**Kcell JSC**

Interim condensed consolidated
financial statements (unaudited)

*31 March 2019*

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# Report on review of interim condensed consolidated financial statements

To the Shareholders of
Kcell JSC

### *Introduction*

We have reviewed the accompanying interim condensed consolidated financial statements of Kcell JSC and its subsidiaries (together the "Group"), which comprise the interim condensed consolidated statement of financial position as at 31 March 2019, the related interim condensed consolidated statement of comprehensive income for the three-month period then ended, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the three-month period then ended and selected explanatory notes ("interim financial information"). Management is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

### *Scope of review*

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

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***Other matter***

The interim condensed consolidated financial statements of Kcell JSC and its subsidiaries for the three-month period ended 31 March 2018 were reviewed by another auditor who issued a report on review of those statements with an unmodified conclusion on 11 May 2018.

The consolidated financial statements of Kcell JSC and its subsidiaries for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on those statements on 28 February 2019.

Ernst & Young LLP

Paul Cohn
Audit Partner

Rustamzhan Sattarov
Auditor

Audit Qualification Certificate
No. МФ-0000060 dated 6 January 2012

Gulmira Turmagambetova
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 dated 15 July 2005

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3 June 2019

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| *In thousands of tenge* | Notes | 31 March 2019 (unaudited) | 31 December 2018 (audited)*,** |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property and equipment | 7 | 85,264,509 | 88,437,346 |
| Intangible assets | 8 | 38,571,165 | 40,114,996 |
| Advances paid for non-current assets | | 743,957 | 729,048 |
| Right-of-use assets | 3 | 23,152,846 | – |
| Other non-current assets | | 36,533 | 36,533 |
| Long-term trade receivables | 9 | 2,079,719 | 3,009,995 |
| Cost to obtain the contract | | 377,298 | 388,802 |
| Deferred tax assets | | 328,447 | – |
| **Total non-current assets** | | 150,554,474 | 132,716,720 |
| **Current assets** | | | |
| Inventories | | 2,948,629 | 4,728,092 |
| Trade receivables | 9 | 11,914,274 | 13,325,025 |
| Other current assets | 10 | 11,052,079 | 10,273,775 |
| Prepaid income tax | | 30,319 | – |
| Cash and cash equivalents | 11 | 6,758,374 | 6,029,042 |
| **Total current assets** | | 32,703,675 | 34,355,934 |
| **Total assets** | | 183,258,149 | 167,072,654 |
| **Equity and liabilities** | | | |
| Share capital | 6 | 33,800,000 | 33,800,000 |
| Retained earnings | | 24,874,484 | 34,275,289 |
| **Total equity** | | 58,674,484 | 68,075,289 |
| **Non-current liabilities** | | | |
| Borrowings: non-current portion | 12 | 54,335,933 | 14,935,969 |
| Long-term lease liabilities | 3 | 21,450,227 | – |
| Deferred tax liabilities | | – | 1,503,915 |
| Asset retirement obligation | | 1,285,482 | 1,285,482 |
| Other non-current liabilities | | 69,113 | 76,560 |
| **Total non-current liabilities** | | 77,140,755 | 17,801,926 |
| **Current liabilities** | | | |
| Trade payables | 13 | 9,925,297 | 14,047,602 |
| Borrowings: current portion | 12 | 5,708,966 | 51,782,817 |
| Contracts liabilities | 15 | 6,291,280 | 7,297,746 |
| Other current liabilities | 14 | 20,429,492 | 4,627,591 |
| Short-term lease liabilities | 3 | 2,768,762 | – |
| Income tax payable | | 1,877,182 | 1,853,827 |
| Taxes payable other than income tax | | 441,931 | 1,585,856 |
| **Total current liabilities** | | 47,442,910 | 81,195,439 |
| **Total liabilities** | | 124,583,665 | 98,997,365 |
| **Total equity and liabilities** | | 183,258,149 | 167,072,654 |

* *The Group has initially applied IFRS 16 using the modified retrospective method. Under this method, the comparative information is not restated. See Note 3.*

** *Certain amounts shown here do not correspond to the consolidated financial statements for the year ended 31 December 2018, as they reflect the reclassifications and adjustments made, as detailed in Note 4.*

Chief Executive Officer

*Kaspars Kukelis*

Chief Financial Officer

*Bakhtiyor Rahmatov*

*The accounting policies and notes on pages 5 to 21 are an integral part of these interim condensed consolidated financial statements.*

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

**For the three months ended 31 March 2019**

| *In thousands of tenge* | Notes | For three months ended 31 March<br>2019<br>(unaudited) | <br>2018<br>(unaudited)*,** |
|---|---|---|---|
| Revenue from contract with customers | 15 | 35,179,925 | 36,385,984 |
| Cost of sales | 16 | (25,562,588) | (25,888,842) |
| **Gross profit** | | 9,617,337 | 10,497,142 |
| | | | |
| Penalty expenses | 13 | (14,551,865) | – |
| General and administrative expenses | | (2,341,681) | (3,254,034) |
| Impairment of financial assets | 9 | (449,779) | (939,000) |
| Selling expenses | | (634,247) | (695,290) |
| **Operating (loss)/profit** | | (8,360,235) | 5,608,818 |
| | | | |
| Finance costs | | (3,163,310) | (2,329,590) |
| Finance income | | 1,104,675 | 117,291 |
| Net foreign exchange gain | | 5,073 | 50,307 |
| Other income | | 4,588 | 228,617 |
| Other expenses | | (12,208) | (56,491) |
| **(Loss)/profit before tax** | | (10,421,417) | 3,618,952 |
| | | | |
| Income tax benefit/(expenses) | 17 | 1,670,012 | (1,259,601) |
| **(Loss)/profit for the period** | | (8,751,405) | 2,359,351 |
| | | | |
| Other comprehensive income | | – | – |
| **Total comprehensive (loss)/income for the period, net of tax** | | (8,751,405) | 2,359,351 |
| | | | |
| **Earnings per share** | | | |
| Basic and diluted, tenge | | (43.76) | 11.80 |

* *The Group has initially applied IFRS 16 using the modified retrospective method. Under this method, the comparative information is not restated. See Note 3.*

** *Certain amounts shown here do not correspond to the interim condensed consolidated financial statements for the three months ended 31 March 2018, as they reflect the reclassifications and adjustments made, as detailed in Note 4.*

