



Kcell JSC

Consolidated financial statements

*For the year ended 31 December 2019
together with independent auditor's report*

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Consolidated financial statements

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Independent auditor's report

To the Shareholders and the Audit committee of the Board of directors of Kcell JSC

Opinion

We have audited the consolidated financial statements of Kcell JSC and its subsidiaries (hereinafter, the Group), which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019 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 (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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

There is a significant risk of misstatement relating to the recognition and measurement of revenue from telecommunication services as the billing systems employed by the Group are complex. In addition, effect of accounting treatment of changing tariff structures and multi-element arrangements on revenue could be significant.

The selection and application of revenue recognition policies, including the application of IFRS 15, involve a number of key judgements and estimates, and therefore revenue could be subject to misstatement, whether due to fraud or error, including untimely recognition

The Group's disclosure of information 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 22 to the consolidated financial statements.

We have considered 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 and accounting treatment of tariff rates input to the billing systems; and calculation of amounts billed to the 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 also analysed the timeliness of revenue recognition.

We analysed the key judgements and estimates, and the accounting policy for compliance with IFRS 15. We considered revenue disclosures in light of the requirements of IFRS 15.

Adoption of IFRS 16 Leases

The Group applied the modified retrospective approach for the transition accounting to IFRS 16. The application of the new standard gives rise to a right-of-use asset of 24 billion tenge, a lease liabilities of 24.9 billion tenge and corresponding decrease in equity.

The assessment of the impact of IFRS 16 is significant to our audit, as the balances recorded are material, the update of the accounting policy requires management to apply judgment in policy choices. In addition, the implementation process to identify and process all relevant data associated with the leases is complex process and the measurement of the right-of-use assets and lease liabilities is based on assumptions such as discount rates and the lease terms, including termination and renewal options.

The Group's disclosure in respect of the impact of IFRS 16 adoption, the accounting policies on lease recognition and measurement is included in Note 3 to the consolidated financial statements, and detailed lease disclosures are included in Note 3 to the consolidated financial statements.

We analyzed the updated accounting policy and policy choices in respect of adoption of the new standard to be in accordance with IFRS 16.

We performed testing of the completeness of the identified lease contracts on a sample basis and testing of the accuracy of the input in the lease calculation to the lease contracts.

We challenged management assumptions, specifically the assumptions used to determine the discount rates and lease terms, including termination and renewal options. We recalculated the right-of-use assets and lease liabilities by type of lease contracts.

We assessed the adequacy of the disclosure of the impact of IFRS 16 in Note 3 to the consolidated financial statements.

Costs capitalization

The Group capitalises significant internal labour costs and external costs in respect of major capital projects, including mobile network upgrades. There is risk in respect of valuation and allocation of assets, that costs which do not meet the criteria for capitalisation in accordance with IAS 16 and IAS 38 are capitalised or that assets continue to be recognized as non-current assets despite no longer meeting the relevant capitalisation criteria.

Due to the relative size of the Group's mobile network related property and equipment and intangible assets in the consolidated statement of financial position and the area of judgment around the application of capitalization

We obtained an understanding of the process around the property and equipment cycle and intangible assets cycle. We have considered the design and tested the operating effectiveness of related controls.

We analysed the appropriateness of costs capitalization policies of the Group.

We have carried out substantive testing in relation to each element of capitalised costs including inspecting supporting evidence for a sample of the capitalised costs and understanding the nature of the costs capitalised. We assessed the timeliness of the transfer of assets from the constructions-in-progress to the property and equipment and

criteria, we considered this as one of the key audit matters.

The Group's policy on the capitalisation of assets is included in Note 3 to the consolidated financial statements, and detailed property and equipment and intangible assets disclosures are included in Note 8 and Note 9, respectively, to the consolidated financial statements.

intangibles assets. In addition, we analysed assets recognized as non-current assets for compliance with capitalisation criteria.

We considered the appropriateness of the related disclosures provided in the Group consolidated financial statements.

Transition as auditors including audit of opening balance

Initial audit engagements involve a number of considerations different from recurring audits. We identified the audit transition, including the audit of the opening balance as a key audit matter as this involves additional planning activities and considerations necessary to establish an appropriate audit plan and strategy. This includes:

- Gaining an initial understanding of the Group and its business including its control environment and information systems, sufficient to make audit risk assessments and develop the audit strategy and plan;
- Obtaining sufficient appropriate audit evidence regarding the opening balances including the selection and application of accounting principles; and
- Communication with the predecessor auditor.

We had close interaction with the predecessor auditor, including a process of file review and formal hand over procedures as prescribed by professional auditing standards.

We evaluated key accounting positions and audit matters from prior years and discussed them with the predecessor auditor and management. We reviewed management's control documentation to assist in obtaining an understanding of the Group's financial reporting and business processes.

We have communicated our audit plan to the Group's Audit committee and we reported status, progress and key findings from our audit process.

We used the knowledge gained through these procedures as we undertook our audit work and refined our views on risks and scope accordingly.

Other matter

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.

Other information included in the Group's 2019 Annual report

Other information consists of the information included in the Group's 2019 Annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2019 Annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we 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 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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.
- ▶ 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.

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

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

28 February 2020



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 on 15 July 2005

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

| <i>In thousands of tenge</i> | Notes | 31 December 2019 | 31 December 2018*,** |
|---|-------|---------------------|-------------------------|
| Assets | | | |
| Non-current assets | | | |
| Property and equipment | 8 | 82,283,327 | 88,437,346 |
| Intangible assets | 9 | 38,819,624 | 40,114,996 |
| Advances paid for non-current assets | | 232,657 | 729,048 |
| Right-of-use assets | 3 | 23,066,886 | – |
| Long-term trade receivables | 10 | 1,118,077 | 3,009,995 |
| Cost to obtain contracts | | 239,612 | 388,802 |
| Deferred tax assets | 27 | 1,377,725 | – |
| Other non-current assets | | 2,653 | 36,533 |
| Total non-current assets | | 147,140,561 | 132,716,720 |
| Current assets | | | |
| Inventories | 11 | 6,636,242 | 4,728,092 |
| Trade receivables | 10 | 15,646,942 | 13,787,025 |
| Other current non-financial assets | 12 | 6,704,397 | 5,275,663 |
| Other current financial assets | 13 | 1,371,295 | 1,010,707 |
| Prepaid income tax | | 30,319 | – |
| Financial assets at fair value through other comprehensive income | 14 | 4,964,633 | – |
| Cash and cash equivalents | 15 | 8,825,048 | 6,029,042 |
| Total current assets | | 44,178,876 | 30,830,529 |
| Total assets | | 191,319,437 | 163,547,249 |
| Equity and liabilities | | | |
| Share capital | 7 | 33,800,000 | 33,800,000 |
| Retained earnings | | 37,771,288 | 34,275,289 |
| Total equity | | 71,571,288 | 68,075,289 |
| Non-current liabilities | | | |
| Borrowings: non-current portion | 16 | 55,548,314 | 14,935,969 |
| Long-term lease liabilities | 3 | 21,619,521 | – |
| Deferred tax liabilities | 27 | 1,248,186 | 1,503,915 |
| Asset retirement obligation | 19 | 1,970,215 | 1,285,482 |
| Other non-current liabilities | | – | 76,560 |
| Total non-current liabilities | | 80,386,236 | 17,801,926 |
| Current liabilities | | | |
| Borrowings: current portion | 16 | 6,383,658 | 51,782,817 |
| Trade payables | 17 | 21,174,548 | 14,047,602 |
| Contracts liabilities | 18 | 4,149,365 | 3,772,341 |
| Other current non-financial liabilities | 30 | 187,793 | 2,910,727 |
| Other current financial liabilities | 20 | 3,171,814 | 1,716,864 |
| Short-term lease liabilities | 3 | 3,198,428 | – |
| Income tax payable | | 594,746 | 1,853,827 |
| Taxes payable other than income tax | 21 | 501,561 | 1,585,856 |
| Total current liabilities | | 39,361,913 | 77,670,034 |
| Total liabilities | | 119,748,149 | 95,471,960 |
| Total equity and liabilities | | 191,319,437 | 163,547,249 |

* 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 made, as detailed in Note 4.

Chairman of the Management Board

Acting Chief Financial Officer



Kaspars Kukelis
Dausen Shaikhin

The accounting policies and notes on pages 6 to 50 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

| <i>In thousands of tenge</i> | Notes | 2019 | 2018^{*,**} |
|--|--------------|----------------------|----------------------------|
| Revenue from contracts with customers | 22 | 156,656,861 | 149,700,750 |
| Cost of sales | 23 | (109,194,996) | (109,433,146) |
| Gross profit | | 47,461,865 | 40,267,604 |
| Penalty expenses | 20 | (14,551,865) | – |
| General and administrative expenses | 24 | (8,924,684) | (14,074,485) |
| Impairment of financial assets | 10 | (2,256,120) | (1,906,060) |
| Impairment of property and equipment | 8 | (1,844,104) | – |
| Selling expenses | 25 | (2,887,221) | (3,049,861) |
| Reversal of tax and related fines and penalties provision | 30 | 5,816,045 | – |
| Operating profit | | 22,813,916 | 21,237,198 |
| Finance costs | 26 | (11,500,011) | (9,720,797) |
| Finance income | 26 | 1,415,357 | 781,137 |
| Net foreign exchange loss | | (91,454) | (420,195) |
| Other income | | 317,436 | 552,473 |
| Other expenses | | (84,853) | (166,346) |
| Profit before tax | | 12,870,391 | 12,263,470 |
| Income tax expenses | 27 | (2,752,992) | (3,732,438) |
| Profit for the year | | 10,117,399 | 8,531,032 |
| Other comprehensive income | | – | – |
| Total comprehensive income for the year, net of tax | | 10,117,399 | 8,531,032 |
| Earnings per share | | | |
| Basic and diluted, tenge | 7 | 50.59 | 42.66 |

* 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 made, as detailed in Note 4.

Chairman of the Management Board



Kaspars Kukelis



Dauren Shaikhin



Acting Chief Financial Officer

The accounting policies and notes on pages 6 to 50 are an integral part of these consolidated financial statements.

