenue recognition and related disclosure as a key audit matter. The Group's disclosure in respect of the accounting policies on revenue recognition is included in Note 3 to the consolidated financial statements, and detailed revenue disclosures are included in Note 30 to the consolidated financial statements.	We evaluated the relevant IT systems and the design of controls, and tested the operating effectiveness of controls over capture and recording of revenue transactions; authorisation of changes in rates (tariffs) input to the billing systems; and calculation of amounts billed to customers. We performed substantive analytical procedures, including monthly fluctuations analysis and analysis of changes in key drivers of revenue, and compared financial and non-financial data. We analysed the accounting policy and disclosures in respect of revenue in light of the requirements of IFRS 15.
Valuation of non-current assets, including property and equipment, intangible assets and investment in an associate - risk of impairment	
There is a significant risk of impairment of the Group's non-current assets. Property and equipment and intangible assets, including goodwill, bear risk of impairment in light of fast technological changes in telecom industry. Investment in an associate Khan Tengri Holding B.V. bears the risk of impairment due to saturation of mobile telecommunications market in Kazakhstan.	Our audit procedures included, amongst others, evaluating and testing the assumptions used in the impairment model. We assessed methodology used by the Group, for compliance with IAS 36 requirements. We involved a valuation specialist to assist us with our procedures. We compared assumptions and data used by the Group to the historical data and current industry data. We specifically

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focused on the sensitivity of the testing, evaluated whether a reasonably possible change in assumptions could cause the carrying amounts of the cash-generating units to exceed its recoverable amounts.

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

Impairment testing of cash-generating units (CGUs) when impairment indicators are present is complex, based on highly judgmental assumptions, such as customer base and average revenue per user (ARPU), CAPEX and EBITDA margin during the forecast period, growth rate used to extrapolate cash flows beyond the forecast period, and discount rate.

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

The Group's disclosures about impairment testing of the non-current assets are included in Note 11 to the consolidated financial statements, which specifically explains that small changes in the key assumptions used could give rise to an impairment of the investment in an associate, property and equipment and intangible assets, including goodwill balances in the future.

Transactions with Mobile Telecom Services LLP

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

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

The disclosure of the transactions with Mobile

We assessed the process of identifying related party transactions. We read the agreements between the Group and Mobile Telecom Services LLP to understand the terms and conditions and the nature of the transactions and assessed the accounting treatment applied. We analyzed recognition and presentation of revenue from rent of LTE radiofrequencies in light of requirements of IFRS 15. We obtained confirmations from Mobile Telecom Services LLP on transactions and outstanding balances, compared disclosed significant terms of transactions to supporting

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

Provisional purchase price allocation assessment

In 2018, the Group acquired 75% interest in the share capital of Kcell JSC. This acquisition is disclosed in detail in Note 5. We considered assessing the provisional purchase price allocation to be one of most significance in the audit of the consolidated financial statements, due to the fact that the goodwill from this acquisition, represented by the excess of the remuneration paid over the fair value of the net assets of the acquired company in the amount of 54,656,742 thousand Tenge, significantly affected the Group assets. Determining the fair value of assets and liabilities obtained during business combination involves significant judgments and estimates by the management.	In the course of the audit procedures, we read the sale-purchase agreement between the Company and sellers of interests in Kcell JSC, and other transaction documentation necessary to record accounting entries on the business combination. We evaluated the methodology and assumptions behind the significant judgments involved in the determination of the provisional fair values of the identifiable net assets acquired. We involved our valuation specialists to assess the methodology and assumptions used by management to value certain categories of assets of the acquired subsidiary, and tested, on a sample basis, estimates of the fair values of assets and liabilities of the subsidiary acquired. We analysed management's assessment of the nature and value of separately identifiable intangible assets acquired. We assessed the presentation and disclosure of business combination in the consolidated financial statements.

Emphasis of matter

We draw attention to Note 4 to the consolidated financial statements which describes that the Group has previously issued consolidated financial statements for the year ended 31 December 2018, on which we expressed an unmodified opinion in our auditor's report dated 15 March 2019. The previously issued consolidated financial statements for the year ended 31 December 2018 authorised for issue on 15 March 2019 have been revised as disclosed in Note 4. This auditor's report on these revised consolidated financial statements supersedes our previously issued auditor's report. Our opinion is not modified in respect of this matter.

Other information included in the Group's 2018 Annual report

Other information consists of the information included in the Group's 2018 Annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2018 Annual report is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young LLP

Paul Cohn
Audit Partner

Rustamzhan Sattarov
Auditor

Auditor qualification certificate
No. МФ - 0000060 dated 6 January 2012

Dinara Malayeva
Acting General Director
Ernst & Young LLP

State audit license for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2, No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

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19 April 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

In thousands of tenge	Note	2018	2017 год**
Revised*	2017**		
Assets			
Non-current assets			
Property and equipment	8	**390,309,113**	259,021,612
Intangible assets	9	**176,542,542**	15,592,544
Advances paid for non-current assets		**765,088**	39,678
Investments in associates	10	**77,669,224**	69,246,140
Deferred tax assets	39	**246,884**	104,614
Costs to obtain a contract		**1,037,984**	–
Costs to fulfil a contract		**107,539**	–
Other non-current assets	14	**3,194,682**	2,453,521
Other non-current financial assets	13	**9,649,734**	9,457,306
		659,522,790	355,915,415
Current assets			
Inventories	15	**8,402,436**	3,014,872
Trade receivables	16	**52,173,348**	32,094,228
Advances paid	17	**1,416,363**	538,756
Indemnification assets	5	**10,913,899**	–
Corporate income tax prepaid		**1,849**	7,269
Costs to obtain a contract		**420,604**	–
Costs to fulfil a contract		**115,285**	–
Other current assets	19	**10,392,954**	1,624,022
Other current financial assets	18	**4,685,111**	62,133,687
Cash and cash equivalents	20	**45,350,092**	15,985,943
		133,871,941	115,398,777
Total assets		**793,394,731**	471,314,192

In thousands of tenge	Note	2018	2017 год**
Revised *	2017**		
Equity			
Shares outstanding	21	**12,136,529**	12,136,529
Treasury shares	21	**(6,464,374)**	(6,464,374)
Foreign currency translation reserve	21	**(15,157)**	(6,354)
Other reserves	21	**1,820,479**	1,820,479
Retained earnings		**373,429,312**	351,621,657
		380,906,789	359,107,937
		33.934.146	–
Non-controlling interests		**33,934,146**	–
Total equity		**414,840,935**	359,107,937
Non-current liabilities			

The accounting policies and notes on pages 145 to 267 are an integral part of these consolidated financial statements.

In thousands of tenge	Note	2018	2017 год**
Borrowings: non-current portion	22	**135,838,411**	24,967,690
Finance lease liabilities	23	**15,975,306**	7,681,118
Other non-current financial liabilities	25	**993,705**	260,431
Deferred tax liabilities	39	**38,897,126**	19,040,850
Employee benefit obligations	24	**14,471,353**	11,940,014
Debt component of preferred shares	21	**874,244**	874,244
Contract liabilities	26	**5,699,301**	–
Other non-current liabilities	26	**1,444,530**	5,361,847
		214,193,976	70,126,194
Current liabilities			
Borrowings: current portion	22	**57,614,129**	2,357,864
Financial lease liabilities: current portion	23	**6,754,019**	3,920,719
Other current financial liabilities	28	**18,853,954**	13,356,061
Employee benefit obligations: current portion	24	**1,334,417**	992,170
Trade payables	27	**42,147,405**	13,506,545
Current corporate income tax payable		**3,319,656**	91,891
Contract liabilities	29	**12,667,725**	–
Advances received		**–**	3,033,151
Obligation to pay a fine for termination of the contract	5	**14,551,865**	–
Other current liabilities	29	**7,116,650**	4,821,660
		164,359,820	42,080,061
Total liabilities		**378,553,796**	112,206,255
Total equity and liabilities		**793,394,731**	471,314,192

* Certain amounts shown here do not correspond to the consolidated financial statements for the year ended 31 December 2018 which were authorized for issue on 15 March 2019, and reflect adjustments made, refer to ***Note 4.***
** The Group has initially applied IFRS 15 and IFRS 9 using the cumulative effect method. Under this method, the comparative information is not restated. See ***Note 3.***

Chairman of the Management Board — Yessekeyev K.B.

Chief financial officier — Uzbekov A.A.

Chief accountant — Suleimanov Y.E.

The accounting policies and notes on pages 145 to 267 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

In thousands of tenge	Note	2018	2017*
Revenue from contracts with customer	30	**216,542,790**	203,057,540
Compensation for provision of universal services in rural areas	31	**6,183,581**	7,167,685
		222,726,371	210,225,225
Cost of sales	32	**(154,015,612)**	(151,676,716)
Gross profit		**68,710,759**	58,548,509
General and administrative expenses	33	**(23,311,666)**	(21,452,350)
Impairment losses on financial assets	42	**(3,907,083)**	–
Selling expenses	34	**(4,387,521)**	(3,802,172)
Operating profit		**37,104,489**	33,293,987
Share in profits of associates	10	**7,860,084**	1,098,368
Finance costs	36	**(7,349,641)**	(7,825,754)
Finance income	36	**3,067,029**	4,125,054
Net foreign exchange gain loss	37	**10,591,474**	(633,942)
Gain on disposal of property and equipment		**321,632**	311,074
Other income	38	**4,358,724**	4,427,650
Other expenses	38	**(1,962,895)**	(1,859,771)
Profit before tax		**53,990,896**	32,936,666
Income tax expenses	39	**(11,107,580)**	(8,218,845)
Profit for the year		**42,883,316**	24,717,821
Profit attributable to:			
Equity holders of the Parent		**43,067,365**	24,717,821
Non-controlling interests		**(184,049)**	–

The accounting policies and notes on pages 145 to 267 are an integral part of these consolidated financial statements.

In thousands of tenge	Note	2018	2017*
Other comprehensive loss			
Other comprehensive loss to be reclassified to profit or loss in subsequent periods (net of tax)			
Foreign exchange differences from translation of financial statements of foreign subsidiaries		**(8,803)**	(4,397)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		**(8,803)**	(4,397)
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods (net of tax)			
Actuarial losses on defined benefits plans, net of tax	24, 39	**(2,512,956)**	(5,037,715)
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		**(2,512,956)**	(5,037,715)
Other comprehensive loss for the year, net of tax		**(2,521,759)**	(5,042,112)
Total comprehensive income for the year, net of tax		**40,361,557**	19,675,709
Profit attributable to:			
Equity holders of the Parent		**40,545,606**	19,675,709
Non-controlling interests		**(184,049)**	–
		40,361,557	19,675,709
Earnings per share			
Basic and diluted, net profit for the year, tenge	21	**3,914.04**	2,250.11

* The Group has initially applied IFRS 15 and IFRS 9 using the cumulative effect method. Under this method, the comparative information is not restated. *See Note 3*.

Chairman of the Management Board	Yessekeyev K.B.
Chief financial officier	Uzbekov A.A.
Chief accountant	Suleimanov Y.E.

The accounting policies and notes on pages 145 to 267 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

In thousands of tenge	Shares outstanding	Treasury shares	Foreign currency translation reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	Attributable to equity holders of the Parent							
Note	21	21	21	21				
At 1 January 2017	12,136,529	(6,464,374)	(1,957)	1,820,479	336,306,933	343,797,610	–	343,797,610
Net profit for the year	–	–	–	–	24,717,821	24,717,821	–	24,717,821
Other comprehensive loss	–	–	(4,397)	–	(5,037,715)	(5,042,112)	–	(5,042,112)
Total comprehensive loss	–	–	(4,397)	–	19,680,106	19,675,709	–	19,675,709
Dividends *(Note 21)*	–	–	–	–	(4,365,382)	(4,365,382)	–	(4,365,382)
At 31 December 2017*	12,136,529	(6,464,374)	(6,354)	1,820,479	351,621,657	359,107,937	–	359,107,937
At 1 January 2018	12,136,529	(6,464,374)	(6,354)	1,820,479	351,621,657	359,107,937	–	359,107,937
Change in accounting policy due to application of IFRS 15 and IFRS 9 *(Note 3)*	–	–	–	–	(1,244,742)	(1,244,742)	–	(1,244,742)
At 1 January 2018 (restated)	12,136,529	(6,464,374)	(6,354)	1,820,479	350,376,915	357,863,195	–	357,863,195
Net loss for the year	**–**	**–**	**–**	**–**	**43,067,365**	**43,067,365**	**(184,049)**	**42,883,316**
Other comprehensive loss	**–**	**–**	**(8,803)**	**–**	**(2,512,956)**	**(2,521,759)**	**–**	**(2,521,759)**
Total comprehensive income	**–**	**–**	**(8,803)**	**–**	**40,554,409**	**40,545,606**	**(184,049)**	**40,361,557**
Dividends *(Note 21)*	**–**	**–**	**–**	**–**	**(17,502,012)**	**(17,502,012)**	**–**	**(17,502,012)**
Non-controlling interests *(Note 5)*	**–**	**–**	**–**	**–**	**–**	**–**	**34,118,195**	**34,118,195**
At 31 December 2018	**12,136,529**	**(6,464,374)**	**(15,157)**	**1,820,479**	**373,429,312**	**380,906,789**	**33,934,146**	**414,840,935**

* The Group has initially applied IFRS 15 and IFRS 9 using the cumulative effect method. Under this method, the comparative information is not restated. *See Note 3*.

Chairman of the Management Board ____________ Yessekeyev K.B.

Chief financial officier ____________ Uzbekov A.A.

Chief accountant ____________ Suleimanov Y.E.

The accounting policies and notes on pages 145 to 267 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2018

In thousands of tenge	Note	2018	2017*,**
Operating activities			
Profit before tax for the period		**53,990,896**	32,936,666
Adjustment for:			
Depreciation of property and equipment	32, 33	**35,546,828**	40,096,546
Amortisation of intangible assets	32, 33	**3,329,003**	3,054,440
Loss from impairment of property and equipment and intangible assets	38	**1,169,713**	1,246,347
Change in deferred income		**–**	2,639,160
Unrealised foreign exchange (gain) / loss, net		**(6,405,452)**	1,447,704
Changes in employee benefit obligations		**126,551**	(585,721)
Impairment losses on financial assets	33, 42	**3,907,083**	882,403
Write-down of inventories to net realizable value	33	**30,673**	13,729
Share in profits of associates	10	**(7,860,084)**	(1,098,368)
Finance costs accrued	36	**7,349,641**	7,825,754
Finance income accrued	36	**(3,067,029)**	(4,125,054)
Gain on disposal of property and equipment		**(321,632)**	(311,074)
Changes in operating assets and liabilities			
Change in trade receivables		**(5,602,091)**	(7,940,071)
Change in inventories		**262,303**	1,455,123
Change in other current assets		**(4,152,583)**	1,295,230
Change in advances paid		**888,909**	(239,724)
Change in trade payables		**(318,020)**	1,432,917
Change in costs to obtain a contract and costs to fulfil a contract		**(375,931)**	–
Change in contract liabilities		**906,894**	–
Change in advances received		**–**	198,045
Changes in other current liabilities		**283,619**	1,274,880
Cash flows from operating activities		**79,689,291**	81,498,932
Income tax paid		**(11,211,037)**	(9,129,857)
Interest paid	42	**(3,788,368)**	(7,923,012)
Interest received		**1,661,720**	1,778,771
Net cash flows received from operating activities		**66,351,606**	66,224,834
Investing activities			
Purchase of property and equipment		**(19,615,661)**	(20,330,697)
Purchase of intangible assets		**(2,875,572)**	(652,798)
Proceeds from sale of property and equipment		**1,534,246**	696,344
Acquisition of subsidiary, net of cash received	5	**(158,819,914)**	–
Placement of deposits		**(12,196,800)**	(64,648,712)
Return of cash on deposits		**74,525,196**	49,519,792
Issuance of a covered bank guarantee	18	**(7,411,000)**	–
Issue of long-term loans to employees		**(2,858,020)**	(2,146,515)
Repayment of loans to employees		**394,960**	421,838
Investments in associates	10	**(563,000)**	(986,980)
Return of funds of covered bank guarantee	18	**7,608,800**	50

The accounting policies and notes on pages 145 to 267 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of tenge	Note	2018	2017*,**
Financial aid repaid		–	2,000
Net cash inflow from subsidiary disposal (QazCloud LLP)	6	–	30,170
Net cash flows used in investing activities		**(120,276,765)**	(38,095,508)

In thousands of tenge	Note	2018	2017*,**
Financing activities			
Borrowings received	42	**100,000,000**	–
Borrowings repaid	42	**(2,029,593)**	(28,009,799)
Dividends paid on common and preferred shares	21	**(16,996,235)**	(4,299,346)
Repayment of finance lease liabilities	42	**(3,697,239)**	(3,162,706)
Net cash flows received from / (used in) financing activities		**77,276,933**	(35,471,851)
Effect of exchange rate changes on cash and cash equivalents		**6,519,140**	(992,474)
Effect of changes in expected credit losses	20	**(506,765)**	–
Net change in cash and cash equivalents		**29,364,149**	(8,334,999)
Cash and cash equivalents, as at 1 January		**15,985,943**	24,320,942
Cash and cash equivalents, as at 31 December	20	**45,350,092**	15,985,943

* The Group has initially applied IFRS 15 and IFRS 9 using the cumulative effect method. Under this method, the comparative information is not restated. *See Note 3.*

** Some of the amounts shown in this column are not consistent with the consolidated financial statements for the year 2017, as they reflect the adjustments made, as detailed in *Note 4.*

Disclosure of significant non-cash transactions is presented in *Note 40.*

Chairman of the Management Board — Yessekeyev K.B.

Chief financial officier — Uzbekov A.A.

Chief accountant — Suleimanov Y.E.

ҚАЗАҚСТАН РЕСПУБЛИКАСЫ АЛМАТЫ ҚАЛАСЫ АКЦИОНЕРЛІК ҚОҒАМЫ • КАЗАХТЕЛЕКОМ

The accounting policies and notes on pages 145 to 267 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

1. GENERAL INFORMATION

Kazakhtelecom JSC (the "Company" or "Kazakhtelecom") was established in June 1994 in accordance with the legislation of the Republic of Kazakhstan.

The Company is incorporated, domiciled and operates in the Republic of Kazakhstan. The legal address of the Company is: 12 Sauran Str., Nur-Sultan, 010000, Republic of Kazakhstan.

The Company is controlled by the Government of the Republic of Kazakhstan through Sovereign Wealth Fund "Samruk-Kazyna" JSC ("Samruk-Kazyna" or the "Parent"), which owns 51% of the Company's controlling shares. Below is a list of the Company's shareholders as at 31 December 2018:

	At 31 December 2018	At 31 December 2017
Samruk-Kazyna	51.0%	51.0%
SKYLINE INVESTMENT COMPANY S.A.	24.5%	–
ADR (The Bank of New York – depositor)	9.2%	9.2%
Alatau Capital Invest LLP	3.7%	3.7%
United Accumulative Pension Fund JSC	3.4%	3.4%
Deran Investment B.V.	2.0%	2.0%
SOBRIO LIMITED	–	24.5%
Other	6.2%	6.2%
	100%	100%

The Company is included in the register of natural monopolists in relation to transit traffic services provided to telecommunication operators, public switch telecommunication network ("PSTN"), connection services provided to third party telecommunication operators, and rental of phone channels to telecommunication operators for connection to PSTN.

The Company and its subsidiaries listed in ***Note 6*** (hereinafter collectively referred to as the "Group") have a significant share of the fixed line communication market, including local, long-distance intercity and international telecommunication services including CIS and non-CIS countries; and also leases out lines and provides data transfer services, as well as wireless communication.

These consolidated financial statements of the Group were approved for issue by the Chairman of the Management Board on behalf of the Management of the Company on 9 April 2019.

2. BASIS FOR PREPARATION

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (hereinafter, “IFRS”), as issued by International Accounting Standard Board (hereinafter, “IASB”).

These consolidated financial statements have been prepared on a historical cost basis, except as described in the accounting policies and the notes to these consolidated financial statements. The consolidated financial statements are presented in Kazakhstan tenge (“tenge”) and all amounts are rounded to the nearest thousand, except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include financial statements of the Kazakhtelecom JSC and its subsidiaries as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- Voting rights or potential voting rights belonging to the Group.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control over subsidiary. Assets, liabilities, revenue and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group obtains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies. All intra-group assets and liabilities, equity, revenue, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New and amended standards and interpretations

The Group applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued, but are not yet effective.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group adopted IFRS 15 using the modified retrospective method of adoption to not completed contracts at the date of initial application in its consolidated financial statements.