Chief Executive Officer

*Kaspars Kukelis*

Chief Financial Officer

*Bunyod Ramatov*

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**For the three months ended 31 March 2019**

| *In thousands of tenge* | Share capital | Retained earnings | Total equity |
|---|---|---|---|
| **Balance at 1 January 2018 (audited)** | 33,800,000 | 37,422,257 | 71,222,257 |
| Net profit for the period (unaudited) (restated)** | – | 2,359,351 | 2,359,351 |
| Other comprehensive income (unaudited) | – | – | – |
| **Total comprehensive income (unaudited) (restated)**** | – | 2,359,351 | 2,359,351 |
| **At 31 March 2018 (unaudited) (restated)**** | 33,800,000 | 39,781,608 | 73,581,608 |
| **Balance at 1 January 2019 (audited)** | **33,800,000** | **34,275,289** | **68,075,289** |
| Change in accounting policy due to application of IFRS 16 *(Note 4)** | – | (649,400) | (649,400) |
| **Balance at 1 January 2019 (restated)** | **33,800,000** | **33,625,889** | **67,425,889** |
| Net loss for the period (unaudited) | – | (8,751,405) | (8,751,405) |
| Other comprehensive income (unaudited) | – | – | – |
| **Total comprehensive income (unaudited)** | – | (8,751,405) | (8,751,405) |
| **At 31 March 2019 (unaudited)** | 33,800,000 | 24,874,484 | 58,674,484 |

* *The Group has initially applied IFRS 16 using the modified retrospective method. Under this method, the comparative information is not restated. See Note 3.*

** *Certain amounts shown here do not correspond to the interim condensed consolidated financial statements for the three months ended 31 March 2018 and consolidated financial statements for year ended 31 December 2018, as they reflect the reclassifications and adjustments made, as detailed in Note 4.*

Chief Executive Officer *Kaspars Kukelis*

Chief Financial Officer *Bunyod Ramatov*

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

**For the three months ended 31 March 2019**

| *In thousands of tenge* | Notes | For the three months ended 31 March 2019 | 2018*,** |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| (Loss)/ profit before tax | | **(10,421,417)** | 3,618,952 |
| **Adjustments for:** | | | |
| Impairment of financial assets | 9 | **449,779** | 939,000 |
| Finance costs | | **3,163,310** | 2,329,590 |
| Depreciation of property and equipment | | **5,399,409** | 4,702,405 |
| Amortization of intangible assets | | **2,347,528** | 1,451,342 |
| Finance income | | **(1,104,675)** | (117,291) |
| Net foreign exchange gain | | **(5,073)** | (50,309) |
| **Operating cash flows before working capital changes** | | **(171,139)** | 12,873,689 |
| Change in inventories | | **1,779,463** | (1,471,830) |
| Change in trade receivables | | **1,865,581** | (2,587,653) |
| Change in other current assets | | **(1,120,359)** | 805,485 |
| Change in cost to obtain a contract | | **11,504** | (84,155) |
| Change in trade payables | | **(161,783)** | (326,630) |
| Change in other current liabilities | | **15,801,901** | 504,400 |
| Change in contract liabilities | | **(1,006,466)** | (609,241) |
| Change in taxes payable other than income tax | | **(1,150,891)** | 360,970 |
| **Cash flows generated from operations** | | **15,847,811** | 9,465,035 |
| Income tax paid | | **–** | (1,856,107) |
| Interest received | | **130,931** | 117,291 |
| Interest paid | | **(1,900,044)** | (2,140,117) |
| **Net cash inflows from operating activities** | | **14,078,698** | 5,586,102 |
| **Cash flows from investing activities** | | | |
| Purchase of property and equipment | | **(4,345,792)** | (3,520,562) |
| Purchase of intangible assets | | **(1,703,208)** | (562,771) |
| **Net cash flows used in investing activities** | | **(6,049,000)** | (4,083,333) |
| Proceeds from loans | | **5,000,000** | 6,420,000 |
| Proceeds from bonds issued | | **17,024,648** | 4,950,000 |
| Repayment of loans | | **(27,884,000)** | (12,000,000) |
| Repayment of lease liability | | **(1,424,826)** | – |
| **Net cash flows used in financing activities** | | **(7,284,178)** | (630,000) |
| **Net increase in cash and cash equivalents** | | **745,520** | 872,769 |
| Effect of exchange rate changes on cash and cash equivalents held in foreign currency | | **(16,188)** | (103,230) |
| **Cash and cash equivalents at the beginning of the year** | | **6,029,042** | 12,659,844 |
| **Cash and cash equivalents at the end of the period** | | **6,758,374** | 13,429,383 |

* *The Group has initially applied IFRS 16 using the modified retrospective method. Under this method, the comparative information is not restated. See Note 3.*

** *Certain amounts shown here do not consistent to the interim condensed consolidated financial statements for the three months ended 31 March 2018, as they reflect the reclassifications and adjustments made, as detailed in Note 4.*

Chief Executive Officer ______________________ *Kaspars Kukelis*

Chief Financial Officer ______________________ *Bahyod Ramatov*

*The accounting policies and notes on pages 5 to 21 are an integral part of these interim condensed consolidated financial statements.*

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**For the three months period ended 31 March 2019**

## 1. GENERAL INFORMATION

Kcell JSC (the "Company") was established as a limited liability partnership (GSM Kazakhstan OAO Kazakhtelecom LLP) on 1 June 1998 to design, construct and operate a cellular telecommunications network in the Republic of Kazakhstan, using the GSM (Global System for Mobile Communications) standard.

The Company's registered address is Samal-2, 100, Almaty, the Republic of Kazakhstan.

On 27 August 2012, the Ministry of Justice registered the Company as a Joint Stock Company. Under Kazakhstani law, upon the Conversion, retained earnings as of the date of the Conversion became share capital of the Company and ceased to be available for distribution to shareholders.

On 13 December 2012, the Company successfully completed its offering of Global Depositary Receipts at the London Stock Exchange and common shares at the Kazakhstan Stock Exchange.

On 21 December 2018, the 75 percent stake in the Company owned by Telia Company was sold directly to Kazakhtelecom JSC ("Parent"). Kazakhtelecom JSC is controlled by the Government of the Republic of Kazakhstan through Sovereign Wealth Fund "Samruk-Kazyna" JSC ("Samruk-Kazyna") which owns 51% of Kazakhtelecom's controlling shares.