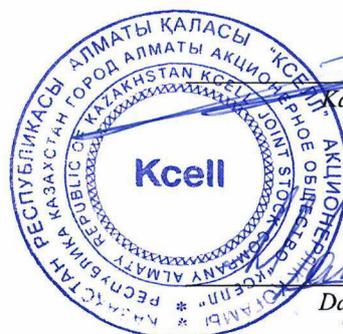
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

| <i>In thousands of tenge</i> | Share capital | Retained earnings | Total equity |
|---|----------------------|--------------------------|---------------------|
| Balance at 1 January 2018 | 33,800,000 | 37,422,257 | 71,222,257 |
| Net profit for the year | – | 8,531,032 | 8,531,032 |
| Other comprehensive income | – | – | – |
| Total comprehensive income | – | 8,531,032 | 8,531,032 |
| Dividends declared (Note 7) | – | (11,678,000) | (11,678,000) |
| At 31 December 2018 | 33,800,000 | 34,275,289 | 68,075,289 |
| Balance at 1 January 2019 | 33,800,000 | 34,275,289 | 68,075,289 |
| Change in accounting policy due to application of IFRS 16 (Note 3)* | – | (649,400) | (649,400) |
| Balance at 1 January 2019 (restated) | 33,800,000 | 33,625,889 | 67,425,889 |
| Net profit for the year | – | 10,117,399 | 10,117,399 |
| Other comprehensive income | – | – | – |
| Total comprehensive income | – | 10,117,399 | 10,117,399 |
| Dividends declared (Note 7) | – | (5,972,000) | (5,972,000) |
| At 31 December 2019 | 33,800,000 | 37,771,288 | 71,571,288 |

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

Chairman of the Management Board



Kaspars Kukelis

Acting Chief Financial Officer

Dauren Shaikhin

The accounting policies and notes on pages 6 to 50 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS**For the year ended 31 December 2019**

| <i>In thousands of tenge</i> | Notes | 2019 | 2018*,** |
|--|--------------|---------------------|-----------------|
| Cash flows from operating activities | | | |
| Profit before tax | | 12,870,391 | 12,263,470 |
| Adjustments for: | | | |
| Impairment of financial assets | 10 | 2,256,120 | 1,906,060 |
| Impairment of property and equipment | 8 | 1,844,104 | – |
| Finance costs | 26 | 11,500,011 | 9,720,797 |
| Depreciation of property and equipment and right of use assets (for the year ended 31 December 2018: depreciation of property and equipment) | 3, 8 | 20,558,245 | 18,873,906 |
| Amortization of intangible assets | 9 | 9,389,738 | 7,758,259 |
| Finance income | 26 | (1,415,357) | (781,137) |
| Reversal of tax and related fines and penalties provision | 30 | (5,816,045) | – |
| Gain on cancellation of lease agreements | | (9,725) | – |
| Net foreign exchange loss, net | | 91,454 | 420,195 |
| Operating cash flows before changes in operating assets and liabilities | | 51,268,936 | 50,161,550 |
| Change in inventories | | (1,908,151) | (1,303,428) |
| Change in trade receivables | | (2,197,426) | (5,729,424) |
| Change in other current non-financial assets | | (953,266) | 5,969,790 |
| Change in other current financial assets | | (326,077) | (575,588) |
| Change in cost to obtain contracts | | 149,189 | (167,713) |
| Change in trade payables | | 2,017,238 | (5,897,842) |
| Change in other current non-financial liabilities | | 116,639 | 509,414 |
| Change in other current financial liabilities | | (69,544) | (2,003,504) |
| Change in contract liabilities | | 377,024 | (2,235,239) |
| Change in taxes payable other than income tax | | (1,114,614) | 2,115,846 |
| Cash flows generated from operations | | 47,359,948 | 40,843,862 |
| Income tax paid | | (3,312,728) | (5,088,762) |
| Interest received | | 404,036 | 856,347 |
| Interest paid | 29 | (9,825,613) | (9,040,881) |
| Net cash inflows from operating activities | | 34,625,643 | 27,570,566 |
| Cash flows from investing activities | | | |
| Purchase of property and equipment | | (8,832,005) | (12,460,152) |
| Purchase of intangible assets | | (4,329,376) | (6,791,345) |
| Purchase of financial assets at fair value through other comprehensive income | | (5,021,171) | – |
| Net cash flows used in investing activities | | (18,182,552) | (19,251,497) |

The accounting policies and notes on pages 6 to 50 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

| <i>In thousands of tenge</i> | Notes | 2019 | 2018 ^{*,**} |
|---|-------|---------------------|----------------------|
| Cash flows from financing activities | | | |
| Proceeds from loans | 29 | 20,000,000 | 26,840,000 |
| Proceeds from bonds issued | 29 | 17,024,647 | 4,950,000 |
| Repayment of loans | 29 | (42,000,000) | (35,210,000) |
| Repayment of principal portion of lease liabilities | 3, 29 | (2,649,442) | – |
| Dividends paid | 7 | (5,972,000) | (11,678,000) |
| Net cash flows used in financing activities | | (13,596,795) | (15,098,000) |
| Net increase/(decrease) in cash and cash equivalents | | 2,846,296 | (6,778,931) |
| Effect of exchange rate changes on cash and cash equivalents held in foreign currency | | (50,290) | 148,129 |
| 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 year | 15 | 8,825,048 | 6,029,042 |

* 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 year ended 31 December 2018, as they reflect the reclassifications made, as detailed in Note 4.

NON-CASH TRANSACTIONS

For the year ended 31 December 2019 the Group paid 3,312,728 thousand tenge for corporate income tax of which 329,552 thousand tenge were subsequently offset against withholding tax for non-residents and other taxes (2018: 4,149,039 thousand tenge and 3,034,975 thousand tenge, respectively).

Chairman of the Management Board

Kaspars Kukelis

Acting Chief Financial Officer

Dauren Shaikhin



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**For the year ended 31 December 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 Depository 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 (the “Parent”). As of 31 December 2019 the Company is controlled by 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.

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

| | 31 December 2019 | 31 December 2018 |
|--------------------|-----------------------------|---------------------|
| Kazakhtelecom JSC | 75.00% | 75.00% |
| Raiffeisenbank JSC | 11.82% | 11.14% |
| Other | 13.18% | 13.86% |
| | 100.00% | 100.00% |

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

| | 31 December 2019 | 31 December 2018 |
|------------------|-----------------------------|---------------------|
| KazNet Media LLP | 100% | 100% |
| KT-Telecom LLP | 100% | 100% |

The accompanying consolidated financial statements include the financial statement of Kcell JSC and its subsidiaries (further referred as to “the Group”).

On 25 December 2010, the competent authority signed an addendum to the existing GSM license, which provided the Group with a right to operate a 3G network. In December 2010, the Group 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 14,000,000 thousand 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 4,000,000 thousand tenge by 1 February 2016 for 10/10 MHz radio frequency within the 1700/1800 MHz band, and the first tranche of 10,000,000 thousand 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 12,000,000 thousand tenge was 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 consolidated financial statements were authorised for issue by the Chairman of the Management Board on 28 February 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. BASIS OF 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 thousands, except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2019. 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 results 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(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group’s voting rights and potential voting rights.

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 of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains 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 in line with the Group’s accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**New and amended standards and interpretations**

The Group applied IFRS 16 *Leases* for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below.

Several other amendments and interpretations apply for the first time in 2019, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****New and amended standards and interpretations (continued)***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.

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').

| <i>In thousands of tenge</i> | Adjustments as at 1 January 2019 |
|--------------------------------------|---|
| 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 rents expense in profit or loss on a straight-line basis over the leases term. Any prepaid rent and accrued rents 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.

NOTES TO THE 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

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.

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 thousands of 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 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****New and amended standards and interpretations (continued)***IFRS 16 Leases (continued)**(b) 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:

| <i>In thousands of tenge</i> | Right-of-use assets | Lease liabilities |
|-------------------------------|---------------------------------------|------------------------------|
| | Buildings and construction | |
| As at 1 January 2019 | 24,070,061 | 24,881,810 |
| Depreciation expenses | (3,598,481) | – |
| Interest expense | – | 2,914,490 |
| Payments | – | (5,563,932) |
| Additions | 2,079,672 | 2,079,672 |
| Cancellations | (19,001) | (28,726) |
| Modifications | 534,635 | 534,635 |
| As at 31 December 2019 | 23,066,886 | 24,817,949 |
| Current | – | 3,198,428 |
| Non-current | – | 21,619,521 |

The following are the amounts recognised in profit or loss:

| <i>In thousands of tenge</i> | 2019 |
|---|------------------|
| Depreciation expense of right-of-use assets | 3,598,481 |
| Interest expense on lease liabilities | 2,914,490 |
| Expense relating to short-term leases (included in cost of sales) | 1,207,221 |
| Total amount recognised in profit or loss | 7,720,192 |

The Group had total cash outflows for leases of 6,771,153 thousand tenge in 2019. The Group also had non-cash additions to right-of-use assets and lease liabilities of 2,079,672 thousand tenge in 2019.

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 consolidated financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**New and amended standards and interpretations (continued)***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 an 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 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 the 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 the 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 had no impact on the 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 consolidated financial statements as the Group does not have long-term interests in its associate and joint venture.

Annual improvements 2015-2017 cycle*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 had no impact on the consolidated financial statements of the Group as there is no transaction where joint control is obtained.

IFRS 11 Joint Arrangements

An entity 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**New and amended standards and interpretations (continued)***Annual improvements 2015-2017 cycle (continued)**IFRS 11 Joint Arrangements*

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where a joint control is obtained.

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 it originally recognised those past transactions or events.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the 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 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 of the activities necessary to prepare that asset for its intended use or sale are complete.

The entity applies the 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 consolidated financial statements of the Group.

Standards 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 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach);
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 7. This standard is not applicable to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Standards issued but not yet effective (continued)***Amendments to IFRS 3 Definition of a Business*

In October 2018, 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. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8 Definition of Material

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 new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 *Financial Instruments: Disclosures*, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR).

The amendments must be applied retrospectively. However, any hedge relationships that have previously been de-designated cannot be reinstated upon application, nor can any hedge relationships be designated with the benefit of hindsight. Early application is permitted and must be disclosed. These amendments are not applicable to the Group.