The comparative information for each of the primary financial statements is presented based on the requirements of IAS 11, IAS 18 and related Interpretations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

The cumulative catch-up adjustment to the opening balance of retained earnings as at 1 January 2018 is recognised in the consolidated statement of changes in equity for the year ended 31 December 2018. The information on this adjustment is disclosed as follows:

In thousands of tenge		**Adjustments**
Non-current assets		
Costs to obtain a contract	(d)	649,182
Costs to fulfil a contract	(b)	61,515
Total non-current assets		710,697
		710.697
Current assets		
Costs to obtain a contract	(d)	420,604
Costs to fulfil a contract	(b)	174,180
Total current assets		594,784
Total assets		**1,305,481**
Equity		
Retained earnings	(b), (c), (d)	731,690
Total equity		731,690
Non-current liabilities		**731.690**
Deferred tax liabilities	(b), (d)	261,096
Other non-current liabilities	(c)	(5,215,862)
Contract liabilities	(c)	5,360,104
Total non-current liabilities		405,338
Current liabilities		
Other current liabilities	(c)	(1,207,937)
Advances received	**(c)**	**(3,033,151)**
Contract liabilities	(c)	4,409,541
Total current liabilities		168,453
Total liabilities		573,791
Total current liabilities		**168,453**
Total liabilities		**573,791**

The Group's activities mainly relates to the provision of data transmission services, local, intercity and international calls, interconnect / traffic transmission of other operators and rent of channels.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(a) Rendering of services

Interconnection fees from domestic and foreign telecommunication operators are recognized when the services are rendered based on the actual minutes of traffic transferred through the network.

Revenue from international and intercity calls and calls to local operators are recognized at the time the call is made over the Group's network.

Subscription fees, consisting primarily of monthly charges for access to broadband and other internet services or voice services, are recognised as revenue over time on a straight-line basis. Revenue from dial up internet is recognized based on the actual airtime provided to the customers.

Revenue from the rental of analogue and digital channels and private circuits as well as wholesale access revenue is recognised on a straight-line basis over the period to which it relates.

Non-refundable upfront fees received for initial connection of new subscribes to fixed line and wireless networks are recognized during the expected period of the customer relationship. The expected period of the customer relationship is based on past history of customer period and industry practice.

Application of IFRS 15 to service contracts does not affect the Group's revenue and profit and loss, except the points described in Note (b), (c) and (d) below.

(b) Costs to fulfil a contract

The Group provides internet and other data transfer services and equipment to the subscribers to use these services, such as modems, routers and others.

Based on the analysis of the current operating indicators, the Group concluded that equipment that cannot be used by the subscriber separately from the Group's services is not a separate performance obligation.

Under IFRS 15, the Group capitalized the cost of the equipment provided free of charge as costs to fulfil a contract and charged this to retained earnings. The costs to fulfil a contract amortizes over the period the services are provided to the customers.

The statement of financial position at the date of transition to IFRS 15 (1 January 2018) was restated, resulting in: increases in current and non-current portions of the costs to fulfil a contract amounting to KZT 174,180 thousand and KZT 61,515 thousand, respectively; increase in deferred tax liabilities amounting to KZT 47,139 thousand; and increase in retained earnings amounting to KZT 188,556 thousand.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

(c) Advances received from customers

The Group receives mainly short-term advances from its customers. Upon the adoption of the IFRS 15, for short-term advances, the Group used the practical expedient. As such, the Group will not adjust the promised amount of the consideration for the effect of a financial component in contracts, where the Group expects, at contract inception, that the period between the time the customer pays for the service and when the Group transfers that promised service to the customer will be one year or less.

The Group also receives long-term advances for activation of connection to the international network. Prior to the adoption of IFRS 15, the Group presented these advances as deferred income in the statement of financial position. No interest was accrued on the long-term advances under the previous accounting policy. The Group concluded that there is a significant financing component for those contracts. Upon adoption of IFRS 15, the Group recognized contract liabilities for the interest on the advances received from customers with a significant financing component and charge this to retained earnings. In addition, reclassifications have been made from deferred revenue to contract liabilities for the outstanding balance of advances from customers.

The statement of financial position at the date of transition to IFRS 15 (1 January 2018) was corrected, resulting in: increase in current and non-current portion of contract liabilities amounting to KZT 4,409,541 thousand and KZT 5,360,104 thousand, respectively; decrease in other current and non-current liabilities amounting to KZT 1,207,937 thousand and KZT 5,215,862 thousand, respectively; decrease in advances received amounting to KZT 3,033,151 thousand and decrease in retained earnings to KZT 312,695 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(d) Costs to obtain a contract

The Group pays commission to sales agents for new connected subscribers in the B2C segment. According to the previous accounting policy, the commission to sales agents was recognized as expenses of the period. In accordance with IFRS 15, an entity recognizes an incremental cost of entering into a contract as an asset if it expects to recover such costs.

The commission paid to sales agents represents additional costs that would not have been incurred if contracts had not been concluded. As a result of applying IFRS 15, the Group capitalized the costs paid to sales agents.

The data of the consolidated statement of financial position as at the date of transition to IFRS 15 (January 1, 2018) were restated, which resulted in the recognition of short-term and long-term costs to obtain a contract of KZT 420,604 thousand and KZT 649,182 thousand, accordingly, deferred tax liabilities were increased by KZT 213,957 thousand and retained earnings increased by KZT 855,829 thousand.

(e) Presentation and disclosure requirements

As required for the consolidated financial statements, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Refer to *Note 30* for the disclosure on disaggregated revenue.

(f) Impact on financial statements

The following tables summarise the impact of adopting IFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018:

	Impact of changes in accounting policies		
In thousand tenge	**As reported**	**Adjustments**	**Balances**
Consolidated statement of financial position as at 31 December 2018			
Non-current assets			
Costs to obtain a contract	1,037,984	(1,037,984)	–
Costs to fulfil a contract	107,539	(107,539)	–
Total non-current assets	**659,522,790**	**(1,145,523)**	**658,377,267**
Current assets			
Costs to obtain a contract	420,604	(420,604)	–
Costs to fulfil a contract	115,285	(115,285)	–
Total current assets	**133,871,941**	**(535,889)**	**133,336,052**
Total assets	**793,394,731**	**(1,681,412)**	**791,713,319**
Equity			
Retained earnings	373,429,312	(1,785,446)	371,643,866
Total equity	**414,840,935**	**(1,785,446)**	**413,055,489**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

(f) Impact on financial statements (continued)

	Impact of changes in accounting policies		
In thousand tenge	**As reported**	**Adjustments**	**Balances**
Non-current liabilities			
Deferred tax liabilities	38,897,126	(336,282)	38,560,844
Other non-current liabilities	1,444,530	5,555,059	6,999,589
Contract liabilities	5,699,301	(5,699,301)	–
Total non-current liabilities	**214,193,976**	**(480,524)**	**213,713,452**
Current liabilities			
Other current liabilities	7,116,650	1,937,069	9,053,719
Advances received	–	10,734,219	10,734,219
Contract liabilities	12,667,725	(12,086,730)	580,995
Total current liabilities	**164,359,820**	**584,558**	**164,944,378**
Total equity and liabilities	**793,394,731**	**(1,681,412)**	**791,713,319**

	Impact of changes in accounting policies		
In thousand tenge	**As reported**	**Adjustments**	**Balances without adoption of IFRS 15**
Consolidated statement of comprehensive income for the year ended 31 December 2018			
Revenue	222,726,371	(377,569)	222,348,802
Cost of sales	(154,015,612)	174,180	(153,841,432)
Selling expenses	(4,387,521)	(161,309)	(4,548,830)
Finance costs	(7,349,641)	549,585	(6,800,056)
Profit before tax for the period	**53,990,896**	**184,887**	**54,175,783**
Income tax expenses	(11,107,580)	(2,574)	(11,110,154)
Net profit for the period	**42,883,316**	**182,313**	**43,065,629**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Impact of changes in accounting policies		
In thousand tenge	**As reported**	**Adjustments**	**Balances without adoption of IFRS 15**
Consolidated statement of cash flow for the year ended 31 December 2018			
Operating activities			
Profit before tax for the period	53,990,896	184,887	54,175,783
Adjustments for:			
Finance costs	(7,349,641)	549,585	(6,800,056)
Adjustments of working capital			
Change in costs to obtain a contract and costs to fulfil a contract	375,931	(375,931)	–
Change in contract liabilities	906,894	(906,894)	–
Change in advances received	–	7,701,068	7,701,068
Change in other current liabilities	283,619	(6,794,174)	(6,510,555)
Cash flow received from operating activities	**66,351,606**	**–**	**66,351,606**

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 9 Financial Instruments (continued)

With the exception of hedge accounting, which the Group applied prospectively, the Group has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018. The management of the Group decided not to restate the comparative information for the period beginning 1 January 2017, hence:

- the comparative information on financial assets and liabilities is disclosed in accordance with classification and measurement requirements of IAS 39;
- the adjustment to the opening balance of retained earnings as at 1 January 2018 is recognized in the consolidated statement of changes in equity for the year ended 31 December 2018. The information on this adjustment is disclosed as follows:

In thousands of tenge		Adjustments
Non-current assets		
Other non-current financial assets	(b)	(311,627)
Total non-current assets		**(311,627)**
Current assets		
Trade receivables	(b)	(870,289)
Cash and cash equivalents	(b)	(20,240)
Other current financial assets	(b)	(278,727)
Total current assets		**(1,169,256)**
Total assets		**(1,480,883)**
Equity		
Retained earnings	(a), (b)	(1,976,432)
Total equity		**(1,976,432)**
Non-current liabilities		
Deferred tax liabilities	(b)	(204,630)
Other non-current financial liabilities	(a)	700,179
Total non-current liabilities		**495,549**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The impact of transition to IFRS 9 on retained earnings is as follows:

In thousands of tenge	Retained earnings
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	351,621,657
Recognition of expected credit losses under IFRS 9	(2,181,062)
Deferred tax in relation to the above	204,630
Restated opening balance under IFRS 9 (1 January 2018)	**349,645,225**
Total change in equity due to adopting IFRS 9	**(1,976,432)**

(a) Classification and measurement

Under IFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

The new classification and measurement of the Group's debt financial assets are, as follows:

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade and other receivables, and funds in credit institutions (bank deposits, cash and cash equivalents).

The Group does not have financial assets at FVPL and FVOCI.

The Group accounts the financial guarantee contracts after initial recognition at the higher of the initially recognized amount and the amount of the estimated provision for expected credit losses. As a result, the Group has adjusted the balance of retained earnings as of 1 January 2018 and other non-current financial liabilities by KZT 700,179 thousand.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of these assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 9 Financial Instruments (continued)

(b) Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For long-term bank deposits and other financial assets recorded at amortized cost, the Group adopted a general approach.

For short-term bank deposits, cash and cash equivalents, the Group assessed the credit risk as low based on the credit ratings of banks and financial institutions.

The Group considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The adoption of the ECL requirements of IFRS 9 resulted in an increase in valuation allowances for impairment losses on financial assets. As a result of this increase, the Group adjusted the balance of retained earnings as at 1 January 2018 in this consolidated statement of changes in equity for expected credit losses on financial assets. The effect of the adjustment is as follows: decrease in trade receivables, cash and cash equivalents, other current and non-current financial assets, deferred tax liabilities and retained earnings amounting to KZT 870,289 thousand, KZT 20,240 thousand, KZT 278,727 thousand, KZT 311,627 thousand, KZT 204,630 thousand and KZT 1,276,253 thousand.

In addition, the Group presented separately the impairment losses on financial assets in its consolidated statement of comprehensive income for the year ended 31 December 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's consolidated financial statements.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Group's accounting policy for cash-settled share based payments is consistent with the approach clarified in the amendments. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Group's consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an

overlay approach. These amendments are not relevant to the Group.

Amendments to IAS 28 Investments in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that:

An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, then it may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Deletion of short-term exemptions for first-time adopters

Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purpose. These amendments do not have any impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Standards and interpretations issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 ***Leases***, IFRIC 4 ***Determining whether an Arrangement Contains a Lease***, SIC-15 ***Operating Leases*** – Incentives and SIC-27 ***Evaluating the Substance of Transactions Involving the Legal Form of a Leas***e. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

Standards and interpretations issued but not yet effective (continued)

The Group plans to adopt IFRS 16 retrospectively to each prior reporting period presented. Under this approach, financial information for previous periods is not recalculated.

Lease liabilities and right-of-use assets will be recognised at the date of transition to IFRS 16 with corresponding effect recorded in retained earnings. Modified retrospective approach assumes recognition of lease liability discounted using incremental borrowing rate at the date of transition and allows the Group to elect how to measure right-of-use assets on lease-by-lease basis:

- at amount as if IFRS 16 had been applied from lease commencement;
- at amount equal to liability (adjusted for accruals and prepayments).

The Group elects to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application and for which the underlying asset is of low value.

In 2018, the Group has performed a premilinary impact assessment of IFRS 16. In summary the impact of IFRS 16 adoption is expected to be, as follows: increase in right-of-use assets amounting to KZT 25-30 billion, increase in lease liabilities amounting to KZT 26-32 billion with the corresponding difference recognised as a decrease in equity. The quantitative information disclosed in this note may be subject to further changes in 2019.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019. This standard is not applicable to the Group.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the consolidated financial statements of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. These amendments have no impact on the consolidated financial statements of the Group.

Amendments to IAS 19 Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event;
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments have no impact on the consolidated financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Amendments to IAS 28 Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. These amendments are not applicable to the Group.

Annual Improvements 2015–2017 Cycle (issued in December 2017)

These improvements include:

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are not applicable to the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards and interpretations issued but not yet effective (continued)

Annual Improvements 2015-2017 Cycle (issued in December 2017)

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are not applicable to the Group.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. These amendments are not applicable to the Group.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. These amendments are not applicable to the Group.

Definition of a Business – Amendments to IFRS 3

The IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. Consequently, entities do not have to revisit such transactions that occurred in prior periods. Earlier application is permitted. These amendments are not applicable to the Group.

Definition of Material – Amendments to IAS 1 and IAS 8

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition.

The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments must be applied prospectively. Early application is permitted and must be disclosed. Although the amendments to the definition of material is not expected to have a significant impact on an entity's financial statements, the introduction of the term 'obscuring information' in the definition could potentially impact how materiality judgements are made in practice, by elevating the importance of how information is communicated and organised in the financial statements.

The Conceptual Framework for Financial Reporting

The IASB issued the Conceptual Framework in March 2018. It sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards.

The Conceptual Framework for Financial Reporting is effective immediately for the IASB and the IFRS IC. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020. The changes to the Conceptual Framework may affect the application of IFRS in situations where no standard applies to a particular transaction or event.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

The consolidated financial statements of the Group are presented in tenge, which is the functional currency of the Company and its main subsidiaries. Tenge is the currency of the primary economic environment in which the Company and its main subsidiaries operate. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates prevailing at the date when the transaction meets recognition criteria. Monetary assets and liabilities denominated in foreign currency are translated at the official exchange rate ruling at the reporting date established by Kazakhstan Stock Exchange ("KASE") and published by the National Bank of the Republic of Kazakhstan ("NBRK"). All translation differences are recognized in the consolidated statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Foreign exchange rates are presented in the following table:

	31 December 2018	**31 December 2017**
US dollar	**384.20**	332.33
Euro	**439.37**	398.23
Russian rouble	**5.52**	5.77

The functional currencies of foreign operations KT-IX LLC (Russian Federation) are Russian Roubles. During consolidation the assets and liabilities of foreign operations are translated into tenge at the rate of exchange prevailing at the reporting date and their statements of comprehensive income are translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in general and administrative expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognised in the consolidated statement of comprehensive income.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Investments in associates

An associate is a company, which is significantly influenced by the Company. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associates are accounted for using the equity method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates (continued)

According to the equity method, investment in an associate is initially stated at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment individually.

If interest in an associate is acquired in exchange for contribution of a non-monetary asset in an associate, the Group (a) assesses its share in an associate at fair value in accordance with IFRS 3; and (b) fully recognises profit or loss incurred due to sale or contribution of assets that are businesses as defined in accordance with IFRS 3.

The consolidated statement of comprehensive income reflects the Group share in the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The Group's share in profit or loss of the associate is shown directly in the consolidated statement of comprehensive income beyond the operating profit. It represents profit or loss after taxes and non-controlling interests in subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring their accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the investment in an associate and its carrying amount and recognises resulting loss in the 'share in profits of associates' line in the consolidated statement of comprehensive income.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at fair value. Any difference between the carrying amount of theinvestment in associate upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/ non-current classification. An asset as current when it is:

- expected to be realised or intended to sold or consumed in normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realised within 12 (twelve) months after the reporting period; or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 (twelve) months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- it is expected to be settled within normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within 12 (twelve) months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least 12 (twelve) months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Fair value measurement

Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in the ***Note 42***.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the consolidated financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The respective unit of the Group (hereinafter, the "Working Group") determines the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted AFS financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operations. The composition of the Working Group is determined by the Management of the Company.

External valuation experts are involved for valuation of significant assets, such as investment property and AFS financial assets, and significant liabilities, such as contingent consideration. The decision to engage external value experts is taken on an annual basis by the Working Group after it is discussed and approved by the Company's Audit committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Working Group decides, after discussions with the Group's external valuation experts, which valuation techniques and inputs to use for each case.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At each reporting date the Working Group analyses changes in the cost of assets and liabilities that should be reanalyzed reassessed in accordance with the Group's accounting policy. As a part of such analysis, the Working Group checks main inputs used at the latest valuation by comparing information used at valuation with agreements and other relevant documents.

The Working Group and external valuation experts of the Group also compare changes in fair value of each asset and liability with relevant external sources in order to determine the change relevancy.

The Working Group and external valuation experts of the Group provide valuation results to the Audit committee and independent auditors of the Group on a regular basis that assumes discussion of main assumptions used in valuation.

For the purpose of fair value disclosure, the Group classified assets and liabilities based on their nature, characteristics and risks related to them and applicable level of fair value hierarchy, as specified above.

Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Criteria for classification of the item as held-for-sale is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property and equipment and intangible assets once classified as held for sale are not depreciated or amortized.

Assets and liabilities classified as held for distribution are presented separately as current items in the consolidated statement of financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-current assets held for sale and discontinued operations (continued)

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented in the consolidated statement of comprehensive income as a separate item as profit or loss after tax from discontinued operations.

Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Please refer to Other non-current liabilities ***(Note 26)*** for further information about decommissioning provision recognised.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

	Years
Buildings	50
Constructions	10-20
Telecommunication equipment	3-20
Other	3-20

Land is not depreciated.

An item of property and equipment and any significant component initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income when the asset is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Construction-in-progress

Construction-in-progress represents property and equipment under construction and machinery and equipment awaiting installation and is recorded at cost. Construction-in-progress includes cost of construction and equipment and other direct costs. When construction of such assets is completed or when the machinery and equipment are ready for their intended use, construction-in-progress is transferred to the appropriate category of depreciable assets. Construction-in-progress is not depreciated.

Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing component of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and accumulated impairment loss. Depreciation is calculated on a straight-line basis over the estimated useful life, which is 50 years.

Investment properties are derecognised in the consolidated statement of financial position when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of comprehensive income when the asset is derecognized.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at initial cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

Intangible assets have finite useful lives.

Intangible assets with finite useful lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. Expenses on amortization of intangible assets with finite useful life are recognized in the consolidated statement of comprehensive income in the category of expenses, which corresponds to the function of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of comprehensive income when the asset is derecognised.

Intangible assets are amortized on a straight-line basis within the following estimated useful lives.

	Years
Licenses and trademarks	3-20
Computer software	1-14
Customer base	8-10
Other	2-15

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset’s recoverable amount. An asset’s or cash-generating unit’s (CGU) recoverable amount is the higher of: the fair value of an asset (cash generating unit) less costs of disposal and its value in use (cash generating unit). The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of 5 (five) years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of comprehensive income.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

Goodwill is tested for impairment annually as at 31 December, and when circumstances indicate that the carrying amount may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

Initial recognition and measurement

Before 1 January 2018 financial assets were classified, at initial recognition, as financial assets at fair value through profit or loss, loans issued and receivables, held-to-maturity investments, AFS financial assets. All financial assets were recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that were attributable to the acquisition of the financial asset.

From 1 January 2018 financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Subsequent measurement

Financial assets at amortised cost (debt instruments)

Before 1 January 2018 loans issued and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. After initial measurement, such financial assets were subsequently measured at amortised cost using the EIR method, less impairment. Amortised cost was calculated by taking into account any discount or premium on acquisition and fees or costs that were an integral part of the EIR. The EIR amortisation wass included in finance income in the consolidated statement of comprehensive income. The expenses arising from impairment were recognized in the consolidated statement of comprehensive income within finance costs in case of loans issued and within general and administrative expenses in case of accounts receivable.