As of 31 March 2019 and 31 December 2018, the shareholders of the Company are presented as follow:

| | **31 March 2019 (unaudited)** | 31 December 2018 |
|---|---|---|
| Kazakhtelecom JSC | **75.00%** | 75.00% |
| Raiffeisenbank JSC | **11.17%** | 11.14% |
| Freedom Finance JSC | **5.30%** | 5.68% |
| Other | **8.53%** | 8.18% |
| | **100%** | 100% |

As of 31 March 2019 and 31 December 2018, the Company has the following principal subsidiaries:

| | **31 March 2019 (unaudited)** | 31 December 2018 |
|---|---|---|
| KazNet Media LLP | **100%** | 100% |
| KT-Telecom LLP | **100%** | 100% |
| | **100%** | 100% |

On 25 December 2010, the competent authority signed an addendum to the existing GSM license, which provided the Company with a right to operate a 3G network. In December 2010, the Company launched 3G services in Astana and Almaty. As of 1 January 2015, the Group provided all locations with a population of over 10,000 people with mobile services using UMTS/WCDMA based on the terms of the addendum.

In January 2016, the Group paid 14 billion tenge as the first tranche for LTE radio frequencies. In accordance with the decision made by Kazakhstan's Ministry of Investments and Development ("the MID") in January 2016, the Group had to pay a one-time fee of 4 billion tenge by 1 February 2016 for 10/10 MHz radio frequency within the 1700/1800 MHz band, and the first tranche of 10 billion tenge by 1 March 2016 to gain access to 10/10 MHz radio frequency within the 700/800 MHz band. The second tranche for 10/10 MHz radio frequencies within the 700/800 MHz band in the amount of 12 billion tenge is to be paid by 1 December 2016. The Group paid the second tranche on 30 November 2016. On 1 March 2016, the Group launched LTE in its network on the previously granted frequencies.

The interim condensed consolidated financial statements were authorised for issue on 3 June 2019 on behalf of the Management of the Company by the Chief Executive Officer.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the three months ended 31 March 2019 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2018.

### Foreign currency translation

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the official rate at the date of the transaction established by the Kazakhstan Stock Exchange (hereinafter − the "KASE") and published by the National Bank of the Republic of Kazakhstan (the "NBRK") rate of exchange ruling at the reporting date. All differences are recognized in the interim condensed consolidated statement of comprehensive income.

The following table summarises the foreign currency exchange rates for tenge:

| | **31 March 2019** | 31 December 2018 |
|---|---|---|
| US dollar | **380.04** | 384.20 |
| Euro | **425.95** | 439.37 |
| Russian rouble | **5.87** | 5.52 |

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### New and amended standards and interpretations

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 16 *Leases*. As required by IAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim condensed consolidated financial statements of the Group.

*IFRS 16 Leases*

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases − Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard 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.

Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**New and amended standards and interpretations (continued)**

*IFRS 16 Leases (continued)*

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is low value ('low-value assets').

| *In thousands of tenge* | **Adjustments** |
|---|---|
| **Non-current assets** | |
| Right-of-use assets | 24,070,061 |
| **Total non-current assets** | **24,070,061** |
| **Total assets** | **24,070,061** |
| **Non-current liabilities** | |
| Long-term lease liabilities | 22,191,923 |
| Deferred tax liabilities | (162,350) |
| **Total non-current liabilities** | **22,029,573** |
| **Current liabilities** | |
| Short-term lease liabilities | 2,689,887 |
| **Total current liabilities** | **2,689,887** |
| **Total liabilities** | **24,719,460** |
| **Total adjustment on equity** | |
| Retained earnings | (649,400) |
| | **(649,400)** |

*(a) Nature of the effect of adoption of IFRS 16*

The Group has lease contracts for various items of space for technical sites, buildings for administrative and technical purposes. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. As of date of initial application, the Group had not finance lease contracts. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under advances paid and other payables, respectively.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

<u>Leases previously accounted for as operating leases</u>

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**New and amended standards and interpretations (continued)**

*IFRS 16 Leases (continued)*

*(a) Nature of the effect of adoption of IFRS 16 (continued)*

Leases previously accounted for as operating leases (continued)

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Based on the foregoing, as at 1 January 2019:

- Right-of-use assets of 24,070,061 thousand tenge were recognised and presented separately in the statement of financial position;
- Additional lease liabilities of 24,881,810 thousand tenge (included in Lease liabilities) were recognised;
- Deferred tax liabilities decreased by 162,350 tenge thousand because of the deferred tax impact of the changes in assets and liabilities;
- The net effect of these adjustments had been adjusted to retained earnings 649,400 thousand tenge.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

| *In thousand tenge* | |
|---|---|
| **Operating lease commitments as at 31 December 2018** | **7,100,319** |
| Weighted average incremental borrowing rate as at 1 January 2019 | 12.1% |
| **Discounted operating lease commitments at 1 January 2019** | **6,333,915** |
| Less: commitments relating to short-term lease | (1,401,020) |
| Add: payments in optional extension periods not recognised as at 31 December 2018 | 19,948,915 |
| **Lease liabilities as at 1 January 2019** | **24,881,810** |

*(b) Summary of new accounting policies*

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**New and amended standards and interpretations (continued)**

*IFRS 16 Leases (continued)*

*(b) Summary of new accounting policies (continued)*

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of base station that have a lease term of 12 months or less from the commencement date and the lessor has unconditional right to terminate contract. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms of one to five years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The Group included the renewal period as part of the lease term for leases of space for technical sites due to the significance of these assets to its operations. These leases have a short non-cancellable period one year and there will be a significant negative effect on production if a replacement is not readily available. Most of the lease contracts are one year contracts, which are prolonged automatically.

*(c) Amounts recognised in the statement of financial position and profit or loss*

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

| | Right-of-use assets | |
|---|---|---|
| *In thousands of tenge* | **Buildings and construction** | **Lease liabilities** |
| **As at 1 January 2019** | **24,070,061** | **24,881,810** |
| Depreciation expenses | (917,215) | – |
| Interest expenses | – | 762,005 |
| Payments | – | (1,424,826) |
| **As at 31 March 2019** | **23,152,846** | **24,218,989** |

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### New and amended standards and interpretations (continued)

*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 has to 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 needs to be followed. The interpretation did not have an impact on the interim condensed consolidated financial statements of 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. These amendments had no impact on the interim condensed consolidated financial statements of the Group.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the interim condensed 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. An entity is also required to 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).