The Conceptual Framework for Financial Reporting

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 revised *Conceptual Framework for Financial Reporting* (the Conceptual Framework) is not a standard, and none of the concepts override those in any standard or any requirements in a standard. The purpose of the Conceptual Framework is to assist the Board in developing standards, to help preparers develop consistent accounting policies if there is no applicable standard in place and to assist all parties to understand and interpret the standards.

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 includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. The revised Conceptual Framework is not expected to have a significant impact on the Group's consolidated financial statements.

Amendments to IAS 1 Financial Statements: Classification of Liabilities as Current and Non-current

On 23 January 2020, the International Accounting Standards Board (IASB or the Board) issued amendments to paragraphs 69 to 76 of IAS 1 *Presentation of Financial Statements* (the amendments) to specify the requirements for classifying liabilities as current or non-current.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

Amendments to IAS 1 Financial Statements: Classification of Liabilities as Current and Non-current (continued)

The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments to IAS 1 are required to be applied for annual periods beginning on or after 1 January 2022. The amendments must be applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Earlier application is permitted. These amendments do not have impact on the Group.

Foreign currency translation

The consolidated financial statements of the Group are presented in tenge, which is the functional currency of the Company and its main subsidiaries. Tenge is the currency of the primary economic environment in which the Company and its main subsidiaries operate. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. 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. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

Foreign exchange rates are presented in the following table:

| | 31 December 2019 | 31 December 2018 |
|----------------|-----------------------------|---------------------|
| US dollar | 382.59 | 384.20 |
| Euro | 429 | 439.37 |
| Russian rouble | 6.16 | 5.52 |

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Current versus non-current classification (continued)**

A liability is current when:

- It is expected to be settled in 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 29*.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the consolidated financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The respective unit of the Group (hereinafter, the "Working Group") determines the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted AFS financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operations. The composition of the Working Group is determined by the Management of the Group.

External valuers are involved for valuation of significant assets, such as investment properties and unquoted financial assets, and significant liabilities, such as contingent consideration. Involvement of external valuers is determined annually by the Working Group after discussion with and approval by the Group's Audit Committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuers are normally rotated every three years. The Working Group decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

At each reporting date, the Working Group analyses the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per the Group's accounting policies. For this analysis, the Valuation Committee verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The Working Group also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

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 Asset retirement obligation (*Note 19*) 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 and constructions | 10-50 |
| Machinery | 3-10 |
| Equipment, tools and installations | 2-8 |

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.

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.

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 cost less any accumulated amortisation and 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

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 |
|------------------------|--------------|
| Software and license | 3-8 |
| Other telecom licenses | 10 |
| Other | 8-10 |

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's or cash-generating unit's (CGU) recoverable amount is the higher of: the fair value of an asset (cash generating unit) less costs of disposal and its value in use (cash generating unit). The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of 5 (five) years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Financial assets*****Initial recognition and measurement***

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. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

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. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

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.

Financial assets of the Group include cash and cash equivalents, trade and other accounts receivable, financial asset at fair value through other comprehensive income.

Subsequent measurement

For purposes of subsequent measurement financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- Financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. 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 and other receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Financial assets (continued)*****Subsequent measurement (continued)****Financial assets designated at fair value through OCI (equity instruments)*

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably its non-listed equity investments under this category.

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. excluded 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.

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*Financial assets carried at amortised cost*

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 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Financial assets (continued)*****Impairment of financial assets (continued)******Financial assets carried at amortised cost (continued)***

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.

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 and lease liabilities.

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 16*.

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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are only offset and reported at the net amount in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and the Group intends to either settle on a net basis, to realise the asset and settle the liability simultaneously.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Before 1 January 2019, a lease was 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 was classified as a finance lease.

Finance leases were 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 were 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 were reflected directly in the consolidated statement of comprehensive income.

A leased asset was depreciated over the useful life of the asset. However, if there was no reasonable certainty that the Group would obtain ownership by the end of the lease term, the asset was depreciated over the shorter of: the estimated useful life of the asset and the lease term.

Operating lease payments were recognised as operating expenses in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

From 1 January 2019, the Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

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.

The right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term, as follows:

| | Years |
|------------------------------------|--------------|
| Buildings and constructions | 5-15 |

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in section Impairment of non-financial assets.

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 insubstance 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 the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because 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 lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Leases (continued)**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.

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.

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 a provision is presented in the statement of profit or loss 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 liability

Decommissioning liabilities are recognized in respect of the estimated future costs of closure and restoration and for environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the reporting period when the related environmental disturbance occurs. Decommissioning costs are recorded at the discounted value of expected liability settlement costs calculated using estimated cash flows and recognized as part of the initial cost of the particular asset. Cash flows are discounted at the current rate before tax, which reflects risks inherent to the decommissioning obligations. Unwinding of discount is expensed as incurred and recognised in the consolidated statement of comprehensive income as finance costs. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs, or in the discount rate applied, are added to or deducted from the cost of the asset.

Employee benefit*Social tax*

The Group pays social tax according to the current statutory requirements of the Republic of Kazakhstan. Social tax expenses are charged to expenses as incurred.

Besides, the Group withholds 10% of the salary of employees paid as contributions of employees to the accumulating pension funds. Under the legislation, employees are responsible for their retirement benefits and the Group has no present or future obligation to further compensate its employees upon their retirement, except as provided below.

Pension payments

The Group does not incur any expenses in relation to provision of pensions or other post-employment benefits to its employees. In accordance with the legal requirements of the Republic of Kazakhstan, the Group withholds pension contributions from employee salaries and transfers them into state or private pension funds on behalf of its employees. Pension contributions are the responsibility of employees, and the Group has no current or future obligations to make payments to employees following their retirement. Upon retirement of employees, all pension payments are administered by the pension funds directly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Cash dividend and non-cash distribution to equity holders of the Parent**

The Group 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 Group. 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

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.

Revenue is categorised as follows: voice and other services, data services, value added services, and sale of handsets.

Voice service includes call out revenue, interconnect fees, roaming revenues charged to the Group's subscribers for roaming in other wireless operators' network, and roaming revenues charged to other wireless operators for non-Group subscribers using the Group's network.

Data services include revenues from GPRS, WAP services and other data services.

Value added services consists of SMS, MMS, info services and providing content of third parties, fax and voice mail services.

The Group may bundle services and products into one customer offering. Offerings may involve the delivery or performance of multiple products, services, or rights to use assets (multiple deliverables). In some cases, the arrangements include initial installation, initiation, or activation services and involve consideration in the form of a fixed fee or a fixed fee coupled with a continuing payment stream. Costs associated with the equipment are recognised when revenue is recognised. The revenue is allocated to separate product and services on a relative stand-alone selling price method.

The stand-alone selling prices are determined based on the list prices at which the Group sells the mobile devices and telecommunication services. Customised equipment that can be used only in connection with services or products provided by the Group is not accounted for separately and revenue is deferred over the total service arrangement period.

In revenue arrangements where more than one performance obligation, transaction price is allocated between the goods and services using relative stand-alone selling price method. Determining the transaction price for each separate performance obligation can require complex estimates. The Group generally determines the stand-alone selling price for each separate performance obligation based on prices at which the good or services are regularly sold on a stand-alone basis after considering volume discounts where appropriate.

As a practical expedient, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if the Group expects, at contract inception, that the period between when the Group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

(i) Call out revenue

Call out revenue is recognised based on the actual airtime used by the subscribers. Prepayments received for call out revenue are not recognised as revenue until the related service has been provided to the subscriber. Revenue is recognised based on the actual traffic time elapsed, at the customer selected calling plan rates.

(ii) Interconnect revenues and costs

The Group charges interconnect per minute fees and fixed monthly payments to other local wireless and fixed line operators for calls originated outside and terminated within the Group's network. The Group recognises such revenues when the services are provided. The Group is charged interconnect fees per minute and fixed monthly payments by other local wireless and fixed line operators for calls originated within the Group's network and terminated outside of the network. The Group recognises such costs when the services are provided.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Revenue from contracts with customers (continued)***(iii) Data revenue*

The data service is recognised when a service is used by a subscriber based on actual data volume traffic or passage of time (monthly subscription fee).

(iv) Roaming revenues charged to the Group's subscribers

Roaming revenue from the Group's subscribers for roaming in other operators' network is charged based on information provided by other operators to the Group.

(v) Roaming fees charged to other wireless operators

The Group charges roaming per minute fees to other wireless operators for non-Group subscribers utilising the Group's network. The Group recognises such revenues when the services are provided.

(vi) Value added services

Value added services mainly consists of content provided by third parties, different info services, fax and voice mail. When invoicing the end-customer for third party content service, amounts collected on behalf of the principal are excluded from revenue.

Roaming discounts

The Group enters into roaming discount agreements with a number of wireless operators. According to the terms of the agreements the Group is obliged to provide and entitled to receive a discount that is generally dependent on the volume of inter operator roaming traffic. The Group uses various estimates and assumptions, based on historical data and adjusted for known changes, to determine the amount of discount to be received or granted. Such estimates are adjusted monthly to reflect newly-available information.

The Group accounts for discounts received as a reduction of roaming expenses and discounts granted as reduction of roaming revenue. The Group considers terms of the various roaming discount agreements to determine the appropriate presentation of amount of receivable from and payable to its roaming partners in its consolidated statements of financial position.

Costs to obtain a contract

The Group sells part of payment scratch cards, sim cards, and handsets using dealers. The Group pays a certain commission to dealers depending on the number of payment scratch cards, sim cards or handset sold. Sales commissions and equipment subsidies granted to dealers for obtaining a specific contract are capitalised and deferred over the period over which the Group expects to provide services to the customer. Other commissions to dealers are recognised when the item is sold to the subscriber.

Contract balances*Contract assets*

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 is recognised if an amount of consideration that is unconditional is due from the customer (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".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Contract balances (continued)***Contract liabilities*

A contract liability is recognised if a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

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.

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 an entity incurs in connection with the borrowing of funds.

Taxes*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 at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management 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 tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in transaction that is not a business combination and, at the same time of 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Taxes (continued)***Deferred 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 utilized.

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 re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits 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 correlation to the underlying transaction either in OCI or directly in equity.