From 1 January 2018 the Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade receivables, and other non-current and current financial assets.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized (i.e. exluded from the Group's consolidated statement of financial position):

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Derecognition (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, the Group evaluates if it has retained the risks and rewards of the property, and to which extent, if any. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

Before 1 January 2018 the Group assessed, at each reporting date, whether there were objective evidence that a financial asset or a group of financial assets was impaired. An impairment existed if one or more events that had occurred since the initial recognition of the asset (an incurred 'loss event'), had an impact on the estimated future cash flows of the financial asset or the group of financial assets that could be reliably estimated. Evidence of impairment may included indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they would enter bankruptcy or other financial reorganisation. Besides, such evidence included observable data indicating that there was a measurable decrease in the expected future cash flows on a financial instrument such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assessed whether impairment existed individually for financial assets that were individually significant, or collectively for financial assets that were not individually significant. If the Group determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it included the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that were individually assessed for impairment and for which an impairment loss was, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that had not yet been incurred). The present value of the estimated future cash flows was discounted at the financial asset's original effective interst rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The carrying amount of the asset was reduced through the use of an allowance account and the loss was recognised in the consolidated statement of comprehensive income. Interest income (recorded as finance income in the consolidated statement of comprehensive income) continued to be accrued on the reduced carrying amount and was accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans, together with the associated allowance were written off when there is no realistic prospect of future recovery and all collateral had been realised or had been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increased or decreased because of an event occurring after the impairment was recognised, the previously recognised impairment loss was increased or reduced by adjusting the allowance account. If a write-off was later recovered, the recovery was credited to finance costs in the consolidated statement of comprehensive income.

From 1 January 2018 the Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities comprise trade and other accounts payable, loans and borrowings, finance lease liabilities, finance guarantee contracts and debt component of preferred shares.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings

This category is the most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the consolidated statement of comprehensive income.

This category generally applies to interest-bearing loans and borrowings. Further details are contained in *Note 22*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of: the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

Debt component of preferred shares recorded in liabilities

The debt component of the preferred shares that exhibits characteristics of a liability is recognised as a liability in the consolidated statement of financial position, net of transaction costs. The corresponding minimal guaranteed dividends on those shares are charged as interest expense in the consolidated statement of comprehensive income. On initial recognition, the fair value of the liability component is determined by discounting expected future cash flows at a market interest rate for a comparable debt instrument. The fair value of the equity component on initial recognition is assigned the residual amount after deducting from the initial carrying amount of the instrument as a whole the fair value determined for the liability component. Subsequently, the liability component is measured according to the same principles used for loans and borrowings, and the equity component is not remeasured in subsequent years.

Trade and other accounts payable

Liabilities for trade and other accounts payable are recognised at fair value to be paid in the future for goods and services received, whether or not billed to the Group.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised through the consolidated statement of comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting of financial instruments

Financial assets and financial liabilities are only offset and reported at the net amount in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and the Group intends to either settle on a net basis, to realise the asset and settle the liability simultaneously.

Inventories

Inventories are valued at the lower of: cost of acquisition and net realisable value.

Cost comprise expenses incurred in bringing inventory to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. The same cost formula is used for all inventories having a

similar nature and use. All inventories are determined based on weighted average cost method.

Lease

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected directly in the consolidated statement of comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of: the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as operating expenses in the consolidated statement of comprehensive income on a straight line basis over the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue and other income in the period in which they are earned.

Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Decommissioning liabilities

Decommissioning liabilities are recognized in respect of the estimated future costs of closure and restoration and for environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the reporting period when the related environmental disturbance occurs. Decommissioning costs are recorded at the discounted value of expected liability settlement costs calculated using estimated cash flows and recognized as part of the initial cost of the particular asset. Cash flows are discounted at the current rate before tax, which reflects risks inherent to the decommissioning obligations. Unwinding of discount is expensed as incurred and recognised in the consolidated statement of comprehensive income as finance costs. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs, or in the discount rate applied, are added to or deducted from the cost of the asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefit

Social tax

The Group pays social tax according to the current statutory requirements of the Republic of Kazakhstan. Social tax expenses are charged to expenses as incurred.

Besides, the Group withholds 10% of the salary of employees paid as contributions of employees to the accumulating pension funds. Under the legislation, employees are responsible for their retirement benefits and the Group has no present or future obligation to further compensate its employees upon their retirement, except as provided below.

Defined benefits pension plan

In accordance with the Collective Agreement the Company provides certain long-term and retirement benefits to some of its employees (the "Defined Benefit Scheme").

Long-term benefits are paid to employees upon completion of a certain number of years of service whereas retirement benefits represent one-off payments paid upon retirement in accordance with the the Collective Agreement. Both items vary according to the employee's average salary and length of service.

Cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit obligation and the return on plan assets (excluding amounts included in net interest on the net defined benefit obligation), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:
- the date of the plan amendment or curtailment; and
- the date that the Group recognises related restructuring costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Net interest is calculated by applying the discount rate to the net defined benefit obligation or asset. The Group recognises the outlined changes of net defined benefit obligation in the lines: “cost of sales”, “general and administrative expenses” in the consolidated statement of comprehensive income.

Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the acquisition, sale, issue or cancellation of the Group’s own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in equity.

Cash dividend and non-cash distribution to equity holders of the Parent

The Company recognises a liability to make cash or non-cash distributions to equity holders of the Parent when the distribution is authorised and the distribution is no longer at the discretion of the Company. According to the legislation, distribution is approved by the shareholders. A corresponding amount is recognised directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value remeasurement recognised directly in equity.

Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in the consolidated statement of comprehensive income.

Revenue from Contracts with Customers

The Group’s activities mainly relates to the provision of data transmission services, local, intercity and international calls, interconnect / traffic transmission of other operators and rent of channels.

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

At the beginning of the contract, the Group assesses the goods and services promised in the contract with the buyer and defines as a performance obligation each promise to transfer to the buyer a certain product or service or a set of certain goods or services.

The Group has concluded that it is acting as a principal in all of its revenue arrangements, since in all cases it is the main party that assumed obligations under the contract, controls the goods and services before transferring them to the customer.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Rendering of services

Interconnection fees from domestic and foreign telecommunication operators are recognized when the services are rendered based on the actual minutes of traffic transferred through the network.

Revenue from international and intercity calls and calls to local operators are recognized at the time the call is made over the Group's network.

Subscription fees, consisting primarily of monthly charges for access to broadband and other internet services or voice services, are recognised as revenue over time on a straight-line basis. Revenue from dial up internet is recognized based on the actual airtime provided to the customers.

Revenue from the rental of analogue and digital channels and private circuits as well as wholesale access revenue is recognised on a straight-line basis over the period to which it relates.

Non-refundable upfront fees received for initial connection of new subscribes to fixed line and wireless networks are recognized during the expected period of the customer relationship. The expected period of the customer relationship is based on past history of customer period and industry practice.

Rendering of services

Interconnection fees from domestic and foreign telecommunication operators are recognized when the services are rendered based on the actual minutes of traffic transferred through the network.

Revenue from international and intercity calls and calls to local operators are recognized at the time the call is made over the Group's network.

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Revenue from the rental of analogue and digital channels and private circuits as well as wholesale access revenue is recognised on a straight-line basis over the period to which it relates.

Non-refundable upfront fees received for initial connection of new subscribes to fixed line and wireless networks are recognized during the expected period of the customer relationship. The expected period of the customer relationship is based on past history of customer period and industry practice.

Equipment provided to customers

The Group provides Internet and other data transmission services and equipment for the provision of these services, including modem, routers and others.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Based on the analysis of current operating indicators, the Group concluded that equipment that cannot be used by the subscriber separately from the services of the Group is not a separately identifiable performance obligation.

The Group capitalized the cost of equipment provided free of charge as costs to fulfil a contract. Costs to fulfil a contract are amortized over the period the service is provided to the customer.

Significant financing component

Generally, the Group receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

The Group also receives long-term advances from customers for the connection to international telecommunication network. The transaction price for such contracts is discounted, using the rate that would be reflected in a separate financing transaction between the Group and its customers at contract inception, to take into consideration the significant financing component.

Costs to obtain a contract

The Group pays commission to sales agents for new connected subscribers in the B2C segment. The commission to sales agents is capitalized as costs to obtain a contract in the consolidated statements of financial position. Costs to obtain a contract are amortized over the period the service is provided to the customer.

Contract balances

Contract assest

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in section Financial instruments – initial recognition and subsequent measurement.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Compensation for provision of universal services in rural areas

Compensation for provision of universal services is recognised where there is reasonable assurance that the compensation will be received and all attached conditions will be complied with. When the compensation relates to an expense item, it is recognised as income over the period necessary to match the compensation on a systematic basis to the costs that it is intended to compensate. Where the compensation relates to an asset, it is recognised as deferred income and released to the consolidated statement of comprehensive income in equal amounts over the expected useful life of the related asset.

Compensation related to income is presented separately in the consolidated statement of comprehensive income within revenues from operating activities.

Interest income

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as AFS, interest income is recorded using the effective interest rate (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The interest income is recorded as part of finance income in the consolidated statement of comprehensive income.

Dividends

Revenue is recognised when the Group's right to receive the payment is established, which is generally when shareholders approve the dividend.

Expense recognition

Expenses are recognized as incurred and reported in the consolidated statement of comprehensive income in the period to which they relate on the accrual basis.

Connection cost

The Group records connection costs incurred and attributable to the related deferred income over the expected period of the customer relationship.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Income tax

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Group operates and generates taxable profit.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated statement of comprehensive income. Management of the Group periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in relation to the underlying transaction either in the consolidated statement of comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires the management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of these items and contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Other disclosures relating to the Group's exposure to risks and uncertainties includes:

- Financial instruments and financial risk management objectives and principles – *Note 42*;
- Sensitivity analyses disclosures – *Notes 11 and 24.*

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Useful lives of property and equipment and intangible assets

The Group assesses the remaining useful lives of items of property and equipment and intangible assets at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Impairment of non-financial assets

An impairment exists when the carrying amount of an asset or cash generating unit exceeds its recoverable amount, which is the higher of: its fair value less costs of disposal and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next 5 (five) years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and growth rates used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in *Note 11.*

4. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Provision for expected credit losses

The Group recognizes provision fro expected credit losses for trade and other accounts receivable and funds in credit instituions (cash and cash equivalents, bank deposits).

For trade and other receivable, the Group has applied the standard's simplified approach and has calculated expected credit losses based on lifetime of these financial instruments. The Group used a provision model that is prepared taking into account Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in *Note 16*.

For funds in credit institutions (cash and cash equivalnes, bank deposits), the Group calculated expected credit losses based on the 12-month period. The 12-month expected credit losses is the portion of lifetime expected credit losses that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime expected credit losses.

The Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due. Also it is considered a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

Thus, as at 31 December 2018 provision for expected credit losses was created in the amount of KZT 7,395,913 thousand ***(Notes 13, 16 and 18)***. Changes in the economy, industry or specific customer conditions would have impact to these allowance recorded in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Significant financing component

The Group concluds that certain long-term contracts contain significant financing components due to the time interval between the provision of the Group's services to the customer and the moment the customer pays for such services.

The transaction price for such contracts is discounted, using the rate that would be reflected in a separate financing transaction between the Group and its customers at contract inception, to take into consideration the significant financing component.

Costs to obtain a contract

The Group considers commission to sales agents to be an additional cost to obtain a contract, and capitalizes such costs as an asset on expenses under contracts with customers. The Group depreciates the costs to obtain a contract with customers on a systematic basis, which corresponds to the timing of the provision of services to customers. The Group reviews depreciation periods if the expected service dates have changed.

Non-refundable upfront fees

Upfront fees received for activation and connection to the fixed line and wireless network that do not represent a separate earning process are recognized as contract liabilities and recognized over the expected period of the customer relationship. In making its judgments, management considered the detailed criteria for the recognition of revenues from connection fees set out in IFRS 15, industry practice and the Company's historical churn rate. As at 31 December 2018, average customer relationship period is assessed as 13 (thirteen) years for fixed line customers and 5 (five) years for internet customers.

Finance – Group as lessee

The Group has entered into leases with respect to certain telecommunication equipment. The Group determined that under these agreements, substantially all the risks and benefits incidental to ownership of the leased item are transferred to the Group and, respectively, the lease is classified as finance lease.

Employee benefit obligations

The Group uses actuarial valuation method for measurement of the present value of defined employee benefit obligation and related current service cost. This involves the use of demographic assumptions about the future characteristics of current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, etc.) as well as financial assumptions (discount rate, future salary increases). Due to the long term nature of these benefits, such estimates are subject to significant uncertainty.

The current portion of employee benefit obligations represents the obligations which the Group is going to repay within the twelve months period since the end of the annual reporting period.

4. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Employee benefit obligations (continued)

In determining the appropriate discount rate, management of the Group considers the interest rates of high-yield corporate bonds in respective currencies.

The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates.

Further details about employee benefit obligations are contained in ***Note 23.***

Investments in associates

On 29 February 2016, the Group acquired 51% of the share capital and 49.48% of voting shares in Khan Tengri Holding B.V., which provides mobile telecommunications services in the GSM and LTE standard in the Republic of Kazakhstan. Due to the fact that the Group owns 49.48% of the voting shares of Khan Tengri Holding B.V, the Group has a significant influence on the activities of Khan Tengri Holding B.V. and, accordingly, the interest in Khan Tengri Holding B.V. is accounted for as an investment in an associate and is recorded in the consolidated financial statements using the equity method ***(Note 10)***.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

As at 31 December 2018 and 2017, the Group did not have tax losses carried forward ***(Note 39).***

As at 31 December 2018, deferred tax assets of the Group were equal to KZT 246,884 thousand (at 31 December 2017: KZT 104,614 thousand). As at 31 December 2018, the carrying amount of un-recognized tax assets was equal to nil KZT (31 December 2017: KZT 92,891 thousand). Further details are contained in ***Note 39.***

Fair value measurement of financial instruments

When the fair value of financial instruments and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on data in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the fair value reported in the consolidated financial statements. For more details on the fair values refer to ***Note 42.***

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Fair value of assets and liabilities acquired in a business combination

The Group must separately, at the acquisition date, recognize identifiable assets, liabilities and contingent liabilities acquired or assumed in a business combination at their fair value, which implies the use of valuations. Such estimates are based on various valuation methods, which require the use of significant judgments in predicting future cash flows and making other assumptions.

On 21 December 2018, the Group acquired 75% of voting shares in Kcell JSC, whose shares are listed on the London Stock Exchange and Kazakhstan Stock Exchange. Thus, at 31 December 2018, the Group did not complete a fair value measurement of assets and liabilities of Kcell JSC. At the acquisition date, the net assets of Kcell JSC were recognized based on a preliminary estimate of fair value ***(Note 5).***

Reclassifications of comparative information

Certain amounts in the consolidated statement of cash flow for the year ended 31 December 2017 were reclassified to conform with the presentation adopted in the consolidated statement of cash flow for the year ended 31 December 2018.

In 2018 the Group elected to change the classification of dividends paid on common and preferred shares from operating activities to financing activities in its consolidated statement of cash flows as the Group believes that the classification of dividends paid as financing activities provides more relevant information to the users of the financial statements and is more aligned to practices adopted by its competitors.

In thousands of tenge	**As presented earlier**	**Reclassifications**	**Notes**	**Corrected**
Consolidated statement of cash flows for the year ended 31 December 2017				
Dividends paid on common and preferred shares	(4,299,346)	4,299,346	[1]	–
Net cash flows received from operating activities	**61,925,488**	**4,299,346**		**66,224,834**
Dividends paid on common and preferred shares	–	(4,299,346)	[1]	(4,299,346)
Net cash flows used in financing activities	**(31,172,505)**	**(4,299,346)**		**35,471,851**

4. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Reclassifications of comparative information (continued)

[1] Dividends paid on common and preferred shares in the amount of 4,299,346 thousand tenge were reclassified from operating cash flows to financing cash flows.

The above reclassification had no impact on net profit, total comprehensive income or equity.

Revision of the consolidated financial statements for the year ended 31 December 2018

The Group has previously issued the consolidated financial statements for the year ended 31 December 2018, which were authorized for issue by management on 15 March 2019.

In April 2019, the Group revised previously issued consolidated financial statements for the year ended 31 December 2018, which were authorized for issue by management on 15 March 2019 in order to reflect a material adjusting subsequent event. On 12 April 2019, Kcell JSC received from Kar-Tel LLP a notice on termination of the Network Sharing Agreement (hereinafter referred to as the “Agreement”), since there was a change in Kcell JSC’s controlling shareholder in December 2018, which represents, in accordance with the Agreement, a breach of conditions of the Agreement, giving the right to the second party to terminate the Agreement and request payment of termination fine, determined in accordance with the methodology specified in the Agreement. Kcell JSC also received from Kar-Tel LLP an invoice for payment of a termination fine in the amount of KZT 14,551,865 thousand. Also, under the terms of the sale-purchase agreement of 75% stake in Kcell JSC, Telia Company and Fintur Holding B.V. guaranteed to the Group repayment of their respective shares in 75% of the termination fine.

Following the exercise of the termination right by Kar-Tel LLP, the Group revised the purchase price allocation of Kcell JSC in the consolidated financial statements of Kazakhtelecom JSC for the year ended 2018.

Given that termination of the Agreement is a material adjusting subsequent event, the Group recognized a liability related to the payment of termination fine to company Kar-Tel LLP at fair value and respective an indemnification asset for reimbursement of 75% of the estimated fine by companies Telia Company and Fintur Holding B.V., effect of the above amounts on the deferred income tax liability, and the resulting effect on goodwill from the acquisition of Kcell JSC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The change has been corrected by revising the respective items of the consolidated financial statements for the year ended 31 December 2018 as follows:

In thousands of tenge	At 31 December 2018 before revision	Adjustments	At 31 December 2018 after revision
Current assets			
Indemnification assets	–	10,913,899	10,913,899
Total current assets	**122,958,042**	**10,913,899**	**133,871,941**
Equity			
Non-controlling interests	**36,844,519**	(2,910,373)	33,934,146
Total equity	**417,751,308**	**(2,910,373)**	**414,840,935**
Non-current liabilities			
Deferred tax liabilities	**39,624,719**	(727,593)	38,897,126
Total non-current liabilities	**214,921,569**	**(727,593)**	**214,193,976**
Current liabilities			
Liabilities on termination fine	–	14,551,865	14,551,865
Total current liabilities	**149,807,955**	**14,551,865**	**164,359,820**

The change did not have any effect on net profit, total comprehensive income, equity or the Group's operating, investing and financing cash flows.

BUSINESS COMBINATIONS

Acquisition of Kcell JSC

On 21 December 2018, the Group acquired 75% of voting shares in Kcell JSC, whose shares are listed on London Stock Exchange and Kazakhstan Stock Exchange. Kcell JSC is registred in Republic of Kazakhstan and provides mobile services in Republic of Kazakhstan.

The Group has acquired Kcell JSC, because it allows to significantly expand its presence in the segment of Mobile telecom-munication services in GSM and LTE standards.

The Group decided to measure the non-controlling interest in the acquisition object by the proportionate share of its participation in the identifiable net assets of the acquisition.

5. BUSINESS COMBINATIONS (continued)

Acquisition of Kcell JSC (continued)

Provisional fair value amounts of identified assets, liabilities and contingent liabilities of Kcell JSC as at the date of acquisition comprised the following:

In thousands of tenge	Provisional fair value recognized on acquisition
Assets	
Property and equipment	120,819,693
Intangible assets	107,833,516
Advances paid for non-current assets	729,049
Cash and cash equivalents	6,922,533
Indemnification assets *(Note 4)*	(10,913,899)
Trade receivables	15,969,678
Inventories	5,680,540
Advances paid	975,529
Costs to obtain a contract	388,802
Other non-current assets	37,986
Other current assets	9,757,609
	280,028,834
Liabilities	
Trade payables	(14,047,602)
Borrowings	(66,316,119)
Contract liabilities	(7,297,746)
Taxes payable other than income tax	(2,694,377)
Deferred tax liabilities	(20.520.232)
Decommissioning liabilities	(1,285,482)
Obligation to pay a fine for termination of the contract	(14,551,865)
Other current liabilities	(8,111,511)
	(134.824.934)
Fair value of net assets at the date of acquisition	**145.203.900**
Non-controlling interests	(34,118,195)
Total identifiable net assets at fair value	**111.085.705**
Goodwill arising on acquisition *(Note 11)*	54,656,742
Purchase consideration transferred	**165,742,447**
Analysis of cash flows on acquisition	
Net cash acquired with the subsidiary	6,922,533
Cash paid	(165,742,447)
Net cash outflow	**(158,819,914)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Net assets recognized in the consolidated financial statements as at 31 December 2018 are based on a preliminary assessment of their fair value, while the Group makes an independent assessment of assets owned by Kcell JSC. This estimate has not been completed at the time of issuing the consolidated financial statements for 2018.

Transaction costs in the amount of KZT 1,933,255 thousand were included in administrative expenses.

The deferred tax liability is mainly due to the tax effect of accelerated depreciation of fixed assets and intangible assets for tax purposes.

The amount of goodwill equal to KZT 54,656,742 thousand and includes the cost of the expected synergistic effect from the acquisition. The entire amount of goodwill is allocated to the mobile telecommunications segment. It is expected that recognized goodwill will not be deductible for the purposes of the taxation either in full or in part.

Since the acquisition date, the contribution of Kcell JSC to the Group's revenue amounted to KZT 4,257,756 thousand, and to the Group's net profit before tax – loss before tax in the amount of KZT 544,955 thousand. If the companies were consolidated at the beginning of the year, the Group's revenues would be KZT 355,148,278 thousand, and profit before tax KZT 50,722,371 thousand.