These amendments had no impact on the interim condensed consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the period.

*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*.

These amendments had no impact on the interim condensed consolidated financial statements as the Group does not have long-term interests in its associate and joint venture.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**New and amended standards and interpretations (continued)**

***Annual improvements 2015-2017 cycle (issued in December 2017)***

*IFRS 3 Business Combinations*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are not applicable to the Group.

*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.

Since the Group’s current practice is in line with these amendments, they had no impact on the interim condensed consolidated financial statements of 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 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.

Since the Group’s current practice is in line with these amendments, they had no impact on the interim condensed consolidated financial statements of the Group.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 4. RESTATEMENT OF COMPARATIVE INFORMATION

Certain amounts in the interim condensed consolidated statement of financial position, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flow for the three months ended 31 March 2018 were adjusted to reflect the newly identified errors and reclassified to conform with the presentation adopted in the interim condensed consolidated statements for 3 months ended 31 March 2019. The Group changed the presentation of its consolidated financial statements as new presentation provides information that is more relevant to users of the consolidated financial statements.

| *In thousand tenge* | As originally presented | Adjustments | Reclassifications | Note | As adjusted |
|---|---|---|---|---|---|
| **Consolidated statement of financial position as at 31 December 2018** | | | | | |
| **Non-current assets** | | | | | |
| Property and equipment | 88,675,636 | – | (238,290) | [1] | 88,437,346 |
| Intangible assets | 40,605,754 | – | (490,758) | [1] | 40,114,996 |
| Advances paid for non-current assets | – | – | 729,048 | [1] | 729,048 |
| **Total non-current assets** | **132,716,720** | – | – | | **132,716,720** |
| **Current assets** | | | | | |
| Trade and other receivables | 22,580,797 | – | (22,580,797) | [2], [3] | – |
| Trade receivables | – | – | 13,325,025 | [2] | 13,325,025 |
| Other current assets | – | – | 10,273,775 | [3] | 10,273,775 |
| Due from related parties | 1,018,003 | – | (1,018,003) | [2] | – |
| **Total current assets** | **34,355,934** | – | – | | **34,355,934** |
| **Current liabilities** | | | | | |
| Trade and other payables | 18,000,475 | – | (18,000,475) | [3], [4] | – |
| Trade payables | – | – | 14,047,602 | [3] | 14,047,602 |
| Other current liabilities | – | – | 4,627,591 | [4] | 4,627,591 |
| Due to related parties | 674,718 | – | (674,718) | [3] | – |
| **Total current liabilities** | **81,195,439** | – | – | | **81,195,439** |
| **Interim condensed consolidated statement of comprehensive income for the three months ended 31 March 2018** | | | | | |
| Cost of sales | (22,993,503) | (845,290) | (2,050,049) | [5], [8] | (25,888,842) |
| **Gross profit** | **13,392,481** | **(845,290)** | **(2,050,049)** | | **10,497,142** |
| General and administrative expenses | (4,108,124) | (466,520) | 1,320,610 | [5], [7] | (3,254,034) |
| Impairment of financial assets | – | – | (939,000) | [5] | (939,000) |
| Selling and marketing expenses | (2,363,729) | – | 1,668,439 | [5] | (695,290) |
| Other income | 453,025 | – | (453,025) | [6] | – |
| Other expenses | (127,362) | – | 127,362 | [6] | – |
| **Operating profit** | **7,246,291** | **(1,311,810)** | **(325,663)** | | **5,608,818** |
| Finance income | 128,320 | – | (11,029) | [6] | 117,291 |
| Finance costs | (2,443,849) | – | 114,259 | [6] | (2,329,590) |
| Net foreign exchange gain | – | – | 50,307 | [6] | 50,307 |
| Other income | – | – | 228,617 | [6] | 228,617 |
| Other expenses | – | – | (56,491) | [6] | (56,491) |
| **Profit before income tax** | **4,930,762** | **(1,311,810)** | – | | **3,618,952** |
| Income tax expense | (1,178,349) | (81,252) | – | [7] | (1,259,601) |
| **Profit and total comprehensive income for the period** | **3,752,413** | **(1,393,062)** | – | | **2,359,351** |

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 4. RESTATEMENT OF COMPARATIVE INFORMATION (continued)

| *In thousand tenge* | As originally presented | Adjustments | Reclassifications | Note | As adjusted |
|---|---|---|---|---|---|
| **Interim condensed consolidated statement of changes in equity for the three months ended 31 March 2018** | | | | | |
| Retained earnings | **41,174,670*** | **(1,393,062)** | **–** | [7], [8] | 39,781,608 |
| **Interim condensed consolidated statement of cash flows for the three months ended 31 March 2018** | | | | | |
| Profit for the year | 3,752,413 | (1,393,062) | (2,359,351) | [9] | – |
| Profit before tax | – | 1,259,601 | 2,359,351 | [9] | 3,618,952 |
| *Adjustment for:* | | | | | |
| Change in income tax | (677,758) | 677,758 | – | [7], [9] | – |
| *Changes in working capital* | | | | | |
| Change in trade and other receivables | (1,243,105) | – | 1,243,105 | [10] | – |
| Long-term receivable | (433,271) | – | 433,271 | [10] | – |
| Change in trade receivables | – | – | (2,587,653) | [10] | (2,587,653) |
| Change in other current assets | – | | 805,485 | [10] | 805,485 |
| Change in taxes payable other than income tax | 1,797 | 466,520 | (107,347) | [7], [10] | 360,970 |
| Change in trade and other payables | (1,052,088) | 845,290 | 206,798 | [8], [10] | – |
| Change in trade payable | – | – | (326,630) | [10] | (326,630) |
| Change in other current liabilities | – | – | 504,400 | [10] | 504,400 |
| Due from related parties | (105,792) | – | 105,792 | [10] | – |
| Due to related parties | 277,221 | – | (277,221) | [10] | – |
| Income tax paid | – | (1,856,107) | – | [9] | (1,856,107) |
| **Net cash flows from operating activities** | **5,586,102** | **–** | **–** | | **5,586,102** |

* *Including effect of change in accounting policy due to application of IFRS 9 in the amount of 682,866 thousand tenge.*

[1] Advances paid for non-current assets in the amount of 729,048 thousand tenge were presented as separate line in the interim condensed consolidated statement of financial position.