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Contingent assets and liabilities

Contingent assets are not recognized in the consolidated financial statements. Where an inflow of economic benefits is probable, they are disclosed.

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Related parties

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Transactions with related parties are used to reflect the status of settlements for property, works and services received from companies or sold to companies that are related parties to the Group. Items of a similar nature are disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**4. RECLASSIFICATION OF COMPARATIVE INFORMATION**

Certain amounts in the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flow for the year ended 31 December 2018 were reclassified to conform with the presentation adopted in the consolidated statements for the year ended 31 December 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.

| <i>In thousands of tenge</i> | As originally presented | 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 | – | 13,787,025 | [2] | 13,787,025 |
| Other current non-financial assets | – | 5,275,663 | [3], [5] | 5,275,663 |
| Other current financial assets | – | 1,010,707 | [3] | 1,010,707 |
| Due from related parties | 1,018,003 | (1,018,003) | [2] | – |
| Total current assets | 34,355,934 | (3,525,405) | | 30,830,529 |
| Current liabilities | | | | |
| Trade and other payables | 18,000,475 | (18,000,475) | [4], [6] | – |
| Trade payables | – | 14,047,602 | [4] | 14,047,602 |
| Other current non-financial liabilities | – | 2,910,727 | [6] | 2,910,727 |
| Other current financial liabilities | – | 1,716,864 | [6] | 1,716,864 |
| Contract liabilities | 7,297,746 | (3,525,405) | [5] | 3,772,341 |
| Due to related parties | 674,718 | (674,718) | [4] | – |
| Total current liabilities | 81,195,439 | (3,525,405) | | 77,670,034 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**4. RECLASSIFICATION OF COMPARATIVE INFORMATION (continued)**

| <i>In thousands of tenge</i> | As originally presented | Reclassifications | Note | As adjusted |
|---|------------------------------------|--------------------------|-------------|--------------------|
| Consolidated statement of comprehensive income for the year ended 31 December 2018 | | | | |
| Revenue from contracts with customer | 149,700,750 | – | | 149,700,750 |
| Cost of sales | (99,431,482) | (10,001,664) | [7], [10] | (109,433,146) |
| Gross profit | 50,269,268 | (10,001,664) | | 40,267,604 |
| General and administrative expenses | (19,226,774) | 5,152,289 | [7] | (14,074,485) |
| Impairment of financial assets | – | (1,906,060) | [7] | (1,906,060) |
| Selling and marketing expenses | (9,805,296) | 6,755,435 | [7] | (3,049,861) |
| Other income | 1,009,590 | (1,009,590) | [8] | – |
| Other expenses | (1,191,787) | 1,191,787 | [8] | – |
| Operating profit | 21,055,001 | 182,197 | | 21,237,198 |
| Finance income | 1,102,558 | (321,421) | [8] | 781,137 |
| Finance costs | (9,894,089) | 173,292 | [8] | (9,720,797) |
| Net foreign exchange loss | – | (420,195) | [8] | (420,195) |
| Other income | – | 552,473 | [8] | 552,473 |
| Other expenses | – | (166,346) | [8] | (166,346) |
| Profit before income tax | 12,263,470 | – | | 12,263,470 |
| Income tax expense | (3,732,438) | – | | (3,732,438) |
| Profit and total comprehensive income for the year | 8,531,032 | – | | 8,531,032 |
| Consolidated statement of cash flows for the year ended 31 December 2018 | | | | |
| Profit for the year | 8,531,032 | (8,531,032) | [9] | – |
| Profit before tax | – | 12,263,470 | [9] | 12,263,470 |
| Adjustment for: | | | | |
| Change in income tax | 1,667,855 | (1,667,855) | [10] | – |
| Changes in working capital | | | | |
| Change in trade and other receivables | (4,350,433) | 4,350,433 | [10] | – |
| Long-term receivable | (1,392,789) | 1,392,789 | [10] | – |
| Change in trade receivables | – | (5,729,424) | [10] | (5,729,424) |
| Change in other current non-financial assets | – | 5,969,790 | [5], [10] | 5,969,790 |
| Change in other current financial assets | – | (575,588) | [10] | (575,588) |
| Change in taxes payable other than income tax | 1,176,645 | 939,201 | [10] | 2,115,846 |
| Change in trade and other payables | (6,886,386) | 6,886,386 | [10] | – |
| Change in trade payable | – | (5,897,842) | [10] | (5,897,842) |
| Change in other current non-financial liabilities | – | 509,414 | [10] | 509,414 |
| Change in other current financial liabilities | – | (2,003,504) | [10] | (2,003,504) |
| Change in contract liabilities | 1,290,166 | (3,525,405) | [5], [10] | (2,235,239) |
| Due from related parties | (207,511) | 207,511 | [10] | – |
| Due to related parties | (502,615) | 502,615 | [10] | – |
| Other | 2,197 | (2,197) | [10] | – |
| Income tax paid | – | (5,088,762) | [10] | (5,088,762) |
| Net cash flows from operating activities | 27,570,566 | – | | 27,570,566 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. RECLASSIFICATION OF COMPARATIVE INFORMATION (continued)

- [1] Advances paid for non-current assets in the amount of 729,048 thousand tenge were presented as separate line in the consolidated statement of financial position.
- [2] Trade receivables in the amount of 12,769,022 thousand tenge were reclassified from trade and other receivables and presented as separate line in the 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 non-financial assets, including VAT recoverable, prepaid other taxes, advances to suppliers, prepaid expenses in the amount of 6,674,090 thousand tenge, 1,201,942 thousand tenge, 513,529 thousand tenge and 411,507 thousand tenge, respectively, were reclassified from trade and other receivables and presented as a separate line in the consolidated statement of financial position. Additionally, other receivables in the amount of 1,010,707 thousand tenge were reclassified from trade and other receivables to other current financial assets.
- [4] 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 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.
- [5] The management of the Group identified that in 2018 prepaid VAT and contract liabilities were presented on a gross basis rather than on a net basis. As of 31 December 2018, the Group netted off prepaid VAT with contract liabilities in the amount of 3,525,405 thousand tenge.
- [6] Accrued salaries and bonuses to employees in the amount of 1,716,864 thousand tenge were reclassified from trade and other payables to other current financial liabilities. Additionally, other payables in the amount of 2,910,727 thousand tenge were reclassified from trade and other payables to other current non-financial liabilities.
- [7] For the year ended 31 December 2018 expenses related to operating activities of the Group, including mainly salary of personnel, rent expenses of Kcell stores and mobile service tax, in the total amount of 10,001,664 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 1,906,060 thousand tenge was reclassified from general and administrative expenses and presented as a separate line in the consolidated statement of comprehensive income.
- [8] For the year ended 31 December 2018 foreign exchange gain and losses were reclassified from other income and expenses in the amount of 457,117 thousand tenge and 1,025,441 thousand tenge, respectively, and from finance income and costs in the amount of 321,421 thousand tenge and 173,292 thousand tenge, respectively, and were presented as separate line 'net foreign exchange gain' in the statements of comprehensive income. Additionally, other income and expenses in the amount of 552,473 thousand tenge and 166,346 thousand tenge, respectively, were presented separately.
- [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 5,088,762 thousand tenge in accordance with the requirements of IAS 7 *Statements of Cash Flows*.
- [10] In accordance with reclassifications made in the consolidated statement of comprehensive income, and in the consolidated statement of financial position, the Group made respective reclassifications in the consolidated statement of cash flow.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of 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 29*.

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.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Determining the lease term of contracts with renewal and termination options – Group as lessee

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 several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. 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 or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

Leases – estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

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

Impairment exists when the carrying value 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 of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)**Decommissioning liability**

Decommissioning liabilities are recognized in respect of the estimated future costs of closure and restoration and for environmental rehabilitation costs 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.

Provision for expected credit losses

The Group recognizes provision for expected credit losses for trade and other accounts receivable and funds in credit institutions (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 Group 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 10*.

For funds in credit institutions (cash and cash equivalent, 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 2019 provision for expected credit losses was created in the amount of 8,605,489 thousand tenge (*Notes 10*). Changes in the economy, industry or specific customer conditions would have impact to these allowance recorded in the consolidated financial statements.

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.

Contract liabilities

Deferred revenues 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 contract with customers set out in IFRS 15, industry practice and the Group's historical churn rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)****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 2019, deferred tax assets of the Group were equal to 129,539 thousand tenge (at 31 December 2018: nil tenge). Further details are contained in *Note 27*.

In 2019 the Group reconsidered the tax treatment of deductibility of doubtful debts from individuals, and derecognized deferred tax assets on the allowance on expected credit losses related to the trade receivables from individuals in the amount of 1,377,725 thousand tenge (*Note 27*).

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 29*.

6. 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 Chairman of the Management Board 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.

7. SHARE CAPITAL AND EARNINGS PER SHARE

Share capital of the Group is as follows:

| | 31 December 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 | 11.82% | 23,641,857 | 11.14% | 22,282,367 |
| Other | 13.18% | 26,358,143 | 13.86% | 27,717,633 |
| | 100% | 200,000,000 | 100% | 200,000,000 |

The total authorized 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:

| <i>In thousands of tenge</i> | 2019 | 2018 |
|--|--------------|--------------|
| Profit for the period attributable to equity shareholders | 10,117,399 | 8,531,032 |
| Weighted average number of ordinary shares | 200,000,000 | 200,000,000 |
| Earnings per share (Kazakhstani tenge), basic and diluted | 50.59 | 42.66 |

The Group has no dilutive or potentially dilutive securities outstanding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**7. SHARE CAPITAL AND EARNINGS PER SHARE (continued)****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 December 2019 and 31 December 2018 is presented below.

| <i>In thousands of tenge</i> | 31 December 2019 | 31 December 2018 |
|---|-----------------------------|---------------------|
| Net assets, excluding intangible assets | 32,751,664 | 27,960,293 |
| 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) | 163.8 | 139.80 |

During year ended 31 December 2019 and 2018, the Group declared and paid dividends in the amount of 5,972,000 thousand tenge and 11,678,000 thousand tenge, respectively. Dividends per share as at 31 December 2019 were equal to 29.86 tenge (as at 31 December 2018: 58.39 tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**8. PROPERTY AND EQUIPMENT**