6. CONSOLIDATION

The following subsidiaries have been included in these consolidated financial statements:

	Country of incorporation	Percentage ownership	
		31 December 2018	**31 December 2017**
Nursat JSC	Kazakhstan	**100.00%**	100.00%
KT-IX LLC	Russia	**100.00%**	100.00%
KT Cloud Lab LLP	Kazakhstan	**100.00%**	100.00%
VostokTelecom LLP	Kazakhstan	**100.00%**	100.00%
Info-Net Wireless LLP	Kazakhstan	**100.00%**	100.00%
Nursat+ LLP	Kazakhstan	**100.00%**	100.00%
Kcell JSC	Kazakhstan	**75.00%**	0.00%

6. CONSOLIDATION (continued)

Based on the decision of the Board of Directors of Kazakhtelecom JSC on 17 August 2016 a purchase and sale agreement was concluded between Kazakhtelecom JSC and Samruk-Kazyna Business Services LLP for 51% interest of Kazakhtelecom JSC in the charter capital of Kazakhtelecom Industrial Enterprises Services LLP. The transaction value was equal to KZT 30,170 thousand and was paid on 29 March 2017.

On 21 December 2018 the Group completed the acquisition of 75% of the voting shares of Kcell JSC (24% of shares from Telia Company and 51% of shares from Fintur Holdings BV). The amount of the transaction for the purchase of 75% in Kcell amounted to KZT 165,742,447 thousand and was paid on 20 December 2018 *(Note 5).*

7. SEGMENT INFORMATION

For management purposes, the Group represents business units based on the organizational structure of the Group and has reportable operating segments as follows:

- Rendering fixed-line telecommunication services to local, national long-distance and international to business units of Kazakhtelecom JSC, Vostoktelecom LLP, KT Cloud Lab LLP and Nursat JSC.
- Rendering mobile telecommunication services in GSM and LTE standards by a business unit of an associate Khan Tengri Holding B.V. and subsidiary Kcell JSC.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

The following tables disclose revenue and profit information for the Group's operating segments for the years ended 31 December 2018 and 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

In thousands of tenge	Fixed line	Mobile tele-communication services in GSM and LTE standards	Other	Elimina-tions and adjustments	Group
FROM CONTRACTS WIHT CUSTOMER					
Sales to external customers	**217,668,184**	**4,493,142**	**565,045**	**–**	**222,726,371**
Inter-segment	**252,366**	**35,900**	**222,987**	**(511,253)**	**–**
FROM CONTRACTS WIHT CUSTOMER	**217,920,550**	**4,529,042**	**788,032**	**(511,253)**	**222,726,371**
Financial results					
Depreciation and amortisation	**(37,477,326)**	**(1,288,815)**	**(109,690)**	**–**	**(38,875,831)**
Finance costs	**(6,830,492)**	**(519,149)**	**(72)**	**72**	**(7,349,641)**
Finance income	**3,030,209**	**34,703**	**2,189**	**(72)**	**3,067,029**
Share in profits of associates	**–**	**7,743,570**	**116,514**	**–**	**7,860,084**
Impairment loss	**(1,169,713)**	**–**	**–**	**–**	**(1,169,713)**
Impairment losses on financial assets	**(3,874,468)**	**(32,153)**	**(462)**	**–**	**(3,907,083)**
Income tax expenses	**(10,915,839)**	**(191,237)**	**(504)**	**–**	**(11,107,580)**
Segment profit/(loss)	**46,187,814**	**7,198,613**	**(130,593)**	**735,062**	**53,990,896**
Operating assets	**551,021,413**	**407,842,367**	**2,218,590**	**(167,687,639)**	**793,394,731**
Operating liabilities	**247,072,042**	**132,647,334**	**260,773**	**(1,426,353)**	**378,553,796**
Other disclosures					
Investments in associates	**–**	**76,070,585**	**1,598,639**	**–**	**77,669,224**
Capital expenditures	**49,676,196**	**316,434**	**90,946**	**–**	**50,083,576**

* The Mobile telecommunications in GSM and LTE standards segment includes income and expenses of Kcell JSC for the period from the acquisition date of 21 December 2018.

7. SEGMENT INFORMATION (continued)

For the year ended 31 December 2017

In thousands of tenge	Fixed line	Mobile telecommunication services in GSM and LTE standards	Other	Eliminations and adjustments	Group
FROM CONTRACTS WIHT CUSTOMER					
Sales to external customers	210,224,025	–	1,200	–	210,225,225
Inter-segment	–	–	210,405	(210,405)	–
FROM CONTRACTS WIHT CUSTOMER	210,224,025	–	211,605	(210,405)	210,225,225
Financial results					
Depreciation and amortisation	(43,122,634)	–	(28,352)	–	(43,150,986)
Finance costs	(7,825,754)	–	–	–	(7,825,754)
Finance income	4,843,630	–	4,929	(723,505)	4,125,054
Share in profit/(loss) of associates	–	1,166,223	(67,855)	–	1,098,368
Impairment loss	1,246,347	–	–	–	1,246,347
Allowance for doubtful receivables	(881,870)	–	(533)	–	(882,403)
Income tax expenses	(8,209,058)	–	(9,787)	–	(8,218,845)
Segment profit/(loss)	32,826,988	1,166,223	(76,973)	(979,572)	32,936,666
Operating assets	401,862,495	68,327,015	1,614,407	(489,725)	471,314,192
Operating liabilities	111,850,809	–	354,742	704	112,206,255
Other disclosures					
Investments in associates	–	68,327,015	919,125	–	69,246,140
Capital expenditures	30,221,868	–	154,902	–	30,376,770

1) Income and expenses between segments are excluded during consolidation;
2) Finance costs and finance income comprise intersegment finance costs and intersegment finance income;
3) Operating income of segments comprises income from intersegment transactions;
4) Capital expenditures include additions to property and equipment and intangible assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Reconciliation of profit

In thousands of tenge	2018	2017
Segment profit	**53,255,834**	33,916,238
Other	**735,062**	(979,572)
Profit of the Group	**53,990,896**	32,936,666

Reconciliation of assets

In thousands of tenge	2018	2017
Segment operating assets	**961,082,370**	471,803,917
Elimination of the Company's investments in subsidiaries	**(166,261,286)**	(250,965)
Elimination of intra-group receivables and payables	**(1,426,353)**	(238,760)
Total assets of the Group	**793,394,731**	471,314,192

Reconciliation of liabilities

In thousands of tenge	2018	2017
Segment operating liabilities	**379,980,149**	112,205,551
Deferred tax liabilities	–	239,464
Elimination of intra-group receivables and payables	**(1,426,353)**	(238,760)
Total liabilities of the Group	**378,553,796**	112,206,255

8. PROPERTY AND EQUIPMENT

Movements of property and equipment in 2018 and 2017 were as follows:

In thousands of tenge	Land	Buildings and cons-tructions	Equipment	Other	Construc-tion in progress	Total
Cost						
At 1 January 2017	554,818	48,157,375	502,873,315	13,164,465	11,087,670	575,837,643
Additions	148,543	100,816	9,105,525	1,053,724	19,338,230	29,746,838
Transfers	–	1,253,906	10,802,436	19,248	(12,075,590)	–
Disposals	(12,263)	(464,406)	(4,849,673)	(401,820)	(1,214)	(5,729,376)
Transfers to intangible assets *(Note 9)*	–	–	–	–	(957,300)	(957,300)
At 31 December 2017	691,098	49,047,691	517,931,603	13,835,617	17,391,796	598,897,805
Additions	**451**	**101,547**	**9,502,685**	**533,433**	**36,955,437**	**47,093,553**
Acquisition of subsidiary (Note 5)	**2,249,378**	**4,878,774**	**92,965,754**	**2,544,564**	**18,181,223**	**120,819,693**
Transfers	**–**	**1,947,461**	**17,652,886**	**16,638**	**(19,616,985)**	**–**
Disposals	**(13,317)**	**(978,467)**	**(5,418,161)**	**(215,536)**	**(258,846)**	**(6,884,327)**
At 31 December 2018	**2,927,610**	**54,997,006**	**632,634,767**	**16,714,716**	**52,652,625**	**759,926,724**
Accumulated depreciation and impairment						
At 1 January 2017	–	16,658,584	275,106,330	10,623,033	1,273,823	303,661,770
Depreciation charge	–	1,896,927	37,513,243	709,252	–	40,119,422
Impairment	589	2,964	932,073	729	257,027	1,193,382
Disposals	–	(211,648)	(4,224,964)	(390,457)	(271,312)	(5,098,381)
At 31 December 2017	589	18,346,827	309,326,682	10,942,557	1,259,538	339,876,193
Depreciation charge	**–**	**1,976,120**	**32,722,740**	**745,830**	**–**	**35,444,690**
Disposals	**(589)**	**(284,707)**	**(5,052,424)**	**(209,739)**	**(155,813)**	**(5,703,272)**
At 31 December 2018	**–**	**20,038,240**	**336,996,998**	**11,478,648**	**1,103,725**	**369,617,611**
Net book value						
At 31 December 2017	690,509	30,700,864	208,604,921	2,893,060	16,132,258	259,021,612
At 31 December 2018	**2,927,610**	**34,958,766**	**295,637,769**	**5,236,068**	**51,548,900**	**390,309,113**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Construction-in-progress is mainly represented by network construction and telecommunication equipment for installation.

During 2017, the Group recognized an impairment loss of KZT 1,193,382 thousand, related to write-off of certain fixed assets in the fixed line segment to recoverable amount due to technological obsolescence. Loss was recorded in the consolidated statement of comprehensive income as Other expenses. Their recoverable amount was determined on the basis of calculated value in use of assets at individual asset level.

At 31 December 2018, the net book value of equipment used by the Group under finance leases and included in property and equipment was equal to KZT 42,229,062 thousand (at 31 December 2017: KZT 23,365,385 thousand). Additions during the year include fixed assets in the amount of KZT 13,278,268 thousand received under finance lease agreements (2017: KZT 9,019,870 thousand). Leased assets were pledged as collateral under the respective finance lease agreements.

As at 31 December 2018, property and equipment with the cost of KZT 166,079,984 thousand were fully depreciated (at 31 December 2017: KZT 135,390,566 thousand).

For the year ended 31 December 2018, depreciation expenses included in the cost of construction in progress were equial KZT 130 thousand (for 2017: KZT 4,670 thousand).

9. INTANGIBLE ASSETS

Movements of intangible assets for 2018 and 2017 were as follows:

In thousands of tenge	Licenses and trademarks	Software	Goodwill	Other	Construction in progress	Total
Cost						
At 1 January 2017	16,544,978	21,555,045	2,706,335	4,329,457	–	45,135,815
Additions	434,575	156,231	–	39,126	–	629,932
Transfers	25,770	(25,764)	–	(6)	–	–
Disposals	(1,652,307)	(1,316,169)	–	–	–	(2,968,476)
Transfers from construction-in-progress *(Note 8)*	376,982	580,318	–	–	–	957,300
At 31 December 2017	15,729,998	20,949,661	2,706,335	4,368,577	–	43,754,571
Additions	**596,243**	**375,271**	**–**	**13**	**2,018,496**	**2,990,023**
Acquisition of subsidiary *(Note 5)*	**99,965,947**	**2,555,473**	**54,656,742**	**5,312,096**		**162,490,258**
Transfers	**55,461**	**(55,335)**	**–**	**(126)**	**–**	**–**
Disposals	**(3,870,985)**	**(144,726)**	**–**	**(1,243,671)**	**–**	**(5,259,382)**
Transfers from construction-in-progress	**152,071**	**1,866,425**	**–**	**–**	**(2,018,496)**	**–**
At 31 December 2018	**112,628,735**	**25,546,769**	**57,363,077**	**8,436,889**	**–**	**203,975,470**
Accumulated amortisation and impairment						
At 1 January 2017	9,055,741	16,504,181	–	2,435,772	–	27,995,694
Amortisation charges	1,162,646	1,287,779	–	619,995	–	3,070,420
Impairment	9,933	43,032	–	–	–	52,965
Disposals	(1,646,437)	(1,310,615)	–	–	–	(2,957,052)
At 31 December 2017	8,581,883	16,524,377	–	3,055,767	–	28,162,027
Amortisation charges	**1,507,815**	**1,138,848**	**–**	**682,348**	**–**	**3,329,011**
Impairment	**1,169,713**	**–**	**–**	**–**	**–**	**1,169,713**
Disposals	**(3,869,426)**	**(123,726)**	**–**	**(1,234,671)**	**–**	**(5,227,823)**
At 31 December 2018	**7,389,985**	**17,539,499**	**–**	**2,503,444**	**–**	**27,432,928**
Net book value						
At 31 December 2017	7,148,115	4,425,284	2,706,335	1,312,810	–	15,592,544
At 31 December 2018	**105,238,750**	**8,007,270**	**57,363,077**	**5,933,445**	**–**	**176,542,542**

Licenses and trademarks, software and other include intangible assets acquired as a result of business combination *(Note 5).*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

During 2018, the Group recognized an impairment loss in the amount of KZT 1,169,713 thousand, which was a write-off of certain licenses in the fixed telecommunications segment to the recoverable amount due to changes in the activities of subsidiaries (KT Cloud Lab LLP, Vostoktelekom LLP). The loss was recorded in the consolidated statement of comprehensive income as part of other expenses. The recoverable amount as of 31 December 2018 in the amount of nil tenge was determined based on the calculation of the value of use of assets at the level of individual assets.

As at 31 December 2018 intangible assets (mainly software) with the cost of KZT 10,408,974 thousand were fully amortized (as at 31 December 2017: KZT 8,372,440 thousand).

10. INVESTMENTS IN ASSOCIATES

The following associates have been included in these consolidated financial statements:

In thousands of tenge	Primary activities	Country of incorporation	31 December 2018		31 December 2017	
			Carrying amount	Ownership share	Carrying amount	Ownership share
Khan Tengri Holding B.V.	Telecommunication services	Netherlands	**76,070,585**	51%	68,327,015	51%
QazCloud LLP	IT services	Kazakhstan	**1,598,639**	49%	919,125	49%
			77,669,224		69,246,140	

Movements in investments in associates for the years 2018 and 2017 are as follows:

In thousands of tenge	Khan Tengri Holding B.V.	QazCloud LLP	Total
At 31 December 2016	67,160,792	–	67,160,792
Additional contribution to the charter capital of an associate	–	986,980	986,980
Share in profit/(loss) of associates	1,166,223	(67,855)	1,098,368
Share in other comprehensive income of associates	–	–	–
Dividends declared	–	–	–
At 31 December 2017	68,327,015	919,125	69,246,140
Additional contribution to the charter capital of an associate	**–**	**563,000**	**563,000**
Share in profits of associates	**7,743,570**	**116,514**	**7,860,084**
Share in other comprehensive income of associates	**–**	**–**	**–**
Dividends declared	**–**	**–**	**–**
At 31 December 2018	**76,070,585**	**1,598,639**	**77,669,224**

10. INVESTMENTS IN ASSOCIATES (continued)

Investments in Khan Tengri Holding B.V.

On 29 February 2016, the Group acquired 51% share capital and 49.48% of voting shares in Khan Tengri Holding B.V. rendering GSM and LTE mobile telecommunication services in the Republic of Kazakhstan. Khan Tengri Holding B.V. is a private entity and not listed on the stock exchange. The Group's interest in Khan Tengri Holding B.V. is recorded in the consolidated financial statements using the equity method.

At the acquisition date, the investment was recognized based on a fair value estimate of KZT 80,700,000 thousand.

The table below provides a summarized financial information on the Group's investment in Khan Tengri Holding B.V. on the basis of an assessment of the fair value:

In thousands of tenge	31 December 2018	31 December 2017
Current assets	**23,058,916**	39,906,159
Non-current assets	**155,086,820**	153,137,417
Current liabilities	**(38,288,604)**	(46,052,692)
Non-current liabilities	**(104,123,963)**	(126,441,186)
Equity	**35,733,169**	20,549,698
Share of the Group in equity – 51%	**18,223,916**	10,480,346
Goodwill	**57,846,669**	57,846,669
Carrying amount of investment of the Group	**76,070,585**	68,327,015

In thousands of tenge	2018	2017
From contracts wiht customer	**120,803,222**	104,154,218
Operating expenses	**(100,897,873)**	(100,929,964)
Non-operating expenses	**(9,514,034)**	(10,566,819)
Profit/(loss) before tax	**10,391,315**	(7,342,565)
Income tax benefit	**4,792,155**	9,629,276
Profit for the year	**15,183,470**	2,286,711
Total comprehensive income for the year	**15,183,470**	2,286,711
Impairment of investments in associate (Note 11)	**–**	–
Share of the Group in profit for the year	**7,743,570**	1,166,223

As at 31 December 2018, Khan Tengri Holding B.V. had obligations to make capital investments in the future in the amount of KZT 2,522,158 thousand (as at 31 December 2017: KZT 1,944,930 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Options to acquire interest in an associate

According to the agreement between the Group and Tele2, the Group has an unconditional right to require Tele2 to sell its 49% of the interest in Khan Tengri Holding B.V. at any time, after three years after the closing date of the transaction on 26 February 2016 (call option). Tele2 has a similar unconditional right to require the Group to acquire a 49% interest in Khan Tengri Holding B.V. (put option).

The price of an option is expressed in US dollars and should be equal to the fair market value of the shares transferred as of the day of its determination. The Group estimated the fair value of the options and as at 31 December 2018 the fair value of the options is nil (2017: nil).

In connection with the closure of the transaction on the acquisition of Kazakhtelecom JSC 75% of shares in Kcell JSC Tele2 A.B. made a decision on excercise the put option, according to which Tele2 A.B. has the right to demand from Kazakhtelecom JSC to acquire at a market value all shares of Khan Tengri Holding B.V., owned by Tele2 A.B. Early execution of the put option became possible due to the violation of the non-competition clause of the Shareholders Agreement dated 29 February 2016, according to which Kazakhtelecom JSC pledged not to have a controlling portion in mobile operators. On 28 December 2018 the Group received from Tele2 A.B. notice of the option exercise. In this regard, the shareholders – Kazakhtelecom JSC and Tele2 are in the process of exercising the option, including an assessment of the fair market value of the shares of Khan Tengri Holding B.V. owned by Tele2 A.B. After the shareholders reach an agreement on the fair market value of the shares, Kazakhtelecom JSC will acquire the shares of Khan Tengri Holding B.V., owned by Tele2 A.B. According to the terms of the Shareholders Agreement dated 29 February 2016, Tele2 A.B. has the opportunity to withdraw notice of the option exercise within 10 days after agreeing on the fair value of the shares of Khan Tengri Holding B.V. Accordingly, the option is not material and the Group has no control over Khan Tengri Holding as of 31 December 2018.

Investments in QazCloud LLP

Based on the decision of the Board of Directors of Kazakhtelecom JSC, on 17 of August 2016, Kazakhtelecom JSC and Samruk-Kazyna Business Service LLP signed the agreement of purchase and sale of 51% interest of Kazakhtelecom JSC in the charter capital of Kazakhtelecom Industrial Enterprises Services LLP.

On 4 October 2017, Kazakhtelecom Industrial Enterprises Services LLP was re-registred with name being changed to QazCloud LLP.

On 25 July 2017, the Board of Directors of Kazakhtelecom JSC approved a decision to make an additional investment contribution to the charter capital of QazCloud LLP in the amount of KZT 1,973,960 thousand.

On 15 November 2017 and 27 April 2018, the Group made contributions to the charter capital of QazCloud LLP, in the amount of KZT 986,980 thousand and KZT 563,000 thousand, respectfully. The additional contributions to the charter capital of QazCloud LLP did not lead to the change in share of interest of the Group as the second participant, Samruk-Kazyna Business Service LLP, also made the contributions to the charter capital of QazCloud LLP according to its share.

10. INVESTMENTS IN ASSOCIATES (continued)

Investments in QazCloud LLP (continued)

The table below provides summarized financial information on individually insignificant associate, QazCloud LLP:

In thousands of tenge	**2018**	**2017**
From contracts wiht customer	**3,767,779**	35,446
Operating expenses	**(3,521,735)**	(165,446)
Non-operating profit	**44,655**	7,822
Profit/(loss) before tax	**290,699**	(122,178)
Income tax expense	**(52,915)**	–
Profit/(loss) for the year	**237,784**	(122,178)
Total comprehensive loss for the year	**237,784**	(122,178)
Unrecognized accumulated losses	**–**	(7,988)
Share of the Group in profit/(loss) for the year	**116,514**	(67,855)

11. IMPAIRMENT TESTING

Goodwill

For the purpose of testing for impairment, goodwill acquired as a result of business combinations was divided into two cash-generating units ("CGUs") ("IP TV" and "Mobile telecommunications"). IP TV CGU is part of the fixed telecommunications segment.

The carrying amount of goodwill allocated to IP TV CGU was as follows:

	IP TV		**Mobile telecommunication services**		**Total**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Goodwill	**2,706,335**	2,706,335	**54,656,742**	–	**57,363,077**	2,706,335

The Group performed testing for impairment in December 2018 and 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

IP TV

The recoverable amount of IP TV CGU has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period.