[2] Trade receivables in the amount of 12,307,022 thousand tenge were reclassified from trade and other receivables and presented as separate line in the interim condensed consolidated statement of financial position. Additionally, trade receivables from related parties in the amount of 1,018,003 thousand tenge were reclassified from due from related parties to trade receivables.

[3] Other current assets, including VAT recoverable, prepaid other taxes, advances to suppliers, prepaid expenses and other receivables in the amount of 6,674,090 thousand tenge, 1,201,942 thousand tenge, 975,529 thousand tenge, 411,507 thousand tenge and 1,010,707 thousand tenge, respectively, were reclassified from trade and other receivables and presented as a separate line in the interim condensed consolidated statement of financial position.

[3] Trade payables in the amount of 13,372,884 thousand tenge were reclassified from trade and other payables and presented as separate line in the interim condensed consolidated statement of financial position. Additionally, trade payables to related parties in the amount of 674,718 thousand tenge were reclassified from due to related parties to trade payables.

[4] Other current liabilities, including accrued salaries and bonuses to employees and other payables in the total amount of 1,716,864 thousand tenge and 2,910,727 thousand tenge, respectively, were presented as separate line in the interim condensed consolidated statement of financial position.

[5] Expenses related operating activities of the Group, including mainly salary of personnel and rent expenses of Kcell stores, in the total amount of 2,050,049 thousand tenge from general and administrative expenses and selling and marketing expenses were reclassified to cost of sales. Impairment of financial assets in the amount of 939,000 thousand Tenge was reclassified from general and administrative expenses and presented as a separate line in the consolidated statement of comprehensive income.

[6] Foreign exchange gain and losses were reclassified from other income and expenses in the amount of 224,408 thousand tenge and 70,871 thousand tenge, respectively, and from finance income and costs in the amount of 11,029 thousand tenge and 114,259 thousand tenge, respectively, and were presented as separate line 'net foreign exchange gain' in the interim condensed statements of comprehensive income. Additionally, other income and expenses in the amount of 228,617 thousand tenge and 56,491 thousand tenge, respectively, were presented separately.

[7] In 1Q 2018 the management of the Group identified certain errors related to the accrual of current income tax and personal income tax. The Group accrued additional current income tax and personal income tax in the total amount of 81,252 thousand tenge and 466,520 thousand tenge, respectively.

[8] In 1Q 2018 the management of the Group identified, that the Group erroneously did not recognize expenses related to interconnect fees due to certain third party suppliers. The Group accrued interconnect fees expenses in the total amount of 845,290 thousand tenge for the three months ended 31 March 2018.

[9] In consolidated statement of cash flows the Group changed the starting point for determination of cash flows from operating activity from profit for the year to profit before tax. Additionally, the Group presented the income tax paid in the amount of 1,856,170 thousand tenge in accordance with the requirements of IAS 7 *Statements of Cash Flows*.

[10] In accordance with corrections and reclassifications made in the interim condensed consolidated statement of comprehensive income, and in the interim condensed consolidated statement of financial position, the Group made respective corrections and reclassification in the interim condensed consolidated statement of cash flow.

## 4. RESTATEMENT OF COMPARATIVE INFORMATION (continued)

The changes did not have an impact the Group's investing and financing cash flows. All the disclosure amounts within the comparative information were changed respectively.

## 5. SEGMENT INFORMATION

The Group's main operations are concentrated in the Republic of Kazakhstan and are mainly represented by provision of mobile communication services. The Group identifies the segment in accordance with the criteria set in IFRS 8, *Operating Segments*, and based on the way the operations of the Group are regularly reviewed by the chief operating decision maker to analyse performance and allocate resources among business units of the Group.

The Group's Chief Executive Officer has been determined as the chief operating decision-maker ("CODM"). The CODM reviews the Group's internal reporting in order to assess performance and allocate resources. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements prepared in accordance with IFRS. Management has determined a single operating segment being mobile communication services based on these internal reports.

## 6. SHARE CAPITAL AND EARNINGS PER SHARE

Share capital of the Group is as follows:

| | **31 March 2019** | | 31 December 2018 | |
|---|---|---|---|---|
| | **Share** | **Number of shares** | Share | Number of shares |
| Kazakhtelecom JSC | **75.00%** | **150,000,000** | 75.00% | 150,000,000 |
| Raiffeisenbank JSC | **11.17%** | **22,333,057** | 11.14% | 22,282,367 |
| Freedom Finance JSC | **5.30%** | **10,609,141** | 5.68% | 11,353,659 |
| Other | **8.53%** | **17,057,802** | 8.18% | 16,363,974 |

The total authorised number of ordinary shares is 200,000,000 shares with a par value of 169 tenge per share, all of which are issued and fully paid. On 21 December 2018, the 75% stake in the Company owned by Fintur and TeliaSonera Kazakhstan was sold directly to Kazakhtelecom JSC.

The calculation of basic and diluted earnings per share is based on the following data:

| | **Three months ended** | |
|---|---|---|
| | **31 March 2019** | 31 March 2018 |
| Profit for the period attributable to equity shareholders | **(8,751,405)** | 2,359,351 |
| Weighted average number of ordinary shares | **200,000,000** | 200,000,000 |
| **Earnings per share (Kazakhstani tenge), basic and diluted** | **(43.76)** | 11.80 |

The Group has no dilutive or potentially dilutive securities outstanding.

**Additional information disclosed in accordance with Kazakhstan Stock Exchange (KASE) requirements**

*The cost of ordinary shares, calculated in accordance with the requirements of the KASE*

According to the requirements of the Kazakhstan Stock Exchange ("KASE"), the Group has calculated its cost per ordinary share, which was calculated based on the number of ordinary shares outstanding at the reporting date. The cost per ordinary share as at 31 March 2019 and 31 December 2018 is presented below.

| | **31 March 2019** | 31 December 2018 |
|---|---|---|
| Net assets, excluding intangible assets | **19,612,562** | 27,469,535 |
| Number of ordinary shares in issue | **200,000,000** | 200,000,000 |
| **Cost of ordinary share, calculated in accordance with listing requirements of KASE (Kazakhstani tenge)** | **98.06** | 137.35 |

During the three months ended 31 March 2019 and 2018, the Group did not declare dividends payable.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 7. PROPERTY AND EQUIPMENT

During the three months period ended 31 March 2019, additions to property and equipment totaled to 1,324,073 thousand tenge (during three months period ended 31 March 2018: 2,544,763 thousand tenge).