Movements of property and equipment in 2019 and 2018 were as follows:

| <i>In thousands of tenge</i> | Land | Buildings and construction | Machinery | Equipment, tools and installations | Assets under construction | Total |
|---|------------------|-----------------------------------|----------------------|---|----------------------------------|----------------------|
| Cost | | | | | | |
| At 1 January 2018 | 2,122,199 | 19,154,171 | 205,640,035 | 30,096,875 | 16,964,923 | 273,978,203 |
| Additions | – | 123,935 | – | 1,010,949 | 13,034,613 | 14,169,497 |
| Transfer between the groups | – | 374,922 | 8,084,799 | 180,748 | (8,640,469) | – |
| Transfer to advances paid to non-current assets | – | – | – | – | (538,327) | (538,327) |
| At 31 December 2018 | 2,122,199 | 19,653,028 | 213,724,834 | 31,288,572 | 20,820,740 | 287,609,373 |
| Additions | – | 444,984 | 153,188 | 3,281,901 | 8,228,127 | 12,108,200 |
| Provision for dismantling (Note 19) | – | – | 541,649 | – | – | 541,649 |
| Transfer between the groups | – | – | 10,682,847 | – | (10,682,847) | – |
| Disposals | – | – | – | (111,925) | – | (111,925) |
| At 31 December 2019 | 2,122,199 | 20,098,012 | 225,102,518 | 34,458,548 | 18,366,020 | 300,147,297 |
| Accumulated depreciation | | | | | | |
| As at 1 January 2018 | – | (5,892,669) | (151,954,662) | (22,450,790) | – | (180,298,121) |
| Depreciation charge | – | (646,165) | (15,336,475) | (2,891,266) | – | (18,873,906) |
| At 31 December 2018 | – | (6,538,834) | (167,291,137) | (25,342,056) | – | (199,172,027) |
| Depreciation charge | – | (369,755) | (13,535,603) | (3,054,406) | – | (16,959,764) |
| Disposals | – | – | – | 111,925 | – | 111,925 |
| Impairment | – | – | (1,844,104) | – | – | (1,844,104) |
| At 31 December 2019 | – | (6,908,589) | (182,670,844) | (28,284,537) | – | (217,863,970) |
| Net book value | | | | | | |
| At 31 December 2018 | 2,122,199 | 13,114,194 | 46,433,697 | 5,946,516 | 20,820,740 | 88,437,346 |
| At 31 December 2019 | 2,122,199 | 13,189,423 | 42,431,674 | 6,174,011 | 18,366,020 | 82,283,327 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**8. PROPERTY AND EQUIPMENT (continued)**

During 2019, the Group recognized an impairment loss of 1,844,104 thousand tenge, which represented the write-down of certain property and equipment to the recoverable amount as a result of technological obsolescence and damage. Loss was recognized in the consolidated statement of comprehensive income as an operating expense.

As at 31 December 2019 and 2018, assets under construction are represented by equipment for installation for base transmission stations, mobile switch servers and other telecommunication equipment and services works.

As at 31 December 2019, the gross carrying value of property and equipment, which has been fully depreciated and still in use, was 150,824,435 thousand tenge (31 December 2018: 125,217,497 thousand tenge).

9. INTANGIBLE ASSETS

Movements of intangible assets for 2019 and 2018 were as follows:

| <i>In thousands of tenge</i> | Software and licenses | Intangible assets in progress | Total |
|---------------------------------|------------------------------|--------------------------------------|---------------------|
| Cost | | | |
| At 1 January 2018 | 83,765,166 | 456,750 | 84,221,916 |
| Additions | 4,635,982 | 733,692 | 5,369,674 |
| At 31 December 2018 | 88,401,148 | 1,190,442 | 89,591,590 |
| Additions | 8,094,366 | – | 8,094,366 |
| Disposal | (677,778) | – | (677,778) |
| At 31 December 2019 | 95,817,736 | 1,190,442 | 97,008,178 |
| Accumulated amortisation | | | |
| At 1 January 2018 | (41,718,335) | – | (41,718,335) |
| Amortisation charge | (7,758,259) | – | (7,758,259) |
| At 31 December 2018 | (49,476,594) | – | (49,476,594) |
| Amortisation charge | (9,389,738) | – | (9,389,738) |
| Disposal | 677,778 | – | 677,778 |
| At 31 December 2019 | (58,188,554) | – | (58,188,554) |
| Net book value | | | |
| At 31 December 2018 | 38,924,554 | 1,190,442 | 40,114,996 |
| At 31 December 2019 | 37,629,182 | 1,190,442 | 38,819,624 |

As at 31 December 2019, the carrying amount of the 3G license was 2,000,000 thousand tenge (31 December 2018: 2,333,333 thousand tenge) and its remaining amortisation period was 6 years. As at 31 December 2019, the carrying amount of the 4G license was 19,211,111 thousand tenge (31 December 2018: 20,944,444 thousand tenge) and its remaining amortisation period was 11 years.

As at 31 December 2019 and 2018, intangible assets in progress represented by supplementary configuration of software related to Amdocs billing system which is on development stage.

As at 31 December 2019, the gross carrying value of intangible assets, which has been fully depreciated and still in use, was 36,192,358 thousand tenge (31 December 2018: 27,630,351 thousand tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**10. TRADE RECEIVABLES**

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

| <i>In thousands of tenge</i> | 31 December 2019 | 31 December 2018 |
|--|-----------------------------|---------------------|
| Trade receivable from subscribers | 23,734,679 | 21,400,065 |
| Trade receivable from interconnect services | 406,524 | 330,859 |
| Trade receivables from roaming operators | 301,760 | 456,470 |
| Trade receivables from dealers and distributors | 40,328 | 629,826 |
| Trade receivables from related parties (<i>Note 28</i>) | 887,217 | 659,913 |
| Less: allowance for expected credit losses | (8,605,489) | (6,680,113) |
| | 16,765,019 | 16,797,020 |
| Less: long-term portion of trade receivable from subscribers | (1,118,077) | (3,009,995) |
| | 15,646,942 | 13,787,025 |

During 2019 movements in the allowance for expected credit losses were as follows:

| <i>In thousands of tenge</i> | 2019 | 2018 |
|--|--------------------|-------------|
| Allowance for expected credit losses at the beginning of the year | (6,680,113) | (5,642,354) |
| Charge for the year | (2,256,120) | (1,906,060) |
| Write-offs for the year | 330,744 | 868,301 |
| Allowance for expected credit losses at the end of the year | (8,605,489) | (6,680,113) |

Below is information as of 31 December 2019 about the credit risk exposure on the Group's trade receivables using a provision matrix:

| <i>In thousands of tenge</i> | Total | Current | Days past due | | | | |
|--|-------------------|-------------------|-------------------------|--------------------------|--------------------------|---------------------------|--------------------------|
| | | | 1 to 30 days | 31 to 60 days | 61 to 90 days | 91 to 180 days | Over 180 days |
| 31 December 2019 | | | | | | | |
| Estimated total gross book value for default | 25,370,508 | 12,248,762 | 1,553,273 | 775,924 | 361,595 | 836,939 | 9,594,015 |
| Expected credit losses | 8,605,489 | 39,720 | 42,357 | 63,650 | 56,657 | 345,107 | 8,057,998 |

| <i>In thousands of tenge</i> | Total | Current | Days past due | | | | |
|--|--------------|----------------|-------------------------|--------------------------|--------------------------|---------------------------|--------------------------|
| | | | 1 to 30 days | 31 to 60 days | 61 to 90 days | 91 to 180 days | Over 180 days |
| 31 December 2018 | | | | | | | |
| Estimated total gross book value for default | 23,477,133 | 10,884,651 | 1,759,729 | 1,489,327 | 644,178 | 1,014,154 | 7,685,094 |
| Expected credit losses | 6,680,113 | 38,096 | 268,376 | 11,254 | 133,627 | 202,978 | 6,025,782 |

As at 31 December 2019 and 2018 the Group's trade receivables were denominated in the following currencies:

| <i>In thousands of tenge</i> | 31 December 2019 | 31 December 2018 |
|------------------------------|-----------------------------|---------------------|
| Tenge | 16,463,259 | 16,340,550 |
| US dollars | 301,760 | 456,470 |
| | 16,765,019 | 16,797,020 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**11. INVENTORIES**

As at 31 December 2019 and 2018, inventories comprised:

| <i>In thousands of tenge</i> | 31 December 2019 | 31 December 2018 |
|------------------------------|-----------------------------|---------------------|
| Handsets and accessories | 6,070,988 | 3,877,810 |
| Start packages | 158,668 | 334,955 |
| SIM-cards | 71,444 | 76,310 |
| Marketing materials | 61,215 | 60,146 |
| Other materials | 273,927 | 378,871 |
| | 6,636,242 | 4,728,092 |

12. OTHER CURRENT NON-FINANCIAL ASSETS

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

| <i>In thousands of tenge</i> | 31 December 2019 | 31 December 2018 |
|---------------------------------------|-----------------------------|---------------------|
| Advances paid | 2,928,205 | 513,529 |
| VAT recoverable | 1,890,908 | 3,148,685 |
| Prepaid taxes other than income taxes | 1,883,164 | 1,201,942 |
| Prepaid expenses | 2,120 | 411,507 |
| | 6,704,397 | 5,275,663 |

13. OTHER CURRENT FINANCIAL ASSETS

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

| <i>In thousands of tenge</i> | 31 December 2019 | 31 December 2018 |
|------------------------------|-----------------------------|---------------------|
| Other receivables | 913,631 | 727,715 |
| Due from employees | 336,165 | 228,603 |
| Other | 121,499 | 54,389 |
| | 1,371,295 | 1,010,707 |

As at 31 December 2019 and 2018, other current non-financial assets were fully denominated in tenge.

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As at 31 December 2019 financial assets at fair value through other comprehensive income in the amount of 4,964,633 thousand tenge were represented by investments in US treasury bills acquired in August 2019. The Group recognized the financial assets at fair value through other comprehensive income as the contractual cash flows are solely principal and interest and the financial assets is held within a business model for collecting contractual cash flows and selling financial assets. Nominal amount is 12,880,000 USD (equivalent to 5,021,171 thousand tenge at the date of acquisition), with maturity till August 2020 and yield to maturity at 1.7%. Fair values of debt instrument is determined by reference to published price quotations in an active market (Level 1).