The after tax discount rate applied to the cash flow projections is 13.10% (2017: 14.86%), and cash flows beyond the five-year period are extrapolated using a 0% growth rate (2017: 0%).

As a result of this analysis as at 31 December 2018, the management have not identified any evidence of impairment of this CGU.

Mobile telecommunications

The recoverable amount of the Mobile telecommunications CGU was determined by calculating the value in use of the assets based on projected cash flows based on financial plans approved by management for an five-year period.

The after tax discount rate applied to projected cash flows was 12%, and cash flows beyond the five-year period were extrapolated taking into account a growth rate of 1.5%.

As a result of this analysis as at 31 December 2018, the management have not identified any evidence of impairment of this CGU.

Key assumptions used in value in use calculations

The calculation of value-in-use for IPTV and Mobile telecommunications CGUs is most sensitive to the following assumptions:

- Customer base over the forecast period and average revenue per customer with direct impact on revenue growth rates;
- The level of capital investments included in the financial plan;
- EBITDA margin included in the financial plan;
- Growth rate for cash flow extrapolation beyond the forecast period;
- Discount rate.

Customer base and average revenue per customer

The customer base and average revenue per customer is important because management of the Group estimates how the unit's position may change over the forecast period against its competitors.

The Group expects to increase IPTV customer base over the forecast period, as the Group plans to use the advantage of Kazakhtelecom JSC infrastructure to increase the market share of Kazakhtelecom JSC. Given competition, average revenue will decline during the forecast period.

11. IMPAIRMENT TESTING (continued)

Key assumptions used in value in use calculations (continued)

Customer base and average revenue per customer (continued)

The Group's management expects an increase in the customer base of mobile segment over the forecast period because Kcell JSC plans to take advantage over the competitors of 4G/LTE coverage and speed of mobile internet as well as attractive tariffs to increase its market share. As a result the Group expects an increase in revenue of the unit over the entire forecast period.

Level of capital investments

The level of capital investments is important in Mobile telecommunications CGU because it defines the ability of the unit to technically maintain an increase in the customer base and meet the changing market requirements. The level of investments is determined by the needs of the units in completing the technical integration of the two networks in a timely manner, as well as the need to secure and strengthen the advantages of covering the public demand for communication services and improve network quality.

EBITDA margin

EBITDA margin reflects the rate of return included by the unit Mobile telecommunications CGU into its financial plan with consideration of market conditions, competition and other factors. The growing dynamics of this index corresponds to operational growth of the unit and related cost savings.

Growth rates

Rates are based on published industry research.

Discount rate

Discount rates represent the current market assessment of the risks specific to CGU, taking into consideration the time value of money and individual risks of the CGU underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the group's investors. The cost of debt is based on the interest-bearing borrowings the group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Sensitivity to changes in assumptions

The effect of changes in key assumptions on the recoverable amount is discussed below:

Customer base and average revenue per customer

Although management expects that the market share of IPTV owned by the Group will grow over the forecast period, a decrease in the customer base and average revenue per customer by 30.59% (2017: 25.01%) would result in a loss from impairment in IP TV CGU.

Although the management expects that the market share of mobile telecommunications owned by the Group will grow over the forecast period, according to the financial plan, slowing growth of customer base or decrease in the average revenue per customer, leading to a slowdown in revenue growth by more than 0.37%, would result in a loss from impairment in Mobile Telecommunications CGU.

Level of capital investments

Increase in capital investments by more than 11.90% will result in loss from impairment in Mobile telecommunications CGU.

EBITDA margin

Decrease in EBITDA margin by more than 1.37% will result in loss from impairment in Mobile telecommunications CGU.

Growth rates

Management recognises that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions. A reduction to 10.33% per annum in the long-term growth rate (2017: 8.31% per annum) for IP TV unit would result in impairment loss.

A reduction by 0.42% per annum and more in the long-term growth rate in Mobile telecommunications CGU would result in impairment loss.

Discount rate

An increase in after tax discount rate to 18.44% (2017: 19.32%) would result in loss from impairment in IP TV CGU.

An increase in after tax discount rate to 12.76% would result in losses from impairment in Mobile telecommunications CGU..

11. IMPAIRMENT TESTING (continued)

Investment in associate – Khan Tengri Holding B.V.

Investment in associate, Khan Tengri Holding B.V., represents separate CGU. This CGU is included to an operating segment for rendering of GSM and LTE mobile telecommunication services.

The carrying amount of investment was as follows:

	2018	2017
Investment in an associate	**76,070,585**	68,327,015

The Group performed testing for impairment in December 2018 and 2017.

The recoverable amount of the Khan-Tengri Holding BV CGU was determined by calculating the value in use of the assets based on projected cash flows based on financial plans approved by management for an eight-year period.

The after tax discount rate applied to projected cash flows was 13.10% (2017: 14.86%), and cash flows beyond the eight-year period were extrapolated taking into account a growth rate of 1.5% (2017: 1.5%).

As a result of this analysis as at 31 December 2018, the management have not identified any evidence of impairment of this CGU.

Key assumptions used in value in use calculations

The calculation of value in use for CGU is most sensitive to the following assumptions:

- Customer base over the forecast period and average revenue per customer with direct impact on revenue growth rates;
- The level of capital investments included in the financial plan;
- EBITDA margin included in the financial plan;
- Growth rate for cash flow extrapolation beyond the forecast period;
- Discount rate.

Customer base, average revenue per customer and revenue growth rates

The customer base and average revenue per customer is important because management of the Group estimates how the unit's position may change over the forecast period against its competitors. The Group's management expects an increase in the customer base over the forecast period because Khan Tengri Holding B.V. plans to take advantage over the competitors of 4G/LTE coverage and speed of mobile internet as well as attractive tariffs to increase its market share. As a result the Group expects an increase in revenue of the unit over the entire forecast period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Level of capital investments

The level of capital investments is important because it defines the ability of the unit to technically maintain an increase in the customer base and meet the changing market requirements. The level of investments is determined by the needs of the units in completing the technical integration of the two networks in a timely manner, as well as the need to secure and strengthen the advantages of covering the public demand for communication services and improve network quality.

EBITDA margin

EBITDA margin reflects the rate of return included by the unit into its financial plan with consideration of market conditions, competition and other factors. The growing dynamics of this index corresponds to operational growth of the unit and related cost savings.

Growth rates

Rates are based on published industry research.

Discount rate

Discount rates represent the current market assessment of the risks specific to this CGU, taking into consideration the time value of money and individual risks of the CGU underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

Sensitivity to changes in assumptions

The effect of changes in key assumptions on the recoverable amount is discussed below:

Customer base, average revenue per customer and revenue growth rates

Although the management expects that the market share owned by the Group will grow over the forecast period, according to the financial plan, slowing growth of customer base or decrease in the average revenue per customer, leading to a slowdown in revenue growth by more than 0.3%, would result in a loss from impairment in CGU (2017: a slowdown in growth rate by 2.7% will result to an increase in impairment loss).

11. IMPAIRMENT TESTING (continued)

Sensitivity to changes in assumptions (continued)

Level of capital investments

Increase in capital investments by more than 13.7% will result in loss from impairment in this unit (2017: an increase in capital investments by more than 5.87% will result to an increase in impairment loss).

EBITDA margin

Decrease in EBITDA margin by more than 1.4% will result in loss from impairment in this unit (2017: a decrease in EBITDA margin of more than 2.79% will result to an increase in impairment loss).

Growth rates

Management recognises that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions. A reduction to more than 0.28% per annum in the long-term growth rate in this unit would result in impairment loss (2017: reduction in the long-term growth rate lower than (1)% will result to an increase in impairment loss).

Discount rate

An increase in after tax discount rate to 13.94% would result in impairment losses in CGU (2017: an increase in after tax discount rate to 16.52% will result to an increase in impairment losses).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. INVESTMENT PROPERTY

Movements in investment property for the years ended 31 December 2018 and 2017 were as follows:

In thousands of tenge	2018	2017
Cost		
At 1 January	**1,264,668**	1,264,668
At 31 December	**1,264,668**	1,264,668
Accumulated depreciation and impairment		
At 1 January	**(1,264,668)**	(1,264,668)
At 31 December	**(1,264,668)**	(1,264,668)
Carrying amount		
At 1 January	**–**	–
At 31 December	**–**	–

Investment property is represented by an office building constructed in order to lease it out to the Government related entities.

The impairment of KZT 1,264,668 thousand represents the write down of the carrying amount of the investment property to its recoverable amount. The recoverable amount was based on analysis of value in use and fair value less costs to sell and estimated to be nil as at 31 December 2018 and 2017, as it is unlikely that the Group will receive reimbursement for its construction costs either through sale of the office building or rental payments. However, these assumptions may change in the future.

13. OTHER NON-CURRENT FINANCIAL ASSETS

As at 31 December 2018 and 2017 other non-current financial assets comprised:

In thousands of tenge	2018	2017
Long-term accounts receivable	**6,669,328**	3,326,666
Loans to employees	**2,760,145**	2,603,464
Long-term bank deposits	**–**	3,323,300
Other	**220,396**	203,876
	9,649,869	9,457,306
Less: provision for expected credit losses	**(135)**	–
	9,649,734	9,457,306

13. OTHER NON-CURRENT FINANCIAL ASSETS (continued)

As at 31 December 2018 and 2017 the Group's other non-current financial assers were denominated in the following currencies:

In thousands of tenge	2018	2017
Tenge	**9,649,734**	6,134,006
US dollars	–	3,323,300
	9,649,734	9,457,306

As at 31 December 2017, the Group placed a long-term deposit with Eximbank Kazakhstan JSC in the amount of KZT 3,323,300 thousand, with a maturity period of up to 2019 and an interest rate of 2.5% per annum. As at 31 December 2018, this deposit was reclassified to other current financial assets.

As at 31 December 2018, the long-term receivables represent amounts due from Mobile Telecom Service LLP. On 29 February 2016 the Company and Mobile Telecom Service LLP agreed to extend the maturity of the Company's receivables from Mobile Telecom Service LLP until 2031. These receivables were discounted at the date of restructuring using 10% rate.

Loans to employees are interest free loans provided for the period from 1 to 15 years. These loans were discounted as at the issue date using market interest rates of 12.2% per annum to 22% (2017: from 12.2 to 22% per annum). Repayment of long-term loans to employees is made through withholding of amounts due from employees' salaries. Loans are secured by employees' real estate properties.

1 4. OTHER NON-CURRENT ASSETS

As at 31 December 2018 and 2017 other non-current assets comprised:

In thousands of tenge	2018	2017
Long-term VAT receivable	**1,711,640**	822,977
Deferred connection cost on subscribers	**692,795**	1,034,865
Deferred cost on operators	**671,168**	522,337
Other	**119,079**	73,342
	3,194,682	2,453,521

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. INVENTORIES

As at 31 December 2018 and 2017, inventories comprised:

In thousands of tenge	**2018**	**2017**
Goods for resale at net realisable value	**4,580,048**	220,171
Cable materials at cost	**1,657,088**	1,425,726
Raw and other materials at cost	**1,076,600**	556,203
Spare parts at cost	**636,318**	409,529
Fuel at cost	**452,382**	403,243
	8,402,436	3,014,872

During 2018, an amount of KZT 30,673 thousand (2017: KZT 13,729 thousand) was recognized as expenses in respect of inventories recorded at net realizable value. This amount was recorded within the item "General and administrative expenses".

16. TRADE RECEIVABLES

As at 31 December 2018 and 2017, trade receivables comprised:

In thousands of tenge	**2018**	**2017**
Trade receivables	**55,348,456**	34,370,423
	55,348,456	34,370,423
Less: provision for expected credit losses	**(3,175,108)**	–
Less: allowance for doubtful receivables	**–**	(2,276,195)
	52,173,348	32,094,228

Movements in the allowance for doubtful receivables / provision for expected credit losses were as follows for the years ended 31 December:

In thousands of tenge	**2018**	**2017**
Allowance for doubtful receivables at the beginning of the year	**(2,276,195)**	(2,224,485)
Change in accounting policy due to application of IFRS 9	**(870,289)**	–
Provision for expected credit losses/ allowance for doubtful receivables at the beginning of the year (restated)	**(3,146,484)**	(2,224,485)
Charge for the year	**(622,360)**	(838,049)
Write-off for the year	**593,736**	786,339
Provision for expected credit losses / provision for doubtful receivables at the end of the year	**(3,175,108)**	(2,276,195)

16. TRADE RECEIVABLES (continued)

Below is information as of December 31, 2018 on the Group's exposure to trade receivables using a matrix of reserves:

In thousands of tenge	Neither past due	Past due but not impaired						Total
		1 to 30 days	31 to 60 days	61 to 90 days	91 to 120 days	121 to 360 days	Over 360 days	
Estimated credit loss rate	**0.49%**	**4.52%**	**9.12%**	**9.33%**	**15.11%**	**23.98%**	**100%**	
Estimated total gross carrying amount at default	**38,033,653**	**4,302,479**	**2,970,636**	**2,381,772**	**1,772,938**	**5,069,507**	**817,471**	**55,348,456**
Provision for expected credit losses	**(186,502)**	**(194,524)**	**(270,799)**	**(222,139)**	**(267,811)**	**(1,215,862)**	**(817,471)**	**(3,175,108)**

As at 31 December 2017, the ageing analysis of trade receivables was as follows:

In thousands of tenge	Total Total Total	Neither past due- nor impaired	Less than 30 days	Past due but not impaired			
				30 to 90 days	90 to 120 days	120 to 360 days	Over 360 days
31 December 2017	**32,094,228**	28,853,169	1,712,306	1,103,628	200,939	224,186	–

As at 31 December 2018 and 2017 the Group's trade receivables were denominated in the following currencies:

In thousands of tenge	2018	2017
Tenge	**48,905,384**	31,030,653
US dollars	**3,098,781**	1,060,084
Other currencies	**169,183**	3,491
	52,173,348	32,094,228

As at 31 December 2018 the Group's trade receivables include amounts due from Mobile Telecom Service LLP of KZT 12,400,895 thousand (31 December 2017: KZT 11,397,300 thousand) resulted from rendering of telecommunication services and providing access to data transfer via IP VPN network. With regards to this receivable the Group plans to make a net offset in the amount of KZT 4,842,282 thousand with Mobile Telecom-Service LLP against of accounts payable to Khan Tengri Holding B.V. ***(Note 28).***

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. ADVANCES PAID

As at 31 December 2018 and 2017, advances paid comprised:

In thousands of tenge	**2018**	**2017**
Advances paid	**1,419,500**	609,409
	1,419,500	609,409
Less: allowance for doubtful amounts	**(3,137)**	(70,653)
	1,416,363	538,756

Movements in the allowance for doubtful amounts were as follows for the years ended 31 December:

In thousands of tenge	**2018**	**2017**
Allowance at the beginning of the year	**(70,653)**	(72,405)
Reversal for the year	**67,516**	1,752
Allowance at the end of the year	**(3,137)**	(70,653)

For 31 December 2018 and 2017, advances paid for short term assets were given to contractors for services and delivery of inventories for operational activities of the Group.

18. OTHER CURRENT FINANCIAL ASSETS

As at 31 December 2018 and 2017 other current financial assets comprised:

In thousands of tenge	**2018**	**2017**
Bank deposits	**3,576,340**	58,493,090
Loans to employees	**2,132,007**	2,060,217
Restricted cash	**438,812**	446,198
Due from employees	**228,993**	114,825
Interest receivable	**108,103**	371,432
Reimbursement of fee for using radio frequencies	**–**	205,709
Other accounts receivable	**2,421,526**	1,129,742
Other	**–**	4,065
	8,905,781	62,825,278
Less: provision for expected credit losses	**(4,220,670)**	–
Less: allowance for doubtful amounts	**–**	(691,591)
	4,685,111	62,133,687

Bank deposits with initial maturity of more than 3 (three) months but less than 12 (twelve) months have been placed with local banks and earned income at interest rates of 1.25% to 10.5% per annum (2017: 1% to 13% per annum).

18. OTHER CURRENT FINANCIAL ASSETS (continued)

On 12 December 2018 Halyk Bank of Kazakhstan JSC, in accordance with the terms of the contract of sale and purchase of a 75% shares in Kcell JSC, issued two covered counter-guarantees, the main guarantees were issued by the guarantor bank of Commerzbank AG, the beneficiaries of guarantees are the sellers Fintur Holdings B.V. and TeliaSonera Kazakhstan Holding B.V. Counter-guarantee to Fintur Holdings B.V. and counter-guarantee to TeliaSonera Kazakhstan Holding B.V. amounted to KZT 5,039,480 thousand and KZT 2,371,520 thousand, respectively.

Upon completion of the transaction, on 29 December 2018 Halyk Bank Kazakhstan JSC made a full refund of the covered bank guarantee to the Group.

As at 31 December 2018, the provision for expected credit losses includes a provision in the amount of KZT 3,399,500 thousand accrued on a deposit placed in Eximbank Kazakhstan JSC due to the liquidation of the bank.

Below is information as of 31 December 2018 on the Group's exposure to loans to employees and other receivables using the reserve matrix:

In thousands of tenge	Neither past due	Past due but not impaired						Total
		1 to 30 days	31 to 60 days	61 to 90 days	91 to 120 days	121 to 360 days	Over 360 days	
Estimated credit loss rate	**1.02%**	**5.01%**	**9.99%**	**10.00%**	**25.01%**	**70.01%**	**100.00%**	
Estimated total gross carrying amount at default	**4,419,090**	**12,522**	**5,305**	**3,211**	**5,709**	**13,406**	**762,095**	**5,221,338**
Provision for expected credit losses	**(44,921)**	**(627)**	**(530)**	**(321)**	**(1.428)**	**(9,385)**	**(762,095)**	**(819,307)**

As at 31 December 2017, the ageing analysis of loans to employees and other receivables was as follows:

In thousands of tenge	Total	Neither past due- nor impaired	Past due but not impaired				
			Less than 30 days	30 to 90 days	90 to 120 days	120 to 360 days	Over 360 days
31 December 2017	3,636,532	3,603,623	10,846	7,061	6,053	8,949	–

As at 31 December 2018 and 2017 other financial assets were denominated in the following currencies:

In thousands of tenge	2018	2017
KZT	**4,552,766**	4,357,248
US dollars	**124,948**	57,772,374
Other	**7,397**	4,065
	4,685,111	62,133,687

Cash restricted in use represents cash on the accounts with KazInvestBank JSC, which are assessed as unlikely to be recovered due to the revocation of its banking license. Impairment allowance was recorded for the whole amount of this cash.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Changes in provision for expected credit losses/ the allowance for doubtful receivables were as follows for the years ended 31 December:

In thousands of tenge	2018	2017
Allowance for doubtful receivables at the beginning of the year	**(691,591)**	(660,721)
Change in accounting policy due to application of IFRS 9	**(590,354)**	–
Provision for expected credit losses/ provision for doubtful receivables at the beginning of the year (restated)	**(1,281,945)**	(660,721)
Charge for the year	**(2,966,001)**	(46,106)
Write-off for the year	**27,276**	15,236
Provision for expected credit losses/ provision for doubtful receivables at the end of the year	**(4,220,670)**	(691,591)

19. OTHER CURRENT ASSETS

As at 31 December 2018 and 2017 other current assets comprised:

In thousands of tenge	2018	2017
VAT receivable	**7,572,175**	495,503
Taxes prepaid other than corporate income tax	**1,345,611**	161,181
Deferred connection cost on subscribers	**799,362**	820,026
Deferred costs on operators for telecommunication services	**143,086**	86,027
Other	**532,720**	61,285
	10,392,954	1,624,022

As of 31 December 2018 VAT recoverable amounted to KZT 7,572,175 thousand.

20. CASH AND CASH EQUIVALENTS

As at 31 December 2018 and 2017 cash and cash equivalents comprised:

In thousands of tenge	2018	2017
Cash on current bank accounts	**45,763,434**	14,909,487
Deposits with less than 90 days’ maturity from the date of opening	**72,802**	1,071,989
Cash on hand	**20,621**	4,467
Less: provision for expected credit losses	**(506,765)**	–
	45,350,092	15,985,943

20. CASH AND CASH EQUIVALENTS (continued)

Cash on current bank accounts earn interest at the rates ranging from 0.1% to 8.5% per annum (2017: from 0.1% to 10% per annum). As at 31 December 2018 cash on current bank accounts included an amount of KZT 72,802 thousand placed on overnight deposits with a rate of up to 7% (as at 31 December 2017: an amount of KZT 74,999 thousand with a rate of up to 7%). Short-term deposits are made for varying periods between one day and three months, depending on the immediate cash requirements of the Group as at 31 December 2018 were not placed (2017: from 0.15 to 1.5% per annum).