During the three months period ended 31 March 2019, transfer from construction-in-progress to property and equipment amounted to 2,861,801 thousand tenge (during three months period ended 31 March 2018: 1,446,651 thousand tenge).

During the three months period ended 31 March 2019, the Group recognized depreciation expense in the amount of 4,482,194 thousand tenge (during three months ended 31 March 2018: 4,702,405 thousand tenge).

As at 31 March 2019, the gross carrying value of property and equipment which has been fully depreciated and still in use, was 129,597,035 thousand tenge were (as at 31 December 2018: 125,217,497 thousand tenge).

## 8. INTANGIBLE ASSETS

During the three months ended 31 March 2019, the Group acquired intangible assets in the amount of 803,696 thousand tenge (during three months ended 31 March 2018: 108,867 thousand tenge).

During the three months ended 31 March 2019, the Group recognized amortization expense in the amount of 2,347,528 thousand tenge (during three months ended 31 March 2018: 1,451,342 thousand tenge).

As at 31 March 2019, the carrying amount of 3G license was 2,250,000 thousand tenge (31 December 2018: 2,333,333 thousand tenge) and its remaining amortization period was 7 years. As at 31 March 2019, the carrying amount of the 4G license was 20,511,111 thousand tenge (31 December 2018: 20,944,444 thousand tenge) and its remaining amortization period was 12 years. As at 31 March 2019, the gross carrying value of intangible assets, which have been fully depreciated and still in use, was 28,945,219 thousand tenge (31 December 2018: 27,630,351 thousand tenge).

## 9. TRADE RECEIVABLES

As at 31 March 2019 and 31 December 2018, trade receivables comprised of the following:

| *In thousands of tenge* | **31 March 2019 (unaudited)** | 31 December 2018 |
|---|---|---|
| Trade receivable from subscribers | **19,476,480** | 20,579,975 |
| Trade receivable from interconnect services | **910,212** | 330,859 |
| Trade receivables from roaming operators | **281,500** | 456,470 |
| Trade receivables from dealers and distributors | **4,307** | 629,826 |
| Trade receivables from related parties | **451,386** | 1,018,003 |
| Less: allowance for expected credit losses | **(7,129,892)** | (6,680,113) |
| | **13,993,993** | 16,335,020 |
| Less: long-term portion of trade receivable from subscribers | **(2,079,719)** | (3,009,995) |
| | **11,914,274** | 13,325,025 |

During the three months ended 31 March movements in the allowance for expected credit losses were as follows:

| *In thousands of tenge* | **31 March 2019 (unaudited)** | 31 March 2018 (unaudited) |
|---|---|---|
| **Allowance for expected credit losses at the beginning of the year** | **(6,680,113)** | (5,642,354) |
| Charge for the period | **(449,779)** | (939,000) |
| Write-offs for the period | **–** | 616,061 |
| **Allowance for expected credit losses at the end of the period** | **(7,129,892)** | (5,965,293) |

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 10. OTHER CURRENT ASSETS

As at 31 March 2019 and 31 December 2018, other current assets comprised of the following:

| *In thousands of tenge* | **31 March 2019 (unaudited)** | 31 December 2018 |
|---|---|---|
| VAT recoverable | **6,106,843** | 6,674,090 |
| Prepaid taxes other than income taxes | **3,143,473** | 1,201,942 |
| Advances paid | **584,004** | 975,529 |
| Prepaid expenses | **50,270** | 411,507 |
| Other receivables | **1,167,489** | 1,010,707 |
| **Total trade and other receivables** | **11,052,079** | 10,273,775 |

### 11. CASH AND CASH EQUIVALENTS

As at 31 March 2019 and 31 December 2018, cash and cash equivalents comprised of the following:

| *In thousands of tenge* | **31 March 2019 (unaudited)** | 31 December 2018 |
|---|---|---|
| Cash on current bank accounts | **6,081,031** | 5,883,718 |
| Bank deposits with maturity of less than 90 days | **604,753** | – |
| Cash in transit | **55,120** | 132,134 |
| Cash on hand | **17,470** | 13,190 |
| | **6,758,374** | 6,029,042 |

As at 31 March 2019 and 31 December 2018, cash and cash equivalents were denominated in various currencies as follows:

| *In thousands of tenge* | **31 March 2019 (unaudited)** | 31 December 2018 |
|---|---|---|
| Tenge | **6,665,614** | 5,259,475 |
| US dollars | **61,751** | 746,612 |
| Russian rubles | **426** | 1,253 |
| Other | **30,583** | 21,702 |
| | **6,758,374** | 6,029,042 |

### 12. BORROWINGS

As at 31 March 2019 and 31 December 2018, borrowings comprised of the following:

| | **Currency** | **Nominal interest rate** | **Maturity date** | **31 March 2019 (unaudited)** | 31 December 2018 |
|---|---|---|---|---|---|
| Eurasian Development Bank | Tenge | 11.5% | 20 May 2024 | **28,881,349** | 29,749,590 |
| Halyk Bank of Kazakhstan JSC | Tenge | 11.5% | 17 July 2021 | **3,912,878** | 21,688,817 |
| SB Alfabank JSC | Tenge | 12% | 7 June 2019 | **–** | 10,086,666 |
| VTB Bank JSC | Tenge | 10.9% | 1 February 2020 | **5,088,070** | – |
| Bonds | Tenge | 11.5% | 16 January 2021 | **22,162,602** | 5,193,713 |
| | | | | **60,044,899** | 66,718,786 |
| Less: non-current portion | | | | **(54,335,933)** | (14,935,969) |
| | | | | **5,708,966** | 51,782,817 |

The Company's borrowings are denominated in Kazakhstani tenge. The Company has not entered into any hedging arrangements in respect of its interest rate exposures.

The carrying amount of the Company's borrowings approximates their fair value.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 12. BORROWINGS (continued)

As at 31 March 2019 current portion of borrowings includes principal amount of VTB Bank JSC loan in the amount of 5,000,000 thousand Tenge, interest accrued on loans and bonds in the amount of 708,965 thousand Tenge.