15. CASH AND CASH EQUIVALENTS

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

| <i>In thousands of tenge</i> | 31 December 2019 | 31 December 2018 |
|---|-----------------------------|---------------------|
| Cash on current bank accounts | 5,548,613 | 6,015,852 |
| Bank deposits with original maturity of less than 90 days | 3,255,562 | - |
| Cash on hand | 20,873 | 13,190 |
| | 8,825,048 | 6,029,042 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**15. CASH AND CASH EQUIVALENTS (continued)**

As of 31 December 2019, short-term bank deposit for the amount of 138,712 thousand tenge represents overnight deposits in tenge placed in Citibank Kazakhstan JSC at interest rate 7.5% and 3,116,850 thousand tenge represents three-month term deposit in tenge placed in Altyn Bank JSC at interest rate 8.4%.

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

| <i>In thousands of tenge</i> | 31 December 2019 | 31 December 2018 |
|------------------------------|-----------------------------|---------------------|
| Tenge | 4,923,274 | 5,259,475 |
| US dollars | 3,767,034 | 746,612 |
| Russian roubles | 18,117 | 1,253 |
| Other | 116,623 | 21,702 |
| | 8,825,048 | 6,029,042 |

16. BORROWINGS

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

| | Currency | Effective interest rate | Maturity date | 31 December 2019 | 31 December 2018 |
|------------------------------|-----------------|--|--------------------------|-----------------------------|---------------------|
| Eurasian Development Bank | Tenge | 12.54% | 20 May 2024 | 28,956,330 | 29,749,590 |
| Halyk Bank of Kazakhstan JSC | Tenge | 11.62% | 12 May 2022 | – | 21,688,817 |
| Bank of China Kazakhstan JSC | Tenge | 11.08% | 20 August 2022 | 5,059,792 | – |
| SB Alfabank JSC | Tenge | 12.86% | 7 June 2019 | – | 10,086,666 |
| VTB Bank JSC | Tenge | 11.9% | 1 February 2020 | 5,087,740 | – |
| Bonds | Tenge | 11.84% | 16 January 2021 | 22,828,110 | 5,193,713 |
| | | | | 61,931,972 | 66,718,786 |
| Less: non-current portion | | | | (55,548,314) | (14,935,969) |
| | | | | 6,383,658 | 51,782,817 |

Borrowings are repayable as follows:

| <i>In thousands of tenge</i> | 31 December 2019 | 31 December 2018 |
|--|-----------------------------|---------------------|
| Current portion of borrowings | 6,383,658 | 51,782,817 |
| Maturity between 1 and 2 years | 21,705,566 | – |
| Maturity between 2 and 5 years | 33,842,748 | 14,935,969 |
| Maturity over 5 years | – | – |
| Total non-current portion of borrowings | 55,548,314 | 14,935,969 |
| Total borrowings | 61,931,972 | 66,718,786 |

The Group's borrowings are denominated in Kazakhstani tenge and represents unsecured loans and bonds. The borrowings have financial and non-financial covenants. Breaches in meeting the covenants would permit the bank to immediately call loans and borrowings. As of 31 December 2019, there have been no breaches of the covenants.

The Group has not entered into any hedging arrangements in respect of its interest rate exposures.

As at 31 December 2019 current portion of borrowings includes principal amount and interest accrued of VTB Bank JSC loan in the amount of 5,087,740 thousand tenge and interest accrued for other borrowings in the amount of 1,295,918 thousand tenge.

On 21 February 2019, the Group 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. Both placements were part of program, which the Group had announced on 14 December 2017, aimed at expanding and diversifying the Group's funding sources, increasing the average term of the Group's financial liabilities and decreasing its funding costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**17. TRADE PAYABLES**

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

| <i>In thousands of tenge</i> | 31 December 2019 | 31 December 2018 |
|---|-----------------------------|---------------------|
| Trade payables to third parties | 20,042,873 | 13,372,884 |
| Trade payables to related parties (Note 28) | 1,131,675 | 674,718 |
| | 21,174,548 | 14,047,602 |

As at 31 December 2019 and 2018, the Group's trade payables were denominated in the following currencies:

| <i>In thousands of tenge</i> | 31 December 2019 | 31 December 2018 |
|------------------------------|-----------------------------|---------------------|
| Tenge | 17,293,105 | 6,461,873 |
| US dollar | 3,813,337 | 7,585,729 |
| Other currency | 68,106 | – |
| | 21,174,548 | 14,047,602 |

18. CONTRACT LIABILITIES

As at 31 December 2019 and 2018, trade contract liabilities comprised of the following:

| <i>In thousands of tenge</i> | 2019 | 2018 |
|---|----------------------|--------------|
| Contract liabilities as at 1 January | 3,772,341 | 6,007,580 |
| Deferred during the year | 106,270,472 | 96,868,440 |
| Recognised as revenue during the year | (105,893,448) | (99,103,679) |
| Contract liabilities as at 31 December | 4,149,365 | 3,772,341 |

19. ASSET RETIREMENT OBLIGATION**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 2019 and 2018 were as follows:

| <i>In thousands of tenge</i> | 2019 | 2018 |
|--|------------------|-----------|
| Provision for decommissioning liabilities as at 1 January | 1,285,482 | 1,285,482 |
| Additional provisions (Note 8) | 541,649 | – |
| Amortization of discount (Note 26) | 143,084 | – |
| Provision for decommissioning liabilities as at 31 December | 1,970,215 | 1,285,482 |

The provision was determined at the end of the reporting period using the projected inflation rate for the expected period of the fulfilment of obligation, and the discount rate at the end of the year which is presented below:

| | 2019 | 2018 |
|-------------------------------------|-----------------|----------|
| Discount rate | 6.98% | 11.5% |
| Inflation rate | 5.5% | 5.47% |
| Period of fulfillment of obligation | 12 years | 13 years |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**20. OTHER CURRENT FINANCIAL LIABILITIES**

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

| <i>In thousands of tenge</i> | 31 December 2019 | 31 December 2018 |
|---|-----------------------------|---------------------|
| Accrued salaries and bonuses to employees | 3,171,814 | 1,716,864 |
| | 3,171,814 | 1,716,864 |

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 14,551,865 thousand tenge. The Group repaid the termination fine in full in June 2019.

As at 31 December 2019 and 2018 the Group's trade other current financial liabilities were denominated in tenge.

21. OTHER TAXES PAYABLE

| <i>In thousands of tenge</i> | 31 December 2019 | 31 December 2018 |
|------------------------------|-----------------------------|---------------------|
| Property tax | 501,561 | 420,838 |
| Other taxes | – | 1,165,018 |
| | 501,561 | 1,585,856 |

22. REVENUE FROM CONTRACTS WITH CUSTOMERS

| <i>In thousands of tenge</i> | 2019 | 2018 |
|------------------------------|--------------------|-------------|
| Voice and other services | 78,688,600 | 77,515,304 |
| Data service | 51,429,794 | 45,799,748 |
| Sale of handsets | 19,092,662 | 18,432,075 |
| Value added services | 7,445,805 | 7,953,623 |
| | 156,656,861 | 149,700,750 |
| Over time | 137,564,199 | 131,268,675 |
| At a point of time | 19,092,662 | 18,432,075 |
| | 156,656,861 | 149,700,750 |

23. COST OF SALES

| <i>In thousands of tenge</i> | 2019 | 2018 |
|--|--------------------|-------------|
| Depreciation and amortization | 26,473,640 | 23,075,156 |
| Interconnect fees and expenses | 24,729,118 | 24,411,218 |
| Cost of SIM-card, scratch card, start package sales and handsets | 16,449,940 | 15,026,175 |
| Personnel costs | 9,391,657 | 9,924,129 |
| Transmission services | 9,197,019 | 9,647,353 |
| Repair and maintenance | 7,551,863 | 6,786,443 |
| Fees for use of frequency range | 5,577,710 | 5,170,688 |
| Electricity | 3,510,649 | 3,378,055 |
| Mobile service tax | 1,846,300 | 1,911,251 |
| Rental of base stations | 1,010,484 | 5,894,770 |
| Security and safety | 390,667 | 230,583 |
| Materials | 280,549 | 122,491 |
| Rent expenses | 196,737 | 892,273 |
| Other | 2,588,663 | 2,962,561 |
| | 109,194,996 | 109,433,146 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**24. GENERAL AND ADMINISTRATIVE EXPENSES**

| <i>In thousands of tenge</i> | 2019 | 2018 |
|---------------------------------------|------------------|-------------|
| Depreciation and amortization | 3,474,343 | 3,557,008 |
| Personnel costs | 2,885,499 | 2,214,560 |
| Taxes other than corporate income tax | 1,124,284 | 5,044,884 |
| Consulting services | 450,618 | 780,549 |
| Repair and maintenance | 321,184 | 330,982 |
| Representative expenses | 102,251 | 169,279 |
| Business trips | 50,540 | 159,786 |
| Trainings | 32,907 | 128,386 |
| Inventories | 29,902 | 167,566 |
| Security and safety | 28,044 | 230,151 |
| Insurance | 23,603 | 32,093 |
| Other | 401,509 | 1,259,241 |
| | 8,924,684 | 14,074,485 |

25. SELLING EXPENSES

| <i>In thousands of tenge</i> | 2019 | 2018 |
|---|------------------|-------------|
| Marketing and advertising | 1,848,944 | 1,863,810 |
| Amortization of cost to obtain a contract | 338,285 | 264,519 |
| Commissions for dealers and cash collection | 205,164 | 493,898 |
| Other | 494,828 | 427,634 |
| | 2,887,221 | 3,049,861 |

26. FINANCE COST/FINANCE INCOME

Finance costs and finance income for the years ended 31 December comprised:

| <i>In thousands of tenge</i> | 2019 | 2018 |
|--|-------------------|-------------|
| Finance costs | | |
| Interest expense on loans | 8,358,366 | 9,720,797 |
| Interest on lease liabilities (<i>Note 3</i>) | 2,914,490 | – |
| Unwinding of discount (provision for decommissioning liability) (<i>Note 19</i>) | 143,084 | – |
| Other | 84,071 | – |
| | 11,500,011 | 9,720,797 |
| Finance income | | |
| Recognition of discount on long-term loans | 903,893 | – |
| Interest income on cash balances and deposit | 404,036 | 781,137 |
| Other | 107,428 | – |
| | 1,415,357 | 781,137 |

27. INCOME TAX EXPENSES

| <i>In thousands of tenge</i> | 2019 | 2018 |
|---|--------------------|-------------|
| Current income tax expense | (4,299,740) | (6,893,128) |
| Adjustments in respect of income tax of previous year | 75,644 | (173,416) |
| Deferred income tax benefit | 1,471,104 | 3,334,106 |
| | (2,752,992) | (3,732,438) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**27. INCOME TAX EXPENSES (continued)**

The Group are subject to taxation in the Republic of Kazakhstan. Tax rate for the Group and subsidiaries was 20% in 2019 and 2018.