As at 31 December 2018 and 2017 cash and cash equivalents were denominated in the following currencies:

In thousands of tenge	**2018**	**2017**
US dollars	**29,886,154**	8,654,970
Tenge	**15,314,144**	7,200,660
Russian roubles	**128,024**	98,540
Other	**21,770**	31,773
	45,350,092	15,985,943

Movements in the provision for expected credit losses were as follows for the years ended 31 December 2018:

In thousands of tenge	**2018**	**2017**
Provision for expected credit losses at the beginning of the year	**–**	–
Change in accounting policy due to application of IFRS 9	**(20,240)**	–
Provision for expected credit losses at the beginning of the year (restated)	**(20,240)**	–
Charge for the year	**(486,525)**	–
Provision for expected credit losses at the end of the year	**(506,765)**	–

21. EQUITY

Authorised and issued shares

	Number of shares		**In thousands of tenge**		
	Common shares	**Preferred non-voting shares**	**Common shares**	**Preferred non-voting shares**	**Total issued shares**
At 31 December 2016	10,922,876	1,213,653	10,922,876	1,213,653	12,136,529
At 31 December 2017	10,922,876	1,213,653	10,922,876	1,213,653	12,136,529
At 31 December 2018	**10,922,876**	**1,213,653**	**10,922,876**	**1,213,653**	**12,136,529**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Treasury shares

	Number of shares		In thousands of tenge		
	Common shares	Preferred non-voting shares	Common shares	Preferred non-voting shares	Total
At 31 December 2016	215,553	893,097	2,966,250	3,498,124	6,464,374
Treasury shares reacquired	–	–	–	–	–
Sale of treasury shares	–	–	–	–	–
At 31 December 2017	215,553	893,097	2,966,250	3,498,124	6,464,374
Treasury shares reacquired	–	–	–	–	–
Sale of treasury shares	–	–	–	–	–
At 31 December 2018	**215,553**	**893,097**	**2,966,250**	**3,498,124**	**6,464,374**

Shares issued less reacquired shares

As at 31 December 2018, number of common and preferred shares issued net of reacquired shares was 10,707,323 and 320,556 shares, respectively (31 December 2017: 10,707,323 and 320,556 shares, respectively).

In the period from 13 December 2018 to 8 January 2019, the Group received applications from minority shareholders demanding the Group to repurchase their shares in connection with their disagreement with the decision of the Board of Directors of the Group, adopted on December 12, 2018, to conclude a major transaction on acquisition of 75% of shares of Kcell JSC. In total, 34,911 common and 21,962 preference shares were presented for repurchase (taking into account the withdrawal of a number of applications). The decision on the repurchase of shares and the price of their repurchase will be taken by the Board of Directors of Kazakhtelecom JSC in the prescribed manner based on the results of procedural decisions taken by the authorized bodies. The expected range of obligations for the repurchase of shares is estimated from KZT 256 to 660 million.

According to the methodology in force as of 31 December 2018, the value of Kazakhtelecom JSC shares is calculated as a product of the current price of Kazakhtelecom JSC shares on Kazakhstan Stock Exchange (KASE) and the ratio of the forecast net income of Kazakhtelecom JSC for the current year to the actual net income of Kazakhtelecom JSC for the previous year.

21. EQUITY (continued)

Preferred shares

Holders of preferred shares are entitled to receive annual cumulative dividends of 300 tenge per share, and not less than the amount of the dividends per share paid to holders of common shares. Payment of preferred shares dividends does not require a resolution of Kazakhtelecom JSC shareholders meeting. The discounted value of future cash flows of annual cumulative dividends is recorded as a financial liability as at 31 December 2018 in the amount of KZT 874,244 thousand (31 December 2017: KZT 874,244 thousand). This liability has been included in non-current liabilities as a debt component of preferred shares. Preferred shareholders receive the right to vote if the general meeting of shareholders considers decisions restricting rights of preferred shareholders, decisions on reorganization or liquidation of the Company and if dividends on preferred shares are not paid within 3 (three) months after a specified payment date.

Dividends

The preferred shares earn a non-discretionary dividend of 300 tenge per share in accordance with the Company's charter documents. Preferred shares are considered to be compound financial instruments, and accordingly the liability and equity components are presented separately in the consolidated statement of financial position. Dividends in the amount of KZT 96,167 thousand were accrued as at 31 December 2018 (at 31 December 2017: KZT 96,167 thousand) and are recorded as interest expenses in the consolidated statement of comprehensive income ***(Note 36).***

On the basis of the decision made at the annual shareholders general meeting of Kazakhtelecom JSC on 30 May 2018, the Company declared dividends on preferred shares based on 2017 results in the amount of KZT 415,373 thousand and dividends on common shares in the amount of KZT 17,086,639 thousand (2017: KZT 33,520 thousand and KZT 4,331,862 thousand, respectively). The dividends accrued on common shares during 2018. Dividends per share (common and preferred) as at 31 December 2018 were equal to KZT 1,595.79 (as at 31 December 2017: KZT 404.57 per common share).

Movements in dividends payable for the years ended 31 December were as follow:

In thousands of tenge	**2018**	**2017**
Dividends payable at the beginning of the year	**1,628,625**	1,547,439
Dividends declared on common shares	**17,086,639**	4,331,862
Dividends declared on preferred shares in excess of the obligatory amount	**415,373**	33,520
Interest on debt component of preferred shares (Note 36)	**96,167**	96,167
Withholding tax	**(197,074)**	(81,017)
Dividends paid on common and preferred shares	**(16,996,235)**	(4,299,346)
Dividends payable at the end of the year (Note 28)	**2,033,495**	1,628,625

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Other reserves

According to the Company's Charter, the Company created a reserve capital equal to 15% of the authorized share capital. This reserve capital was created through appropriation of the retained earnings. There were no movements in the reserve capital in 2018 and 2017.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of financial statements of the subsidiaries, whose functional currency is not tenge and whose financial statements are included in these consolidated financial statements in accordance with the accounting policy disclosed in Note 3.

Earnings per share

Basic earnings per share are calculated by dividing net profit for the year attributable to common equity holders of the Parent (after adjusting for the after-tax amount of dividends on preferred shares) by the weighted average number of common and preferred shares outstanding during the year.

Diluted earnings per share are equal to basic earnings per share, as the Group does not have any dilutive potential common shares.

The following tables reflects profit and share data used in the basic and diluted earnings per share computations:

In thousands of tenge	**2018**	**2017**
Net profit	**43,067,365**	24,717,821
Interest on preferred shares	**96,167**	96,167
Net profit for calculating of basic and diluted earnings per share	**43,163,532**	24,813,988
Weighted average number of common and preferred shares for calculation of basic and diluted earnings per share	**11,027,879**	11,027,879
Basic and diluted earnings per share, tenge	**3,914.04**	2,250.11

There have been no other transactions involving common shares or potential common shares between the reporting date and the date of preparation of these consolidated financial statements.

21. EQUITY (continued)

Additional information disclosed in accordance with Kazakhstan Stock Exchange (KASE) requirements

The cost of common shares, calculated in accordance with the requirements of the KASE

Below is the cost of one ordinary share, calculated in accordance with the requirements of the KASE:

In thousands of tenge	2018	2017
Total assets	**793,394,731**	471,314,192
Less: intangible assets (Note 9)	**176,542,542**	15,592,544
Less: total liabilities	**378,553,796**	112,206,255
Less: preferred shares issued net of reacquired shares	**320,556**	320,556
Net assets for calculation of cost of ordinary share in accordance with listing requirements of KASE	**237,977,837**	343,194,837
Number of ordinary shares	**10,707,323**	10,707,323
Cost of ordinary share, calculated in accordance with listing requirements of KASE (in tenge)	**22,226**	32,052

Another requirement for disclosure is the amount of the dividends payable to owners of preferred non-voting shares, preferred non-voting shares in the equity and debt component of preferred non-voting shares, divided by number of preferred non-voting shares. At the same time, according to the methodology, the KASE the dividend payable on preferred shares does not taken into account, which are not paid due to the lack of up-to-date information about the shareholders, their payment details. As at 31 December 2018, this indicator amounted to 3,727 tenge (as at 31 December 2017: 3,727 tenge).

22. BORROWINGS

As at 31 December 2018 and 2017, borrowings comprised:

In thousands of tenge	Weighted average interest rate	2018	Weighted average interest rate	2017
Borrowings with a fixed interest rate of 7% to 12% per annum	**10.61%**	**86,791,306**	7.64%	27,319,491
Bonds with a fixed interest rate of 7.5% to 11.5% per annum	**11.50%**	**106,661,234**	7.50%	6,063
		193,452,540		27,325,554

On 6 November and 12 December 2018, the Group made a listing of coupon bonds on the stock exchange of the International Financial Center Astana (AIX) for amount of KZT 100,000,000 thousand at a rate of 11.5% and maturity in November 2024. The nominal value of one bond is one thousand tenge. Bonds on these issues were purchased by the Parent company *(Note 41).*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

In accordance with the terms of the sale and purchase agreements on coupon bonds concluded with the Parent, the Group undertakes to provide collateral sufficient to cover the total amount of the agreements before 31 December 2019 or the primary / secondary public offering of shares of Company on the stock market, depending on what comes first. Assets to be transferred as collateral are not determined at the reporting date.

As at 31 December 2018 and 2017, borrowings were denominated in tenge.

Borrowings are repayable as follows:

In thousands of tenge	2018	2017
Current portion of borrowings	**57,614,129**	2,357,864
Maturity between 1 and 2 years	**7,392,518**	4,065,248
Maturity between 2 and 5 years	**23,780,192**	12,177,556
Maturity over 5 years	**104,665,701**	8,724,886
Total non-current portion of borrowings	**135,838,411**	24,967,690
Total borrowings	**193,452,540**	27,325,554

As of December 31, 2018 and December 31, 2017, debt securities issued and loans amounted to:

	Maturity date	Nominal interest rate	2018	2017
Local bonds of Kazakhtelecom JSC (KTCB.1024 и KTCB2.1024)	01.11.2024	11.50%	**101,461,458**	–
Local bonds of Kcell JSC (KCELb1)	16.01.2021	11.50%	**5,193,713**	–
Local bonds of Kazakhtelecom JSC (KZTKb3)	26.12.2019	7.50%	**6,063**	6,063
			106,661,234	6,063

Borrowings	Maturity date	Nominal interest rate	2018	2017
Development Bank of Kazakhstan JSC	19.12.2024	7.00%	**17,113,449**	18,539,569
Development Bank of Kazakhstan JSC	19.12.2024	9.00%	**8,152,784**	8,779,922
Eurasian Bank JSC	20.12.2019	12.00%	**29,749,590**	–
Halyk Bank Kazakhstan JSC	02.12.2019	11.50%	**7,818,525**	–
Halyk Bank Kazakhstan JSC	20.09.2019	11.50%	**3,893,578**	–
Halyk Bank Kazakhstan JSC	16.07.2021	11.50%	**9,976,714**	–
Alfa Bank JSC	07.06.2019	12.00%	**5,036,666**	–
Alfa Bank JSC	07.06.2019	12.00%	**5,050,000**	–
Total			**86,791,306**	27,319,491

As at 31 December 2018, the Parent is a guarantor of the Group's credit facility in the amount of KZT 24,961,627 thousand received from Development Bank of Kazakhstan JSC (as at 31 December 2017: KZT 26,991,220 thousand). As at 31 December 2018 and 2017, the Group's borrowings are not collateralized by any property other than the above-mentioned guarantee.

23. LEASE

Finance lease

The Group has entered into finance lease agreements on the number of property and equipment, primarily telecommunication equipment. According to agreement terms, leased assets pass into the Group's ownership after the expiry of lease term. The amounts of future minimum lease payments and their present values are presented as follows:

	2018		2017	
In thousands of tenge	**Minimum lease payments**	**Present value of minimum lease payments**	**Minimum lease payments**	**Discounted value of minimum lease payments**
Within one year	**9,437,411**	**6,754,019**	5,305,919	3,920,719
After one year but not more than five years	**18,889,078**	**15,975,306**	9,331,352	7,681,118
Less: amounts representing future finance costs	**(5,597,164)**	**–**	(3,035,434)	–
Discounted value of minimum lease payments	**22,729,325**	**22,729,325**	11,601,837	11,601,837
Less: amounts due for settlement within 12 months		**6,754,019**		3,920,719
Amounts due for settlement after 12 months		**15,975,306**		7,681,118

The amounts representing finance costs are based on effective interest rates 14.6% per annum.

24. EMPLOYEE BENEFIT OBLIGATIONS

State contribution plan

The Group pays social tax according to the current statutory requirements of the Republic of Kazakhstan. The social tax and salary accruals are recorded in expenses as incurred.

In addtions, the Group withholds 10% of the salary of employees paid as contributions of employees to the accumulating pension funds. These expenses are recorded in the period when they were incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Employee benefit obligations

As at 31 December 2018 and 2017 the total employee benefit obligations of the Group comprised the following:

In thousands of tenge	**2018**	**2017**
Present value of defined benefit pension plan obligation	**15,225,384**	12,474,055
Present value of obligations for other long-term payments	**580,386**	458,129
	15,805,770	12,932,184

A defined benefit pension plan provides for the fulfillment of obligations under the state pension provision in accordance with the Collective Agreement concluded between the Company and employees. Other long-term payments include anniversaries, funeral payments, and others.

The Group did not create a fund for such obligations.

A reconciliation of the present value of the defined benefit plan obligation with specified payments was as follows for the years ended 31 December 2018 and 2017:

In thousands of tenge	**2018**	**2017**
Total liability at the beginning of the year	12,474,055	7,831,035
Current service cost	366,783	334,343
Interest expenses	923,080	747,081
Benefits paid during the year	(1,285,569)	(1,736,771)
Actuarial losses recognized during the period within other comprehensive income	2,747,035	5,298,367
Total liability at the end of the year	15,225,384	12,474,055
Liability payable within one year	(1,255,222)	(909,227)
Liability payable after one year	13,970,162	11,564,828

A reconciliation of the present value of obligations for other long-term payments with specified payments was as follows for the years ended 31 December 2018 and 2017:

In thousands of tenge	**2018**	**2017**
Total liability at the beginning of the year	**458,129**	388,503
Current service cost	**46,548**	34,668
Past service cost	**212,923**	–
Interest expenses	**33,902**	37,063
Benefits paid during the year	**(73,532)**	(79,858)
Actuarial losses recognized during the period within expenses	**(97,584)**	77,753
Total liability at the end of the year	**580,386**	458,129
Liability payable within one year	**(79,195)**	(82,943)
Liability payable after one year	**501,191**	375,186

24. EMPLOYEE BENEFIT OBLIGATIONS (continued)

Employee benefit obligations (continued)

Actuarial losses recognised in 2018 have resulted primarily from changes in the assumptions relating to the discount rate and from historical adjustments.

Cost of current service, interest expenses and actuarial losses in the total amount of KZT 1,485,652 thousand were recorded in cost of sales and general and administrative expenses within personnel costs (2017: KZT

1,230,908 thousand) ***(Note 35).***

Actuarial losses recognized in 2018 within other comprehensive income, net of income tax, were equal to KZT 2,512,956 thousand (2017: KZT 5,037,715 thousand).

There were no unrecognised actuarial losses or past service costs.

The estimates of the liability were made on the basis of the published statistical data regarding mortality of employees and actual Company's data concerning the number, age, gender and years of employee service. Other principal assumptions used in determining benefit obligations for the Company's plan were shown below:

	2018	**2017**
Discount rate	**8.39%**	7.40%
The expected rate of future annual minimum salary increases	**8.66%**	8.70%

A quantitative sensitivity analysis for significant assumptions as at 31 December 2018, was as follows:

	Discount rate		**The expected rate of future annual minimum salary increases**	
Sensitivity level	**Growth by 0.5%**	**Reduction by 0.5%**	**Growth by 1%**	**Reduction by 1%**
Impact on defined benefit plan obligations, in thousands tenge	**(886,813)**	**1,175,846**	**1,218,675**	**(1,156,773)**

A quantitative sensitivity analysis for significant assumptions as at 31 December 2017, was as follows:

	Discount rate		**The expected rate of future annual minimum salary increases**	
Sensitivity level	Growth by 0.5%	Reduction by 0.5%	Growth by 1%	Reduction by 1%
Impact on defined benefit plan obligations, in thousands tenge	(636.998)	691.057	1.337.969	(1.160.631)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analyses are based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

25. OTHER NON-CURRENT FINANCIAL LIABILITIES

As at 31 December 2018 and 2017 other non-current financial liabilities comprised:

In thousands of tenge	2018	2017
Guarantee issued	**915,558**	258,551
Non-current accounts payable	**78,147**	1,880
	993,705	260,431

Guarantee issued

On 25 February 2016, the Company provided a guarantee to associate organization Khan Tengri Holding B.V. under the credit facility from Development Bank of Kazakhstan JSC with a credit limit of up to KZT 10,008,780 thousand for the period until 19 December 2024. The actual amount of the loan under the credit line in Development Bank of Kazakhstan JSC was KZT 9,984,421 thousand as at 31 December 2018. The actual balance of the debt on the used loan amount under the credit line in Development Bank of Kazakhstan JSC was KZT 9,271,248 thousand as of 31 December 2018. As at 31 December 2018 guarantee issued represents an estimated reserve for expected credit losses on liabilities of Khan Tengri Holding B.V.

26. OTHER NON-CURRENT LIABILITIES

As at 31 December 2018 and 2017 other non-current liabilities comprised:

In thousands of tenge	2018	2017
Decommissioning liabilities	**1,444,530**	145,985
Deferred income from operators	–	2,758,768
Deferred connection income on subscribers	–	1,444,644
Other	–	1,012,450
	1,444,530	5,361,847

26. OTHER NON-CURRENT LIABILITIES (continued)

Decommissioning liabilities

Provision for decommissioning liabilities is recorded at the discounted value of expected costs to bring the sites and facilities to their original condition using estimated cash flows and is recognised as part of the cost of the specific asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability.

Movements in provision for decommissioning liabilities for the years ended 31 December 2018 were as follows:

In thousands of tenge	**2018**	**2017**
Provision for decommissioning liabilities as at 1 January	**145,985**	141,564
Additional provisions	**12,375**	1,114
Amortization of discount (Note 36)	**688**	3,307
Business combination (Note 5)	**1,285,482**	–
Provision for decommissioning liabilities as at 31 December	**1,444,530**	145,985

Contract liabilities

As at 31 December 2018 and 2017 current contract liabilities comprised:

In thousands of tenge	**2018**	**2017**
Contract liabilities from operators	**3,425,567**	–
Contract liabilities for connection of subscribers	**1,163,051**	–
Other contract liabilities	**1,110,683**	–
	5,699,301	–

Movements in liabilities for the years ended 31 December 2018 were as follows:

In thousands of tenge	**2018**	**2017**
Contract liabilities as at 1 January	**9,456,950**	–
Deferred during the year	**15,801,393**	–
Recognised as revenue during the year	**(7,440,902)**	–
Amortization of discount	**549,585**	–
Total contract liabilities as at 31 December	**18,367,026**	–
Current (Note 29)	**12,667,725**	–
Non-current	**5,699,301**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. TRADE PAYABLES

As at 31 December 2018 and 2017 trade payables comprised:

In thousands of tenge	2018	2017
Trade payables for services rendered	**23,512,079**	8,546,021
Trade payables for supply of property and equipment	**17,445,106**	4,635,227
Trade payables for inventory received	**1,190,220**	325,297
	42,147,405	13,506,545

As at 31 December 2018 and 2017 trade payables were interest-free.

As at 31 December 2018 and 2017 trade payables were mainly denominated in the following currencies:

In thousands of tenge	2018	2017
Tenge	**30,835,928**	12,146,351
US dollars	**10,879,035**	994,400
Other	**432,442**	365,794
	42,147,405	13,506,545

28. OTHER CURRENT FINANCIAL LIABILITIES

As at 31 December 2018 and 2017 other current financial liabilities comprised:

In thousands of tenge	2018	2017
Payables to employees	**11,100,616**	6,239,349
Payable to Khan Tengri Holding B.V.	**4,842,282**	4,842,282
Dividends payable (Note 21)	**2,033,495**	1,628,625
Guarantees issued	**43,174**	82,150
Other	**834,387**	563,655
	18,853,954	13,356,061

Payable to Khan Tengri Holding B.V. is related to final settlements on acquisition of interest in associate of Khan Tengri Holding B.V. ***(Note 10).***

As at 31 December 2018 and 2017, other current financial liabilities was not interest bearing and the balances were mainly denominated in tenge.

29. OTHER CURRENT LIABILITIES

As at 31 December 2018 and 2017 other current liabilities comprised:

In thousands of tenge	2018	2017
Taxes payable other than income tax	**6,305,705**	2,600,717
Payable to pension funds	**561,920**	718,267
Deferred connection income on subscribers	**–**	586,369
Deferred income from operators	**–**	412,170
Other	**249,025**	504,137
	7,116,650	4,821,660

Contract liabilities

As at 31 December 2018 and 2017 current contract liabilities comprised:

In thousands of tenge	2018	2017
Advances received	**10,734,219**	–
Contract liabilities from operators	**902,722**	–
Contract liabilities for connection of subscribers	**471,924**	–
Other contract liabilities	**14,673**	–
Other	**544,187**	
	12,667,725	–

Advances received represents the prepayment for the services of the Group like telecommunications services, internet services, IP-TV by customers. The customers can be divided to three major groups: individuals, private firms and legal firms under government sector.