On 21 February 2019, the Company undertook a bond placement at the Kazakhstan Stock Exchange, in which bonds to the value of 17,024,648 thousand tenge were placed with investors at a yield of 11.5% and on 16 January 2018 a bond placement with the value of 4,950,000 thousand tenge. This was the first placement in the programme, which the Company had announced on 14 December 2017, aimed at expanding and diversifying the Company's funding sources, increasing the average term of the Company's financial liabilities and decreasing its funding costs.

### 13. TRADE PAYABLES

As at 31 March 2019 and 31 December 2018, trade payables comprised of the following:

| *In thousands of tenge* | **31 March 2019 (unaudited)** | 31 December 2018 |
|---|---|---|
| Trade payables to third parties | **7,690,000** | 13,372,884 |
| Trade payables to related parties | **2,235,297** | 674,718 |
| | **9,925,297** | 14,047,602 |

### 14. OTHER CURRENT LIABILITIES

As at 31 March 2019 and 31 December 2018, other current liabilities comprised of the following:

| *In thousands of tenge* | **31 March 2019 (unaudited)** | 31 December 2018 |
|---|---|---|
| Penalty payables | **14,551,865** | – |
| Accrued salaries and bonuses to employees | **2,510,909** | 1,716,864 |
| Other payables | **3,366,718** | 2,910,727 |
| | **20,429,492** | 4,627,591 |

On 12 April 2019, the Group 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 the Group'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. The Group received from Kar-Tel LLP an invoice for payment of a termination fine in the amount of KZT 14,551,865 thousand.

### 15. REVENUE FROM CONTRACTS WITH CUSTOMERS

| | **For three months ended 31 March** | |
|---|---|---|
| *In thousands of tenge* | **2019 (unaudited)** | 2018 (unaudited) |
| Voice and other services | **17,850,505** | 18,520,272 |
| Data service | **11,822,343** | 11,513,796 |
| Value added services | **1,980,925** | 2,214,743 |
| Sale of handsets | **3,526,152** | 4,137,173 |
| | **35,179,925** | 36,385,984 |
| Services transferred over time | **31,653,773** | 32,248,811 |
| Goods transferred at a point of time | **3,526,152** | 4,137,173 |
| | **35,179,925** | 36,385,984 |

As at 31 March 2019 and 31 December 2018, the contract liabilities in the amount of 6,291,280 thousand tenge and 7,297,746 thousand tenge were represented by deferred revenue.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 16. COST OF SALES

| *In thousands of tenge* | For three months ended 31 March<br>**2019 (unaudited)** | <br>2018 (unaudited) |
|---|---|---|
| Depreciation and amortization | **6,912,214** | 5,252,771 |
| Interconnect fees and expenses | **5,729,676** | 5,840,825 |
| Cost of SIM-card, scratch card, start package sales and handsets | **2,916,597** | 3,480,649 |
| Personnel costs | **2,508,550** | 2,429,149 |
| Transmission services | **2,336,004** | 2,403,565 |
| Repair and maintenance | **1,740,131** | 1,665,008 |
| Fees for use of frequency range | **1,348,919** | 1,285,492 |
| Electricity | **970,449** | 899,992 |
| Rental of base stations | **271,079** | 1,477,933 |
| Security and safety | **101,445** | 58,893 |
| Materials | **58,353** | 31,488 |
| Other | **669,171** | 1,063,077 |
| | **25,562,588** | 25,888,842 |

### 17. INCOME TAX EXPENSES

| *In thousands of tenge* | For three months ended 31 March<br>**2019 (unaudited)** | <br>2018 (unaudited) |
|---|---|---|
| Current income tax expense | **–** | 1,762,770 |
| Deferred income tax benefit | **(1,670,012)** | (503,169) |
| | **(1,670,012)** | 1,259,601 |

### 18. RELATED PARTY DISCLOSURES

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

The Company's primary transactions with related parties are consulting services, technical assistance and operational support, transmission rent, roaming and interconnect.

Each financial year the Group examines the financial position of the related parties and the markets in which the related parties operate to conclude whether accounts receivable from related parties shall be impaired. No impairment of accounts receivable from related parties was recognised based on such analysis as at 31 March 2019 and 31 December 2018.

The related parties list for the three months 2019 is different in comparison with related parties list for the three months 2018 due to change in control of the Group. On 21 December 2018, the 75 percent stake in the Company owned by Telia Company was sold directly to Kazakhtelecom JSC. Kazakhtelecom JSC is controlled by the Government of the Republic of Kazakhstan through Sovereign Wealth Fund "Samruk-Kazyna" JSC ("Samruk-Kazyna") which owns 51% of Kazakhtelecom's controlling shares *(Note 1)*. Governmental entities include entities under common control and associates of the Government of the Republic of Kazakhstan.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 18. RELATED PARTY DISCLOSURES (continued)

Related party transactions were made on terms agreed between parties that may not necessarily be at market rate. Sales and purchases with related parties during three months ended 31 March 2019 and 2018, and the balances with related parties as at 31 March 2019 and 31 December 2018, were as follows:

| | **For three months ended 31 March** | |
|---|---|---|
| *In thousands of tenge* | **2019 (unaudited)** | 2018 (unaudited) |
| **Sales of goods and services** | | |
| Entities of Telia Company group (previous shareholder) | **–** | 156,421 |
| Entities of Samruk Kazyna group | **51,181** | – |
| Entities of Kazaktelecom group | **2,692,751** | – |
| Government entities | **11,739** | – |
| **Purchases of goods and services** | | |
| Entities of Telia Company group (previous shareholder) | **–** | 607,125 |
| Entities of Samruk Kazyna group | **179,296** | – |
| Entities of Kazaktelecom group | **4,605,203** | – |
| Government entities | **4,862** | – |

| *In thousands of tenge* | **31 March 2019 (unaudited)** | 31 December 2018 |
|---|---|---|
| **Trade and other receivables** | | |
| Entities of Telia Company group (previous shareholder) | **–** | 358,090 |
| Entities of Samruk Kazyna group | **197,101** | 452,534 |
| Entities of Kazaktelecom group | **501,368** | 199,106 |
| Government entities | **15,722** | 8,273 |
| **Accounts payable** | | |
| Entities of Telia Company group (previous shareholder) | **–** | 546,559 |
| Entities of Samruk Kazyna group | **37,738** | 14,823 |
| Entities of Kazaktelecom group | **2,196,282** | 112,063 |
| Government entities | **1,277** | 1,273 |