A reconciliation of income tax expenses applicable to profit before taxation at the statutory rate of 20% (2018: 20%), with the current corporate income tax expenses for the years ended 31 December is set out below:

| <i>In thousands of tenge</i> | 2019 | 2018 |
|--|-------------------|------------|
| Profit before taxation | 12,870,391 | 12,263,470 |
| Income tax at statutory income tax rate of 20% | 2,574,078 | 2,452,694 |
| Non-taxable income | (1,163,209) | – |
| Non-deductible expenses | 1,019,810 | 1,106,328 |
| Recognition of tax loss carry forward | (1,377,725) | – |
| Derecognition of deferred tax assets of expected credit losses | 1,150,148 | – |
| Adjustments in respect of income tax of previous year | (75,644) | 173,416 |
| Adjustments in respect of deferred income tax of previous year | 625,534 | – |
| Total income tax expenses | 2,752,992 | 3,732,438 |

Non-taxable income represents income from reversal of tax and related fines and penalties provision in the amount of 5,816,045 thousand tenge. Non-deductible expenses mainly represented by expenses such as representative expenses, fines and penalties, taxes at own expenses, and other expenses which are in accordance with tax code are non-deductible.

Deferred tax assets and liabilities are presented in the consolidated statement of financial position as follows:

| <i>In thousands of tenge</i> | Consolidated statement of financial position | | Consolidated statement of comprehensive income | | The effect of the application of new standards (Note 3) |
|--|--|------------------|--|-----------|---|
| | 31 December 2019 | 31 December 2018 | 2019 | 2018 | 2019 |
| Deferred tax assets | | | | | |
| Expected credit losses | 343,373 | 1,336,023 | (992,650) | 237,193 | – |
| Accrued bonuses to employees | 359,580 | 69,248 | 290,332 | 36,788 | – |
| Tax loss carry forward | 1,377,725 | – | 1,377,725 | – | – |
| Lease liabilities | 350,213 | – | 187,863 | – | 162,350 |
| Provision for unused vacation | 116,361 | 118,579 | (2,218) | (7,022) | – |
| Asset retirement obligation | 394,043 | 257,096 | 136,947 | – | – |
| Deferred services | 650,877 | 620,753 | 30,124 | (187,107) | – |
| Other | 132,618 | 23,325 | 109,293 | (12,016) | – |
| Deferred tax assets | 3,724,790 | 2,425,024 | 1,137,416 | 67,836 | 162,350 |
| Deferred tax liabilities | | | | | |
| Property and equipment and intangible asset | (3,389,878) | (3,802,600) | 412,722 | 3,344,030 | – |
| Other | (205,373) | (126,339) | (79,034) | (77,760) | – |
| Deferred tax liabilities | (3,595,251) | (3,928,939) | 333,688 | 3,266,270 | – |
| Deferred tax assets/(liabilities) net | 129,539 | (1,503,915) | 1,471,104 | 3,334,106 | 162,350 |

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 liabilities 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. 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 2019, the Group has not recognised deferred tax assets in relation to the temporary difference in the amount of 813,119 thousand tenge (as at 31 December 2018: 670,727 thousand tenge) related to investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not expect to reverse them in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**27. INCOME TAX EXPENSES (continued)**

Deferred tax assets and liabilities are presented in the consolidated statement of financial position as follow:

| <i>In thousands of tenge</i> | 2019 | 2018 |
|------------------------------|----------------|--------------------|
| Deferred tax assets | 1,377,725 | – |
| Deferred tax liabilities | (1,248,186) | (1,503,915) |
| | 129,539 | (1,503,915) |

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

As at 31 December 2019, the Group recognized an allowance for expected credit losses in the amount of 98,302 thousand tenge in respect of receivables from related parties (31 December 2018: nil).

The related parties list in 2019 is different in comparison with related parties list for 2018 due to change in control of the Group. On 21 December 2018, the 75% stake in the Group 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.

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 2019 and 2018, and the balances with related parties as at 31 December 2019 and 31 December 2018, were as follows:

| <i>In thousands of tenge</i> | 2019 | 2018 |
|--|------------|-----------|
| Sales of goods and services | | |
| Entities of Telia Company group (previous shareholder) | – | 538,393 |
| Entities of Samruk Kazyna group | 197,372 | 7,825 |
| Entities of Kazakhtelecom group | 11,673,881 | 62,203 |
| Government entities | 303,461 | 8,115 |
| Purchases of goods and services | | |
| Entities of Telia Company group (previous shareholder) | – | 1,748,785 |
| Entities of Samruk Kazyna group | 745,165 | 44,949 |
| Entities of Kazakhtelecom group | 18,988,216 | 12,303 |
| Government entities | 25,705 | 2,982 |

| <i>In thousands of tenge</i> | 31 December 2019 | 31 December 2018 |
|------------------------------------|---------------------|---------------------|
| Trade receivables (Note 10) | | |
| Entities of Samruk Kazyna group | 65,448 | 452,534 |
| Entities of Kazakhtelecom group | 816,404 | 199,106 |
| Government entities | 5,365 | 8,273 |
| Trade payables (Note 17) | | |
| Entities of Samruk Kazyna group | 155,618 | 14,823 |
| Entities of Kazakhtelecom group | 975,617 | 658,622 |
| Government entities | 440 | 1,273 |

Compensation to key management personnel

For the years ended 31 December 2019 and 2018, the total compensation to key management personnel included in the accompanying consolidated statement of comprehensive income under general and administrative expenses was 118,274 thousand tenge and 353,715 thousand tenge, respectively. Compensation to key management personnel consists of wages fixed in the employment agreement, as well as remuneration based on the performance for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**29. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES**

The Group's principal financial instruments include loans, bonds, lease liabilities, cash and cash equivalents, bank deposits and accounts receivable and accounts payable. The main risks associated with the Group's financial instruments include, currency and credit risk. In addition, the Group monitors market risk and liquidity risk associated with all financial instruments.

Impairment losses on financial assets

Impairment losses on financial assets for the year ended 31 December 2019, comprise accruing reserve for trade receivables in amount of 2,256,120 thousand tenge (*Note 10*).

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 2019, 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.

The majority of the Group's purchases of property, plant and equipment and inventories, as well as certain services such as roaming are denominated in 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 change 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.

| <i>In thousands of tenge</i> | 2019 | | 2018 | |
|------------------------------|---|-----------------------------------|---|-----------------------------------|
| | Increase/ (decrease) in exchange rate | Effect on profit before tax | Increase/ (decrease) in exchange rate | Effect on profit before tax |
| US dollars | 12% | 626,411 | 10% | 468,761 |
| | -9% | (469,808) | -10% | (468,761) |

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

Financial instruments in which the Group's credit risk is concentrated are primarily trade 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 three years 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 10* and *13*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**29. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES (continued)****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.

| <i>In thousands of tenge</i> | Rating 2019 | Rating 2018 | Cash balance | | Balance on deposit accounts | |
|---------------------------------|----------------|----------------|------------------|------------------|-----------------------------|----------|
| | | | 2019 | 2018 | 2019 | 2018 |
| Citibank Kazakhstan JSC | A+ | A+ | 3,119,666 | 383,744 | 138,712 | – |
| Halyk Bank Kazakhstan JSC | BB | BB | 1,315,728 | 1,551,546 | – | – |
| Kaspi Bank JSC | BB- | BB- | 514,064 | 699,999 | – | – |
| Credit Suisse (Schweiz) AG | A+ | A- | 465,918 | – | – | – |
| SB Sberbank JSC | B | BB+ | 95,959 | 45,667 | – | – |
| Altyn Bank JSC | BBB- | BB | 35,023 | 3,293,520 | 3,116,850 | – |
| Halyk Finance JSC | BB | BB | 1,232 | – | – | – |
| Bank of China Kazakhstan JSC | A+ | BBB+ | 430 | – | – | – |
| Eurasian Bank JSC | B- | B | 359 | 36,930 | – | – |
| Bank CenterCredit JSC | B | B | 143 | 4,343 | – | – |
| Forte Bank JSC | B- | B | 33 | – | – | – |
| Alfa Bank JSC | BB- | BB- | 31 | 103 | – | – |
| SB VTB Bank JSC | BB+ | BB+ | 27 | – | – | – |
| Total | | | 5,548,613 | 6,015,852 | 3,255,562 | – |

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 table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

| <i>In thousands of tenge</i> | On demand | 1 to 3 months | 3 months to 1 year | From 1 to 5 years | More than 5 years | Total |
|--|-----------|-------------------|-----------------------|----------------------|----------------------|--------------------|
| At 31 December 2019 | | | | | | |
| Borrowings | – | 7,383,593 | 4,253,352 | 70,368,300 | – | 82,005,245 |
| Trade and other payables | – | 21,174,548 | – | – | – | 21,174,548 |
| Lease liabilities | – | 1,457,075 | 4,371,226 | 22,919,508 | 4,618,657 | 33,366,466 |
| Other current financial liabilities | – | 3,171,814 | – | – | – | 3,171,814 |
| | – | 33,187,030 | 8,624,578 | 93,287,808 | 4,618,657 | 139,718,073 |
| At 31 December 2018 | | | | | | |
| Borrowings | – | 27,956,380 | 29,575,636 | 25,506,565 | – | 83,038,581 |
| Trade and other payables | – | 14,047,602 | – | – | – | 14,047,602 |
| Other current financial liabilities | – | 1,716,864 | – | – | – | 1,716,864 |
| | – | 43,720,846 | 29,575,636 | 25,506,565 | – | 98,803,047 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**29. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES (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 2019 and 2018.