30. REVENUE FROM CONTRACTS WITH CUSTOMER

Revenue from contracts with customer for the years ended 31 December comprised:

	For the year ended 31 December 2018			
In thousands of tenge	Fixed line	Mobile connection	Other	Total
Data transfer services	**111,745,082**	**1,554,392**	**–**	**113,299,474**
Rendering of fixed line and wireless phone services	**44,991,160**	**1,557,710**	**–**	**46,548,870**
Rent of channels	**18,542,643**	**–**	**–**	**18,542,643**
Interconnect	**14,353,098**	**595,431**	**–**	**14,948,529**
Other	**21,917,114**	**785,609**	**500,551**	**23,203,274**
	211,549,097	**4,493,142**	**500,551**	**216,542,790**
B2C*	**104,849,713**	**3,132,867**	**–**	**107,982,580**
B2B**	**31,853,238**	**764,822**	**500,551**	**33,118,611**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

	For the year ended 31 December 2018			
In thousands of tenge	**Fixed line**	**Mobile connection**	**Other**	**Total**
B2O***	**42,539,481**	**595,431**	**–**	**43,134,912**
B2G****	**32,306,665**	**22**	**–**	**32,306,687**
	211,549,097	**4,493,142**	**500,551**	**216,542,790**

	For the year ended 31 December 2017		
In thousands of tenge	**Fixed line**	**Other**	**Total**
Data transfer services	106,291,761	–	106,291,761
Rendering of fixed line and wireless phone services	48,325,566	–	48,325,566
Rent of channels	18,419,971	–	18,419,971
Interconnect	15,876,122	–	15,876,122
Other	14,144,120	–	14,144,120
	203,057,540	–	203,057,540
B2C*	101,339,429	–	101,339,429
B2B**	30,604,494	–	30,604,494
B2O***	41,374,997	–	41,374,997
B2G****	29,738,620	–	29,738,620
	203,057,540	–	203,057,540

* B2C (Business-to-Consumer) – services rendered to private end consumers (individuals).

** B2B (Business to Business) – services rendered to the corporate sector, including large enterprises and SMEs.

*** B2O (Business-to-Operator) – services rendered to communication operators.

**** B2G (Business-to-Government) – services rendered to the state sector.

Generally, revenue of the Group is recognized over time given that the customers simultaneously receive and consume the benefits provided by the Group. .

31. COMPENSATION FOR PROVISION OF UNIVERSAL SERVICES IN RURAL AREAS

According to the Resolution of the Government of the Republic of Kazakhstan No. 451, dated 31 March 2009 *On the approval of subsidies for telecommunication operators losses related to the provision of universal telecommunication services in rural areas the* Group receives government subsidies as compensation for operators' losses for the provision of telecommunication services to socially important destinations. There are no unfulfilled conditions or contingencies attached to these subsidies. The compensation received for the year ended 31 December 2018 was equal to KZT 6,183,581 thousand (2017: KZT 7,167,685 thousand).

32. COST OF SALES

Cost of sales for the years ended 31 December comprised:

In thousands of tenge	**2018**	**2017**
Personnel costs (Note 35)	**53,723,725**	51,977,009
Depreciation and amortization	**38,587,880**	42,929,496
Rental of channels	**9,346,137**	7,569,127
Interconnect	**7,685,137**	7,068,297
Repair and maintenance	**7,532,292**	7,981,590
Inventories	**6,213,926**	7,301,851
Content	**5,379,248**	4,995,547
Fees for usage of GSM radiofrequencies of Mobile Telecom Services LLP	**5,263,310**	5,446,007
Fee to provide telecom services	**2,940,937**	2,831,806
Electricity	**2,901,765**	2,763,385
Security and safety	**2,190,836**	2,488,223
Utilities	**1,881,526**	1,709,762
Rental of property and equipment	**1,754,904**	960,294
Fees for radiofrequencies use	**1,269,941**	202,632
Business trip expenses	**780,069**	737,406
Rent of transponders related to satelite communications	**765,528**	698,782
Insurance	**397,980**	524,521
Fees for usage of billing system of Mobile Telecom Services LLP	**219,305**	250,000
Other	**5,181,166**	3,240,981
	154,015,612	151,676,716

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended 31 December comprised:

In thousands of tenge	2018	2017
Personnel costs (Note 35)	**13,075,235**	12,385,800
Consulting services	**3,138,478**	1,169,063
Taxes other than corporate income tax	**3,104,911**	3,083,629
Social activities	**715,633**	731,491
Business trips	**589,980**	458,529
Depreciation and amortization	**287,951**	221,490
Inventories	**234,471**	247,306
Trainings	**223,382**	126,362
Repair and maintenance expenses	**216,900**	253,984
Rental of equipment	**162,519**	33,319
Insurance	**162,063**	258,001
Security and safety	**94,278**	69,767
Bank fees	**54,262**	101,379
Write-down of inventories to net realizable value (Note 15)	**30,673**	13,729
Allowance for doubtful receivables (Notes 16, 17, 18)	**–**	882,403
Other	**1,220,930**	1,416,098
	23,311,666	21,452,350

* In 2018, in accordance with the requirements of IFRS 9, the Group disclosed impairment losses on financial assets as a separate line in the consolidated statement of comprehensive income *(Note 42).*

34. SELLING EXPENSES

Selling expenses for the years ended 31 December comprised:

In thousands of tenge	2018	2017
Marketing and advertising	**2,499,979**	2,109,757
Amortization of cost to obtain a contract	**1,511,909**	1,289,929
Other	**375,633**	402,486
	4,387,521	3,802,172

35. PERSONNEL EXPENSES

Personnel expenses for the years ended 31 December comprised:

In thousands of tenge	2018	2017
Payroll	**59,778,384**	57,235,422
Payroll related taxes	**5,534,924**	5,896,479
Employee benefits (Note 24)	**1,485,652**	1,230,908
	66,798,960	64,362,809

Personnel expenses for the years ended 31 December were allocated as follows:

In thousands of tenge	2018	2017
Cost of sales (Note 32)	**53,723,725**	51,977,009
General and administrative expenses (Note 33)	**13,075,235**	12,385,800
	66,798,960	64,362,809

36. (FINANCE COSTS) / FINANCE INCOME

Finance costs and finance income for the years ended 31 December comprised:

In thousands of tenge	2018	2017
Finance costs		
Interest expense on loans (Note 42)	**(4,016,403)**	(6,535,447)
Interest payable under finance leases (Note 42)	**(1,565,491)**	(578,249)
Discounting of long-term loans to employees	**(1,054,793)**	(601,926)
Unwinding of discount on long-term accounts payable	**(549,789)**	(3,665)
Interest on debt component of preferred shares (Note 21)	**(96,167)**	(96,167)
Discounting of other non-current financial assets	**(66,310)**	(6,993)
Unwinding of discount (provision for decommissioning liability) (Note 26)	**(688)**	(3,307)
	(7,349,641)	(7,825,754)
Finance income		
Interest income on cash balances	**994,635**	799,590
Unwinding of discount on long-term loans to employees	**981,797**	1,019,945
Interest income on deposits	**653,487**	1,403,158
Unwinding of discount on long-term accounts receivable	**337,264**	364,402
Interest income on guarantees issued (Note 25)	**82,148**	537,959
Other income	**17,698**	–
	3,067,029	4,125,054

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. NET FOREIGN EXCHANGE GAIN LOSS

On 20 August 2015, the National Bank and the Government of the Republic of Kazakhstan announced the transition to “free floating exchange rate of tenge” and cancelation of the currency corridor. As a result, Kazakhstani tenge significantly devalued against US dollar and other major currencies approximately by 90%. In 2018 the Group had a balanced foreign exchange position, and therefore, for the year ended 31 December 2018, the Group recognized a net foreign exchange income in the amount of KZT 10,591,474 thousand (in 2017: net foreign exchange loss in the amount of KZT 633,942 thousand).

38. OTHER INCOME/(EXPENSES)

Other income and expenses for the years ended 31 December comprised:

In thousands of tenge	2018	2017
Other income		
Rental income	**3,229,876**	3,247,383
Non-core operations	**421,558**	459,366
Other	**707,290**	720,901
	4,358,724	4,427,650
Other expenses		
Impairment loss of property and equipment and intangible assets (Notes 8, 9)	**(1,169,713)**	(1,246,347)
Non-core operations	**(396,991)**	(403,235)
Rental expenses	**(14,292)**	(11,916)
Other	**(381,899)**	(198,273)
	(1,962,895)	(1,859,771)

Rental income mainly represents rent of spaces used for the installation of technological equipment by third parties.

39. INCOME TAX EXPENSES

Income tax expenses for the years ended 31 December comprised:

In thousands of tenge	2018	2017
Current corporate income tax expenses	**11,736,193**	8,646,038
Deferred income tax benefit	**(628,613)**	(427,193)
	11,107,580	8,218,845

The Group and its subsidiaries except for KT-IX LLC are subject to taxation in the Republic of Kazakhstan. KT-IX LLC is subject to taxation in the Russian Federation.

39. INCOME TAX EXPENSES (continued)

The Group and its subsidiaries except for KT-IX LLC are subject to taxation in the Republic of Kazakhstan. KT-IX LLC is subject to taxation in the Russian Federation.

Tax rate for the Group and subsidiaries except for subsidiaries stated above was 20% in 2018 and 2017.

In thousands of tenge	**2018**	**2017**
Profit before taxation	**53,990,896**	32,936,666
Income tax at statutory income tax rate of 20%	**10,798,179**	6,587,333
Inventories write-offs	**22,358**	29,800
Changes in unrecognised deferred tax assets	**7,777**	(44,455)
Share in profit of associates non-assessable for tax purposes	**(1,572,017)**	(219,673)
Employee benefits obligations	**210,031**	834,592
The effect of the application of new standards	**778,198**	–
Non-deductible expenses	**863,054**	1,031,248
Total income tax expenses	**11,107,580**	8,218,845

A reconciliation of income tax expenses applicable to profit before taxation at the statutory rate of 20% (2017: 20%), with the current corporate income tax expenses for the years ended 31 December is out below:

	Consolidated statement of financial position		**Consolidated statement of comprehensive income**		**The effect of the application of new standards**	**Acquisition of a subsidiary**	**As part of other comprehensive loss**	
In thousands of tenge	**31 December 2018**	**31 December 2017**	**2018**	**2017**	**2018**	**2018**	**2018**	**2017**
Deferred tax assets								
Tax losses carry-forward	–	–	–	(17,384)	–	–	–	–
Employee benefit obligations	**1,104,258**	935,383	**(65,204)**	(969,177)	–	–	**234,079**	260,652
Discount on current assets	**917,356**	936,763	**(19,407)**	(100,295)	–	–	–	–
Accrued provisions for unused vacations	**338,438**	257,068	**81,370**	705	–	–	–	–
Allowance for doubtful receivables	**1,956,416**	454,985	**(39,222)**	(52,346)	**204,630**	**1,336,023**	–	–
Interest payable on borrowings	**468,247**	–	–	(272,588)	–	**468,247**	–	–
Intangible assets	**210,672**	165,350	**45,322**	36,741	–	–	–	–
Deferred income	**28,610**	35,224	**(6,614)**	17,364	–	–	–	–
Obligation to pay a fine for termination of the contract (Note 4)	**2,910,373**	–	–	–	–	**2,910,373**	–	–
Other	**1,839,330**	934,596	**283,981**	280,310	–	**620,753**	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Consolidated statement of financial position		Consolidated statement of comprehensive income		The effect of the application of new standards	Acquisition of a subsidiary	As part of other comprehensive loss	
In thousands of tenge	**31 December 2018**	**31 December 2017**	**2018**	**2017**	**2018**	**2018**	**2018**	**2017**
Less: unrecognised tax assets	**–**	(92,891)	**92,891**	44,455	**–**	**–**	**–**	–
Less: deferred tax assets less deferred tax liabilities	**(9,526,816)**	(3,521,864)	**(464,926)**	876,177	**(204,630)**	**(5,335,396)**	**–**	–
Deferred tax assets	**246,884**	104,614	**(91,809)**	(156,038)	**–**	**–**	**234,079**	260,652
Deferred tax liabilities								
Property and equipment	**32,314,502**	22,323,250	**(13,458)**	(1,433,387)		**10,004,710**	**–**	–
Intangible assets	**13,541,800**	239,464	**(239,464)**	(26,021)		**13,541,800**	**–**	–
Indemnification assets	**2,182,780**	–	**–**	–	**–**	**2,182,780**	**–**	–
Other	**384,860**	–	**(2,574)**	–	**261,096**	**126,338**	**–**	–
Less: deferred tax assets less deferred tax liabilities	**(9,526,816)**	(3,521,864)	**(464,926)**	876,177	**(204,630)**	**(5,335,396)**	**–**	–
Deferred tax liabilities	**38,897,126**	19,040,850	**(720,422)**	(583,231)	**56,466**	**20,520,232**	**–**	–
Deferred income tax (expense)/ benefit			**628,613**	427,193		**(20,520,232)**	**234,079**	260,652

39. INCOME TAX EXPENSES (continued)

Deferred tax assets and liabilities are presented in the consolidated statement of financial position as follows:

In thousands of tenge	2018	2017
Deferred tax assets	**246,884**	104,614
Deferred tax liabilities	**(38,897,126)**	(19,040,850)
Net deferred tax liabilities	**(38,650,242)**	(18,936,236)

In thousands of tenge	2018	2017
Reconciliation of deferred tax liabilities, net		
Balance at 1 January	**(18,936,236)**	(19,624,081)
Income tax benefit for the reporting period – origination and recovery of temporary differences	**628,613**	427,193
Less: deferred tax recognised within other comprehensive loss	**234,079**	260,652
The effect of the application of new standards	**(56,466)**	–
Deferred taxes acquired in business combinations	**(20,520,232)**	–
Balance at 31 December	**(38,650,242)**	(18,936,236)

The Group performs offsetting of tax assets and liabilities only if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred tax assets and deferred tax lbiabilities relating to income tax collected by the same taxation authority.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. In accordance with legislation of the Republic of Kazakhstan, tax losses may be deferred for 10 (ten) years from the date of their origination and will expire in 2019. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

As at 31 December 2018, the Group has not recognised deferred tax assets in relation to the temporary difference in the amount of KZT 13,908,799 thousand (as at 31 December 2017: KZT 20,554,741 thousand) related to investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not expect to reverse them in the foreseeable future.

40. NON-CASH TRANSACTIONS

The following significant non-cash transactions have been excluded from the consolidated statement of cash flows:

In 2018, the Group paid an amount of KZT 4,635,188 thousand for property and equipment purchased in prior year (2017: KZT 4,545,215 thousand). Property and equipment in the amount of KZT 17,445,106 thousand was purchased in 2018 but not paid as at 31 December 2018 (2017: KZT 4,635,227 thousand).

In 2018 in accordance with the finance lease agreements, the Group received telecommunication equipment amounting to KZT 14,871,625 thousand (2017: KZT 9,019,870 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

41. RELATED PARTY TRANSACTIONS

The category ‘entities under control of the Parent’ include entities controlled by the Parent Company. Transactions with such entities are mainly represented by transactions of the Group with NC Kazakhstan Temir Zholy JSC, NC KazMunayGaz JSC, KEGOC JSC, Kazpost JSC. The Group provides telecommunication services to the Parent and entities controlled by the Parent.

Related party transactions (including transactions with Khan Tengri Holdings B.V. and its subsidiary Mobile Telecom Service LLP) were made on terms, agreed to between the parties, which do not necessarily represent market terms and maybe not accessible to third parties. Outstanding balances at the end of the year are not secured, are short-term, and settlements are made in cash, except as described below.

At 31 December 2018, the Group recognized a provision for expected credit losses in the amount of KZT 29,208 thousand in respect of receivables from related parties.

Sales and purchases with related parties during the years ended 31 December 2018 and 2017 and the balances with related parties at 31 December 2018 and 2017 were as follows:

In thousands of tenge	**2018**	**2017**
Sales of goods and services		
Parent	**359,794**	383,768
Parent-controlled entities	**2,519,743**	3,041,650
Associate (Khan Tengri Holding B.V.) [1]	**23,907,818**	22,089,462
Associate (Qaz Cloud LLP)	**913,141**	239
Government institutions	**32,306,666**	30,588,918
Purchases of goods and services		
Parent	**779**	–
Parent-controlled entities	**3,267,303**	3,189,663
Associate (Khan Tengri Holding B.V.) [1]	**11,042,238**	8,350,347
Associate (Qaz Cloud LLP)	**279,525**	–
Government institutions	**9,328**	109,616
Interest accrued on borrowings		
Entities under state control		
(Development Bank of Kazakhstan JSC)	**2,035,544**	6,498,768
Average interest rate on borrowings	**8.00%**	8.15%
Parent	**1,461,458**	–
Average interest rate on borrowings	**11.50%**	–

41. RELATED PARTY TRANSACTIONS (continued)

In thousands of tenge	2018	2017
Cash and cash equivalents		
Entities under state control		
(Development Bank of Kazakhstan JSC)	**103**	172
Borrowings		
Entities under state control		
- (Development Bank of Kazakhstan JSC)	**25,266,233**	27,319,491
Parent	**101,461,458**	–
Trade and other accounts receivable		
Parent	**130,725**	56,378
Parent-controlled entities	**613,921**	797,881
Associate (Khan Tengri Holding B.V.)	**16,248,774**	14,949,354
Associate (Qaz Cloud LLP)	**105,827**	71
Government institutions	**11,431,512**	7,078,905
Accounts payable		
Parent	**39**	–
Parent-controlled entities	**469,260**	172,879
Associate (Khan Tengri Holding B.V.)	**11,014,949**	9,370,735
Government institutions	**735,815**	477,877
Other non-current assets		
Long-term loans to key management personnel	**35,914**	27,294
Long term deposits with Eximbank JSC	**–**	3,323,300

In 2018 and 2017, the Group provided communication services for the entities controlled by the Parent, and purchased goods and services to support operating activities related to provision of telecommunication services from such entities.

[1] The Group has significant volumes of transactions with Mobile Telecom Services LLP (“MTS”), subsidiary of Khan Tengri B.V., including revenue from data transmission, access to internet, rental of lines, interconnect and other revenue that in total comprise 11% from total consolidated revenue of the Group for 2018. In addition, the Group purchased from MTS services related to the usage of GSM radiofrequencies, interconnect, mobile traffic for converged services and other services that in total comprise 6% from total consolidated cost of sales of the Group for 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Sales and purchases with MTS during the years ended 31 December 2018 and 2017 were as follows:

In thousands of tenge	2018	2017
Sales		
Data transmission [A]	**13,911,058**	12,998,033
Rent of channels [B]	**5,482,615**	5,696,007
Interconnect [C]	**1,590,226**	1,228,912
Base cell stations maintenance [D]	**659,989**	853,828
Rent of sites for base stations	**624,182**	672,800
Other	**1,639,748**	639,882
	23,907,818	22,089,462
Purchases		
Fee for usage of GSM radiofrequencies [E]	**5,263,310**	5,446,007
Mobile traffic at wholesale tariffs [F]	**3,621,460**	1,701,897
Interconnect [G]	**845,920**	614,191
Fee for usage of billing system [H]	**219,305**	250,000
Other	**1,092,243**	338,252
	11,042,238	8,350,347

[A] Data transmission represented revenue from provision of fixed and wireless communication channels, and access to the internet. It is calculated on the basis of provided communication channels capacity (Mb/s), as well as the number of communication channels provided.

[B] Rent of channels represents revenue from the provision to the temporary use of channels with the specified technical characteristics, organized based on LTE base cell stations (i.e. 4G license radiofrequencies). It is calculated based on the actual number of rented channels. In February 2016, the Group concluded an agreement with MTS for renting out 4G license radiofrequencies. Rental fees are payable on a monthly basis. Simultaneously upon concluding the agreement for renting out 4G license radiofrequencies the Group and MTS agreed to increase fees for use of GSM radiofrequencies and fee for usage of the billing system payable by the Group as described below. For the year ended 31 December 2018 revenue from rent of channels amounted to KZT 5,482,615 thousands (for the year ended 31 December 2017 KZT 5,696,007 thousand).

[C] Revenue from interconnect is calculated based on the actual volumes of minutes of the connection.

[D] Revenue from base cell stations maintenance represents revenue from the provision of various services to ensure the stable and uninterrupted operation of radio access networks, and is calculated based on the actual number of base stations served.

41. RELATED PARTY TRANSACTIONS (continued)

[E] Fee for usage of GSM radiofrequencies is fixed monthly payment for the usage of the GSM radiofrequencies owned by MTS. For the year ended 31 December 2018 fee for usage of GSM radiofrequencies amounted to KZT 5,263,310 thousands (for the year ended 31 December 2017 KZT 5,446,007 thousand).
[F] Cost of mobile traffic at wholesale tariffs is the actual traffic used by Kazakhtelecom JSC customers in the mobile operator's network and is calculated based on the actual number of outgoing minutes, short messages (SMS), and megabytes of mobile traffic.
[G] Expenses on interconnect are calculated based on the actual volume of minutes of the connections.
[H] Fee for usage of billing system is fixed monthly payment for the usage of the MTS billing system. For the year ended 31 December 2018 fee for usage of billing system amounted to KZT 219,305 thousands (for the year ended 31 December 2017: KZT 250,000 thousand).