## 19. FINANCIAL INSTRUMENTS

### Fair values

The fair value of non-current financial assets is estimated using discounted cash flow based on deposit rates currently available to the Group with similar terms and average maturities. The fair value of non-current financial assets is estimated using discounted cash flow based on credit rates currently available to the Group with similar terms and average maturities

As at 31 March 2019 and 31 December 2018, the carrying amounts of the Group's financial assets and liabilities presented as follow:

| *In thousands of tenge* | **Carrying amount 31 March 2019** | **Fair value 31 March 2019** | **Unrecog-nised gain/ (loss)** | Carrying amount 31 December 2018 | Fair value 31 December 2018 | Unrecog-nised gain/ (loss) |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash and cash equivalents | **6,758,374** | **6,758,374** | **–** | 6,029,042 | 6,029,042 | – |
| Short-term trade receivables | **11,914,274** | **11,914,274** | **–** | 13,325,025 | 13,325,025 | – |
| Long-term trade receivables | **2,079,719** | **2,090,540** | **10,821** | 3,009,995 | 3,009,995 | – |
| **Financial liabilities** | | | | | | – |
| Borrowings | **60,044,899** | **60,005,857** | **39,042** | 66,718,786 | 66,718,786 | – |
| Lease liabilities | **24,218,989** | **24,218,989** | **–** | – | – | – |
| Obligation to pay a fine for termination of the contract | **14,551,865** | **14,551,865** | **–** | – | – | – |
| Trade payables | **9,925,297** | **9,925,297** | | 14,047,602 | 14,047,602 | – |
| **Total unrecognised change in unrealised fair value** | | | **49,863** | | | – |

## 20. COMMITMENTS AND CONTINGENT LIABILITIES

### 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 equipment. As at 31 March 2019, the Group had contractual commitments totaling 5,880,358 thousand tenge, excluding VAT (unaudited) (as at 31 December 2018: 4,295,229 thousand tenge, excluding VAT).

### Taxation

Tax legislation and regulatory framework of the Republic of Kazakhstan are subject to constant changes and allow for different interpretations. 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 March 2019. Management believes that as at 31 March 2019 its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained, except as provided for or otherwise disclosed in these interim condensed consolidated financial statements.

In July 2017, the Kazakhstan tax authority completed its comprehensive tax audit for the period of 2012-2015. Based on the results of the tax audit, the tax authority made an accrual of additional taxes and fines and penalties in the total amount of 9 billion tenge, of which 5.8 billion tenge is for unpaid taxes and 3.2 billion tenge represents fines and penalties. The Group did not agree with some results of tax audit and filed an appeal.

### 20. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

**Taxation (continued)**

In January 2018, Kcell disputed the results of the tax authority in the First Instance Court and the Company's appeal was dismissed. In June 2018, the Court of Appeal reviewed the appeal claim and left the unfavorable ruling of the First Instance Court in force. Although the decision is binding, the Company reserves the right to further appeal it in the Supreme Court. On 5 November 2018, the Company filed a petition to the cassation instance of the Supreme Court of the Republic of Kazakhstan. On 5 December 2018, the petition was dismissed by the Supreme Court of the Republic of Kazakhstan. The Company is going to appeal to the Supreme Court of the Republic of Kazakhstan again.

In the fourth quarter of 2016 and in the second quarter of 2017, the Group made tax provisions of 4 billion tenge and 2.8 billion tenge, respectively. The Company made another tax provision of 1.4 billion tenge, which was reported in the second quarter of 2018. During the third quarter of 2018, the Company has additionally accrued tax provisions in the amount of 0.8 billion tenge, meaning the full amount at risk of 9 billion tenge was provided for. As at 31 March 2019, the Group paid 6.1 billion tenge out of 9 billion tenge.

**New technical regulations**

Order No. 91 of the Committee of the National Security dated 20 December 2016 on approval of the Technical Regulations "General requirements to the telecommunication equipment in ensuring conducting of operative search measures, collection and storage of subscribers' information" was published on 7 February 2017 and came into force on 8 February 2018. According to the new regulations, there are additional requirements to the telecommunication equipment that include expansion of technical capabilities of equipment to conduct operative search activities, collection and storage of subscribers' information (hereinafter − "ORA"). Currently, the Group is in the process of modernization of the telecommunication equipment of the Kcell's network in order to comply with the requirements of the Technical Regulations.

**Cases related to the abuse of dominant position**

On 19 October 2018, the Committee on Regulation of Natural Monopolies, Protection of Competition and Consumer Rights of the Ministry of National Economy of the Republic of Kazakhstan ("Committee") initiated administrative proceedings against the Company for an alleged administrative violation related to the abuse of its dominant position in 2017. The potential fine, which can be imposed by the court, constitutes approximately 2 billion tenge.

According to the Committee, the violation resulted in the establishment of different prices for Kcell's mobile Internet access service, when the data allowance was exceeded or the monthly subscription fee was not paid in a timely manner. In addition, the Committee issued an order for the Company to return to Kcell brand subscribers all fees charged in 2017 when the monthly data allowance was exceeded and when the monthly subscription fee for mobile Internet access services had not been paid.

The Company did not agree with the order issued by the Committee and is going to appeal to the court. The management of the Company believes that the appeal will be successful and assesses the probability of outflow of economic benefits as remote.

### 21. SEASONALITY OF OPERATIONS

The Group's services are impacted by seasonal trends throughout the year. Revenue and operating profits in the seconds half of year are usually expected to be higher than in the first six months. Higher revenue during the period from July to September is mainly attributable to increased demand for telecom services during the peak holiday season. Higher revenue also occurs in the months of December, due to increased demand for telecom services and equipment from subscribers.

This information is provided to allow for a better understanding of the Group's results; however, management has concluded that these impacts on the results are not "highly seasonal" as considered by IAS 34.

### 22. SUBSEQUENT EVENTS

In May 2019, the Company received a bank loan from Halyk Bank JSC in the amount of 10 billion tenge for a period of three years and annual interest rate of 11%.

On 29 May 2019 on the basis of the decision made at the annual general meeting of shareholders of Kcell JSC, the Company declared dividends on ordinary and global depository receipts in the total amount of 5,972,000 thousand tenge (29.86 tenge per ordinary share or global depositary receipt).