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.

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 2019 was as follow:

| <i>In thousands of tenge</i> | Date of valuation | Price quotation on active market (Level 1) | Significant observable in-puts (Level 2) | Significant unobservable in-puts (Level 3) | Total |
|---|-------------------|--|--|--|------------|
| Assets for which fair values are disclosed | | | | | |
| Financial assets at fair value through other comprehensive income | 31 December 2019 | 4,964,633 | - | - | 4,964,633 |
| Short-term trade receivables | 31 December 2019 | - | - | 15,646,942 | 15,646,942 |
| Long-term trade receivables | 31 December 2019 | - | - | 1,146,506 | 1,146,506 |
| Other current financial assets | 31 December 2019 | - | - | 1,371,295 | 1,371,295 |
| Liabilities for which fair values are disclosed | | | | | |
| Borrowings | 31 December 2019 | - | - | 61,777,730 | 61,777,730 |
| Trade payables | 31 December 2019 | - | - | 21,174,548 | 21,174,548 |
| Other current financial liabilities | 31 December 2019 | - | - | 3,171,814 | 3,171,814 |

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 follow:

| <i>In thousands of tenge</i> | Date of valuation | Price quotation on active market (Level 1) | Significant observable in-puts (Level 2) | Significant unobservable in-puts (Level 3) | Total |
|--|-------------------|--|--|--|------------|
| Assets for which fair values are disclosed | | | | | |
| Short-term trade receivables | 31 December 2018 | - | - | 13,787,025 | 13,787,025 |
| Long-term trade receivables | 31 December 2018 | - | - | 3,009,995 | 3,009,995 |
| Other current financial assets | 31 December 2018 | - | - | 1,010,707 | 1,010,707 |
| Liabilities for which fair values are disclosed | | | | | |
| Borrowings | 31 December 2018 | - | - | 66,718,786 | 66,718,786 |
| Trade payables | 31 December 2018 | - | - | 14,047,602 | 14,047,602 |
| Other current financial liabilities | 31 December 2018 | - | - | 1,716,864 | 1,716,864 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**29. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES (continued)****Fair values (continued)**

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

| <i>In thousands of tenge</i> | Carrying amount 31 December 2019 | Fair value 31 December 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 | 8,825,048 | 8,825,048 | – | 6,029,042 | 6,029,042 | – |
| Financial assets at fair value through other comprehensive income | 4,964,633 | 4,964,633 | – | – | – | – |
| Short-term trade receivables | 15,646,942 | 15,646,942 | – | 13,787,025 | 13,787,025 | – |
| Long-term trade receivables | 1,118,077 | 1,146,506 | 28,429 | 3,009,995 | 3,009,995 | – |
| Other current financial assets | 1,371,295 | 1,371,295 | – | 1,010,707 | 1,010,707 | – |
| Financial liabilities | | | | | | |
| Borrowings | 61,931,972 | 61,777,730 | (154,242) | 66,718,786 | 66,718,786 | – |
| Trade payables | 21,174,548 | 21,174,548 | – | 14,047,602 | 14,047,602 | – |
| Other current financial liabilities | 3,171,814 | 3,171,814 | – | 1,716,864 | 1,716,864 | – |
| Total unrecognised change in unrealised fair value | | | (125,813) | | | – |

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**29. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES (continued)****Changes in liabilities arising from financial activities**

Changes in liabilities arising from financial activities for 2019 were as follows:

| <i>In thousands of tenge</i> | 1 January 2019 | Loan obtained | New leases | Principal repaid | Interest accrued | Interest paid | Reclassification | Modifications | Cancellation of leases | Commission recognized | Discount recognized | 31 December 2019 |
|---------------------------------|-------------------|-------------------|------------------|---------------------|-------------------|--------------------|--------------------|----------------|------------------------|-----------------------|---------------------|-------------------|
| Borrowings: non-current portion | 14,935,969 | 32,024,647 | - | - | 8,358,366 | (6,911,123) | 8,399,159 | - | - | (354,811) | (903,893) | 55,548,314 |
| Borrowings: current portion | 51,782,817 | 5,000,000 | - | (42,000,000) | - | - | (8,399,159) | - | - | - | - | 6,383,658 |
| Long-term lease liabilities | 22,191,923 | - | 1,843,485 | - | - | - | (2,921,796) | 534,635 | (28,726) | - | - | 21,619,521 |
| Short-term lease liabilities | 2,689,887 | - | 236,187 | (2,649,442) | 2,914,490 | (2,914,490) | 2,921,796 | - | - | - | - | 3,198,428 |
| Total | 91,600,596 | 37,024,647 | 2,079,672 | (44,649,442) | 11,272,856 | (9,825,613) | - | 534,635 | (28,726) | (354,811) | (903,893) | 86,749,921 |

Changes in liabilities due to financial activities for 2018 were as follows:

| <i>In thousands of tenge</i> | 1 January 2018 | Loan obtained | Reclassification | Principal repaid | Interest accrued | Interest paid | Commission recognized | The effect of application IFRS 9 | 31 December 2018 |
|---------------------------------|-------------------|-------------------|------------------|---------------------|------------------|--------------------|-----------------------|----------------------------------|-------------------|
| Borrowings: non-current portion | 12,000,000 | 21,790,000 | (27,615,976) | - | 9,720,797 | - | (275,884) | (682,968) | 14,935,969 |
| Borrowings: current portion | 58,417,722 | 10,000,000 | 27,615,976 | (35,210,000) | - | (9,040,881) | - | - | 51,782,817 |
| Total | 70,417,722 | 31,790,000 | - | (35,210,000) | 9,720,797 | (9,040,881) | (275,884) | (682,968) | 66,718,786 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30. COMMITMENTS AND CONTINGENT LIABILITIES**Operating environment**

Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. 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 December 2019, the Group had contractual commitments totaling 5,213,491 thousand tenge, excluding VAT (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 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 2019. Management believes that as at 31 December 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 consolidated financial statements.

In July 2017, the Kazakhstan tax authority completed its comprehensive tax audit for the period of 2012 – 3rd quarter 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 9,008,002 thousand tenge, of which 5,789,678 thousand tenge is for unpaid taxes and 3,218,324 thousand tenge represents fines and penalties. The Group did not agree with some results of tax audit and filed an appeal.

In January 2018, Kcell disputed the results of the tax authority in the First Instance Court and the Group'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 was binding, the Group reserved the right to further appeal it in the Supreme Court. On 5 November 2018, the Group 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.

In February 2019, the Group appealed to the Supreme Court of the Republic of Kazakhstan. Based on resolution of the Supreme Court of the Republic of Kazakhstan dated 23 July 2019, the appeal of the Group was partially satisfied. Precisely, First Instance Court's act in the part of concerning following cases was cancelled:

- Additional charge on withholding tax for services provided by non-resident legal entities in the amount of 2,196,555 thousand tenge;
- Additional VAT on software technical support services provided by non-resident legal entities in the amount of 779,916 thousand tenge;
- Related fines and penalties in the amount of 2,839,574 thousand tenge.

The Group recognized income from reversal of the tax and related fines and penalties provision in the total amount of 5,816,045 thousand tenge in the consolidated statement of comprehensive income for the year ended 31 December 2019. As the Group has already paid withholding tax for services provided by non-resident legal entities in the amount of 2,196,555 thousand tenge and additional VAT and withholding tax for services charge in the amount of 779,916 thousand tenge, the Group recognised these prepaid taxes and expects to offset against future taxes accrual. Fines and penalties in the amount of 2,839,574 thousand tenge was not paid as of 31 December 2019, and the Group had recognized provision on the full amount of the fines and penalties in previous year. Thus, the Group recognized the reversal of the provision on fines and penalties for the total amount of 2,839,574 thousand tenge. As at 31 December 2019, the Group had remaining liability for fine and penalty in the amount of 187,793 thousand tenge (as at 31 December 2018: 2,910,727 thousand tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30. COMMITMENTS AND CONTINGENT LIABILITIES (continued)**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*Tariffication of Kcell's mobile Internet services*

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 Group 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 2,000,000 thousand 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 Group 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 Group did not agree with the order issued by the Committee. On 3 July 2019, the Group appealed to the Court. The management of the Group believed that the appeal would be successful and assessed the probability of outflow of cash as possible.

On 25 October 2019, Specialised Inter-district Economic Court of Almaty issued the resolution to cancel administrative proceedings due to the lack of an offense. However, the Committee has the right to appeal within 180 days after announcement of the resolution. As of 31 December 2019, the Committee has not yet appealed. The term for appeal will be ended in April 2020. The management of the Group believes that as of 31 December 2019 the probability of outflow of cash is remote.

Billing cycle of mobile phone plans

On 27 December 2019, the Company received a notification from the Committee on Regulation and Protection of Competition of the Ministry of National Economy of the Republic of Kazakhstan ("Committee") prescribing that the Group should bring its existing and legacy mobile phone plans in line with Rules for provision of mobile services ("Rules"), namely to set a calendar month as default billing cycle, as follows from the definition of the term "accounting period". According to the Committee, by establishing a one-day, a weekly, a 28-day or a 30-day billing cycle on mobile phone plans the Group breaches article 174.1 of the Business Code of the Republic of Kazakhstan. The Committee also sees the reduction of billing cycle as possible abuse of the dominant position through violation of the rights of consumers. The Group sent a letter to the Ministry of National Economy ("MNE") describing the wrong interpretation by the Committee of the provisions of the Rules and requesting to suspend the Notice until the time when amendments to the Rules come into force. As at 31 December 2019, no response from MNE was received. The management of the Group believes that the Committee's claims against the Group are not supported and any outflow of economic resources related to the above matter is possible.

31. SUBSEQUENT EVENTS

On 31 January 2020 the Group has fully repaid loan in the amount of 5,132,207 thousand tenge obtained from SB JSC VTB Bank Kazakhstan.

On 20 January 2020 the Group paid a coupon interest to bondholders in the amount of 1,250,855 thousand tenge.

On 6 February 2020 the Group's common shares and global depository receipts (GDRs) were included in official list of the Astana International Exchange ("AIX"). Bidding started on 7 February.