The provision of these service is governed by different agreements that are not related to each other. Under each such agreement, the Group is either receiving or providing a certain type of services, for which the Group receives or pays a fee, which may differ from the terms under agreements with third parties. The difference from the terms under agreements with third parties could be explained by volume discounts and other special conditions between the Group and its associate. Volumes of services purchased from / sold to MTS exceed the volume of similar transactions with third party operators.

Compensation to key management personnel

For the years ended 31 December 2018 and 2017, the total compensation to key management personnel included in the accompanying consolidated statement of comprehensive income under general and administrative expenses was KZT 637,785 thousand and KZT 681,493 thousand, respectively. Compensation to key management personnel consists of wages fixed in the employment agreement, as well as remuneration based on the performace for the year.

As disclosed in ***Note 31,*** the Government of the Republic of Kazakhstan provides the Group with certain compensation for the provision of universal services in rural areas.

As disclosed in ***Note 22***, as at 31 December 2018, the Group had a loan in the amount of KZT 24,961,627 thousand, under which the Parent acted as guarantor (as at 31 December 2017: KZT 26,991,220 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

42. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES

Impairment losses on financial assets

Impairment losses on financial assets for the year ended 31 December 2018, comprise accruing reserve for other non-current financial assets in amount of KZT 135 thousand ***(Note 13)***, trade receivables in amount of KZT 622,360 thousand (***Note 16)***, other current financial assets in amount of KZT 2,966,001 thousand ***(Note 18)***, cash and cash equivalents in amount of KZT 486,525 thousand ***(Note 20).***

The Group's principal financial instruments include loans, finance lease obligations, cash and cash equivalents, bank deposits and accounts receivable and accounts payable. The main risks associated with the Group's financial instruments include interest rate risk, currency and credit risk. In addition, the Group monitors market risk and liquidity risk associated with all financial instruments.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. As at 31 December 2018, the Group had no loans or borrowings with floating interest rates and was not subjected to the risk of changes in market interest rates.

Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

As a result of available significant loans and borrowings, accounts payable, cash and cash equivalents and accounts receivable denominated in the US dollars, the Group's consolidated statement of financial position can be affected significantly by movement in the US dollar / tenge exchange rates.

The following table demonstrates the sensitivity to a reasonably possible changes in the exchange rates of US dollar to tenge, with all the variables held constant, of the Group's profit before income tax (due to changes in the fair value of monetary assets and liabilities). There is no impact on the Group's equity.

	2018		2017	
In thousands of tenge	**Increase/ (decrease) in exchange rate**	**Effect on profit before tax**	**Increase/ (decrease) in exchange rate**	**Effect on**
US dollars	**14%**	**3,141,003**	10%	7,005,596
	-10%	**(2,243,573)**	-10%	(7,005,596)

42. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES (continued)

Credit risk

Credit risk is the risk that the Group will incur finance costs because its customers, clients or counterparties failed to discharge their contractual obligations. The Group is exposed to credit risk associated with its operating activities (primarily with respect to trade receivables) and financial activities, including bank deposits and financial organizations, foreign exchange transactions and other financial instruments.

Trade receivables and contract assets

Financial instruments in which the Group's credit risk is concentrated are primarily trade and other receivables. The credit risk associated with these assets is limited due to the large number of the Group's customers and the continuous monitoring procedures for customers and other debtors.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in *Notes 16 and 18*.

Financial instruments and cash deposits

In accordance with the financial policy, the Group places free cash in several of the largest Kazakhstani banks (with the highest credit ratings). To manage the credit risk associated with the placement of free cash in banks, the Group's management periodically conducts procedures for assessing the solvency of banks. To facilitate such an assessment, deposits are primarily placed in banks, where the Group already has comparable credit obligations, a current checking account and can easily monitor the activities of such banks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

In thousands of tenge	Rating 2018	Rating 2017	Cash balance		Balance on deposit accounts	
			2018	2017	2018	2017
Kazkommertsbank JSC	–	B+/negative/B	**–**	5,868,048	**–**	–
Bank CenterCredit JSC	**B/stable/B, kzBBB-**	B/stable/B	**4,621**	4,098,977	**76,329**	–
Tsesnabank JSC	**B-/negative/B, kzBB-**	B+/negative/B, kzBBB-	**2,846**	2,458,522	**–**	4,984,950
ATF Bank JSC	**B/negative/B, kzBB+**	B/negative/B	**5,761,522**	2,275,670	**98,648**	1,000,000
Halyk Bank Kazakhstan JSC	**BB/stable/B, kzA+**	BB/negative/B, kzA	**34,424,030**	456,903	**–**	42,538,240
Eximbank Kazakhstan JSC	**CCC+/C/negative**	CCC+/C/ negative	**–**	454,889	**–**	–
Forte Bank JSC	**B/positive/B kzBBB-**	B/positive/B	**170,705**	187,349	**–**	–
SB Sberbank JSC	**Ba2**	Ba2	**123,935**	82,922	**–**	–
Altyn Bank JSC (SB Halyk Bank Kazakhstan JSC)	**Ba2/stable/NP**	Ba2/stable/NP	**3,293,559**	80,231	**–**	6,646,600
Committee of the Treasury of the Ministry of the RK	–	–	**128**	16,728	**–**	–
Kaspi Bank JSC	**BB-/stable/B, kzA**	BB-/ negative/B, kzBBB+	**700,494**	977	**–**	3,323,300
Development Bank of Kazakhstan JSC	**BB+/stable/B, kzAA+**	BB+/ stable	**103**	172	**–**	–
Sberbank JSC	**BB +/positive**	BB +/positive	**45,695**	52	**–**	–
Citibank Kazakhstan JSC	**A+/stable**	A+/stable	**764,800**	36	**–**	–
Eurasian Bank JSC	**B/negative/B, kzBB+**	B/negative/B, kzBB+	**36,930**	–	**–**	–
Alfa Bank JSC	**BB-/stable/B, kzA**	BB-/stable	**103**	–	**–**	–
Total			**45,329,471**	15,981,476	**174,977**	58,493,090

In thousands of tenge	Rating 2018	Rating 2017	Balance on long term deposit accounts	
			2018	2017
Eximbank Kazakhstan JSC	**CCC+/C/ negative**	CCC+/C/negative	**–**	3,323,300

42. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES (continued)

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances.

The Group monitors its risk of a shortage of funds using a liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivables, other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and finance leases. The Group's policy is that not more than 30% of loans and borrowings should mature in the next 12 month period. Approximately 30% of the Group's debt will mature in less than one year at 31 December 2018 (31 December 2017: 16%) based on the carrying amount of borrowings reflected in the consolidated financial statements.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

In thousands of tenge	On demand	1 to 3 months	3 months to 1 year	From 1 to 5 years	More than 5 years	Total
At 31 December 2018						
Borrowings	**768,936**	**9,264,447**	**63,780,975**	**83,391,057**	**118,387,210**	**275,592,625**
Finance lease liabilities	**179,634**	**2,319,854**	**6,937,923**	**18,889,078**	**–**	**28,326,489**
Trade payables	**32,134,910**	**4,170,384**	**5,842,111**	**–**	**–**	**42,147,405**
Financial guarantees issued*	**–**	**1,130,379**	**1,098,286**	**7,630,950**	**2,322,269**	**12,181,884**
Other financial liabilities	**–**	**18,810,780**	**–**	**78,147**	**–**	**18,888,927**
	33,083,480	**35,695,844**	**77,659,295**	**109,989,232**	**120,709,479**	**377,137,330**
At 31 December 2017						
Borrowings	–	382,105	3,707,152	21,704,466	9,624,022	35,417,745
Finance lease liabilities	–	1,412,533	3,893,386	9,331,352	–	14,637,271
Trade payables	10,296,822	1,337,562	1,872,161	–	–	13,506,545
Financial guarantees issued*	–	436,003	1,309,772	9,814,952	2,312,966	13,873,693
Other financial liabilities	–	13,273,911	–	1,880	–	13,275,791
	10,296,822	16,842,114	10,782,471	40,852,650	11,936,988	90,711,045

* Based on the maximum amount that can be called for under the financial guarantees contracts ***(Notes 25, 28)***.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Cash flow risk

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount.

Cash flows requirements are monitored on a regular basis and management provides for availability of sufficient funds required to fulfil any liabilities when they arise. The management of the Group believes that any possible fluctuations of future cash flows associated with a monetary financial instrument will not have material impact on the Group's operations.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to the holders of common shares, return equity to shareholders or issue new shares. No changes were made by the Group in the capital management objectives, policies or processes in 2018 and 2017.

The Group monitors capital using a debt-to-equity ratio, which is net debt divided by total equity. The Group's policy is to keep the ratio not greater than 1.0. The Group includes within net debt interest bearing loans and borrowings, trade payables and finance lease liabilities. Equity includes equity attributable to the equity holders of the Group.

The Group's debt-to-equity ratio at the period end was as follows:

In thousands of tenge	**31 December 2018**	**31 December 2017**
Interest-bearing loans and borrowings	**193,452,540**	27,325,554
Trade payables	**42,147,405**	13,506,545
Finance lease liabilities	**22,729,325**	11,601,837
Other non-current financial liabilities	**993,705**	260,431
Other current financial liabilities	**18,853,954**	13,356,061
Net debt	**278,176,929**	66,050,428
Equity	**414,840,935**	359,107,937
Debt-equity ratio	**0.67**	0.18

42. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES (continued)

Fair value

For the purpose of disclosing the fair value, the Group determined classes of assets and liabilities based on characteristics and risks of assets or liabilities and fair value hierarchy level as described above.

The table below presents fair value hierarchy of assets and liabilities of the Group. Disclosure of quantitative information of fair value hierarchy of financial instruments as at 31 December 2018 was as follows:

		Fair value measurement using			
In thousands of tenge	**Date of valuation**	**Price quotations on active markets (Level 1)**	**Significant observable in-puts (Level 2)**	**Significant unobservable in-puts (Level 3)**	**Total**
Assets for which fair values are disclosed					
Other non-current financial assets	31 December 2018	–	–	**7,040,366**	**7,040,366**
Other current financial assets	31 December 2018	–	–	**4,685,111**	**4,685,111**
Indemnification assets	31 December 2018	–	–	**10,913,899**	**10,913,899**
Trade receivables	31 December 2018	–	–	**52,173,348**	**52,173,348**

		Fair value measurement using			
In thousands of tenge	**Date of valuation**	**Price quotations on active markets (Level 1)**	**Significant observable in-puts (Level 2)**	**Significant unobservable in-puts (Level 3)**	**Total**
Liabilities for which fair values are disclosed					
Borrowings	31 December 2018	–	–	**194,104,469**	**194,104,469**
Finance lease liabilities	31 December 2018	–	–	**22,729,325**	**22,729,325**
Other non-current financial liabilities	31 December 2018	–	–	**144,085**	**144,085**
Other current financial liabilities	31 December 2018	–	–	**18,878,261**	**18,878,261**
Obligation to pay a fine for termination of the contract	31 December 2018	–	–	**14,551,865**	**14,551,865**
Trade payables	31 December 2018	–	–	**42,147,405**	**42,147,405**

The table below presents fair value hierarchy of assets and liabilities of the Group. Disclosure of quantitative information of fair value hierarchy of financial instruments as at 31 December 2017 was as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

In thousands of tenge	Date of valuation	Fair value measurement using Price quotations on active markets (Level 1)	Significant observable in-puts (Level 2)	Significant unobservable in-puts (Level 3)	Total
Assets for which fair values are disclosed					
Other non-current financial assets	31 December 2017	–	–	6,835,991	6,835,991
Other current financial assets	31 December 2017	–	–	62,133,687	62,133,687
Trade receivables	31 December 2017	–	–	32,094,228	32,094,228

In thousands of tenge	Date of valuation	Fair value measurement using Price quotations on active markets (Level 1)	Significant observable in-puts (Level 2)	Significant unobservable in-puts (Level 3)	Total
Liabilities for which fair values are disclosed					
Borrowings	31 December 2017	–	–	21.995.442	21.995.442
Finance lease liabilities	31 December 2017	–	–	11.601.837	11.601.837
Other non-current financial liabilities	31 December 2017	–	–	172.590	172.590
Other current financial liabilities	31 December 2017	–	–	13.341.392	13.341.392
Trade payables	31 December 2017	–	–	13.506.545	13.506.545

42. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES (continued)

Fair value (continued)

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial assets and liabilities that are not carried at fair value in the consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

In thousands of tenge	Carrying amount 2018	Fair value 2018	Unrecog-nised gain/ (loss) 2018	Carrying amount 2017	Fair value 2017	Unrecog-nised gain/ (loss) 2017
Financial assets						
Cash and cash equivalents	**45,350,092**	**45,350,092**	**–**	15,985,943	15,985,943	–
Other non-current financial assets	**9,649,734**	**7,040,366**	**(2,609,368)**	9,457,306	6,835,991	(2,621,315)
Other current financial assets	**4,685,111**	**4,685,111**	**–**	62,133,687	62,133,687	–
Indemnification assets	**10,913,899**	**10,913,899**	**–**	–	–	–
Trade receivables	**52,173,348**	**52,173,348**	**–**	32,094,228	32,094,228	–
Financial liabilities						
Borrowings	**193,452,540**	**194,104,469**	**(651,929)**	27,325,554	21,995,442	5,330,112
Finance lease liabilities	**22,729,325**	**22,729,325**	**–**	11,601,837	11,601,837	–
Other non-current financial liabilities	**993,705**	**144,085**	**849,620**	260,431	172,590	87,841
Other current financial liabilities	**18,853,954**	**18,878,261**	**(24,307)**	13,356,061	13,341,392	14,669
Obligation to pay a fine for termination of the contract	**14,551,865**	**14,551,865**	**–**	–	–	–
Trade payables	**42,147,405**	**42,147,405**	**–**	13,506,545	13,506,545	–
Total unrecognised change in unrealised fair value		**(2,435,984)**				2.811.307

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that their fair value approximates to the carrying amount. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Financial liabilities carried at amortised cost

The fair value of loans obtained is measured by discounting future cash flows using rates currently existing for outstanding amounts with similar terms, credit risk and maturity.

Changes in liabilities arising from financial activities

Changes in liabilities arising from financial activities for 2018 were as follows:

In thousand tenge	1 January 2018	New lease agreements	Business combination	Reclassified to current	Repayment of principal in cash	Interest paid	Interest expense	31 December 2018
Borrowings: non-current portion	24,967,690	**100,000,000**	**14,935,969**	**(4,065,248)**	**–**	**–**	**–**	**135,838,411**
Borrowings: current portion	2,357,864	**–**	**51,380,150**	**4,065,248**	**(2,029,593)**	**(2,175,943)**	**4,016,403**	**57,614,129**
Non-current portion of finance lease liabilities	7,681,118	**14,871,661**	**–**	**(6,577,473)**	**–**	**–**	**–**	**15,975,306**
Current portion of finance lease liabilities	3,920,719	**–**	**–**	**6,577,473**	**(3,697,239)**	**(1,612,425)**	**1,565,491**	**6,754,019**
Total	38,927,391	**114,871,661**	**66,316,119**	**–**	**(5,726,832)**	**(3,788,368)**	**5,581,894**	**216,181,865**

42. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES (continued)

Changes in liabilities due to financial activities for 2017 were as follows:

In thousand tenge	1 January 2017	Reclassified from disposal group	Reclassified to current	Repayment of principal in cash	Interest paid	Interest expense	Change in exchange rates	31 December 2017
Borrowings: non-current portion	53,794,669	–	(29,501,388)	–	–	–	674,409	24,967,690
Borrowings: current portion	2,473,507	–	29,501,388	(28,009,799)	(7,571,331)	6,535,447	(571,348)	2,357,864
Non-current portion of	1.273.015	10.102.254	(3.694.151)	–	–	–	–	7.681.118
finance lease liabilities	1,273,015	10,102,254	(3,694,151)	–	–	–	–	7,681,118
Current portion of finance lease liabilities	3,162,706	–	3,694,151	(3,162,706)	(351,681)	578,249	–	3,920,719
Total	60,703,897	10,102,254	–	(31,172,505)	(7,923,012)	7,113,696	103,061	38,927,391

43. COMMITMENTS AND CONTINGENCIES

Operating environment

In Kazakhstan, economic reforms and the development of the legal, tax and administrative infrastructure that meets the developed markets are still in process. The future stability of the Kazakhstan economy will largely depend on these reforms, as well as on the effectiveness of the Government's actions in the area of economy, financial and monetary policy.

Capital commitments

The Group generally enters into contracts for the completion of construction projects and purchase of telecommunication equipment. As at 31 December 2018, the Group had contractual obligations in the total amount of KZT 6,238,697 thousand (31 December 2017: KZT 3,582,193 thousand) mainly related to purchase of telecommunication equipment and construction of telecommunication network.

Operating lease commitments – Group as lessee

The Group entered into agreements for the lease of office buildings and premises in various regions of Kazakhstan. Agreements for the lease of office buildings and premises are based on the lease term of 1 year as an average. There are no restrictions placed upon the Group by entering into these lease agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The future minimum lease payments payable on non-explosive operating lease agreements are as follows:

In thousand tenge	2018	2017
Within one year	**7,874,102**	776,505
After one year but not more than five years	**54,116**	–
	7,928,218	776,505

License commitments

Under the terms of certain licenses on the provision of wireless telecom services, the Group has certain obligations in terms of coverage area of its network. The Group is obliged to expand the cellular telecommunication coverage to the regions along the major highways and small-sized towns and urban-type communities of the Republic of Kazakhstan. The Group's management believes that the Group is in compliance with the terms of the licenses.

Options to acquire interest in an associate

According to the agreement between the Group and Tele2, the Group has an unconditional right to require Tele2 to sell its 49% of the interest in Khan Tengri Holding B.V. at any time, after three years after the closing date of the transaction (call option). Tele2 has a similar unconditional right to require the Group to acquire a 49% interest in Khan Tengri Holding B.V. (put option).

The price of an option is expressed in US dollars and should be equal to the fair market value of the shares transferred as of the day of its determination.

The Group estimated the fair value of the options and as at 31 December 2018 the fair value of the options is nil (2017: nil).

In connection with the closure of the transaction on the acquisition of Kazakhtelecom JSC 75% of shares in Kcell JSC Tele2 A.B. made a decision on excercise the put option, according to which Tele2 A.B. has the right to demand from Kazakhtelecom JSC to acquire at a market value all shares of Khan Tengri Holding B.V., owned by Tele2 A.B. Early execution of the put option became possible due to the violation of the non-competition clause of the Shareholders Agreement dated 29 February 2016, according to which Kazakhtelecom JSC pledged not to have a controlling portion in mobile operators. On 28 December 2018 the Group received from Tele2 A.B. notice of the option exercise. In this regard, the shareholders – Kazakhtelecom JSC and Tele2 are in the process of exercising the option, including an assessment of the fair market value of the shares of Khan Tengri Holding B.V. owned by Tele2 A.B. After the shareholders reach an agreement on the fair market value of the shares, Kazakhtelecom JSC will acquire the shares of Khan Tengri Holding B.V., owned by Tele2 A.B. According to the terms of the Shareholders Agreement dated 29 February 2016, Tele2 A.B. has the opportunity to withdraw notice of the option exercise within 10 days after agreeing on the fair value of the shares of Khan Tengri Holding B.V. Accordingly, the option is not material and the Group has no control over Khan Tengri Holding as of December 31, 2018.

43. COMMITMENTS AND CONTINGENCIES (continued)

Taxation

Tax legislation and regulatory framework of the Republic of Kazakhstan are subject to constant changes and allow for different interpretations. In addition, management believes that international agreements, under which the Group works with non-residents residing in International Telecommunication Union, and which provide for certain tax exemptions, have a priority over national tax legislation. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% – 80% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of the Republic of Kazakhstan multiplied by 1.25. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2018. Management believes that as at 31 December 2018 its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained.

44. SUBSEQUENT EVENTS

The Group fully repaid its loan obligations to Alfa-bank JSC in the amount of KZT 10,093,600 thousand and opened a credit line in the SB bank VTB bank (Kazakhstan) JSC in the amount of KZT 5,000,000 thousand for a period of one year and an annual interest rate of 10.9% on February 2019.

On 28 February 2019, the Group placed bonds on the Kazakhstan stock exchange in the amount of KZT 16,804,000 thousand, with a yield of 11.5% and a maturity date of 16 January 2021.

Based on the decision of the board of directors of Kazakhtelecom JSC "On the voluntary liquidation of a subsidiary of Nursat JSC" (dated 31 March 2017), the final liquidation balance sheet of Nursat JSC as of 31 December 2018 was approved on 6 February 2019. The certificate of the National Bank on cancellation of the issue of announced shares of Nursat JSC was received on 22 February 2019.

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