

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months period ended 30 June 2022

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 Alimzhanova 51, Almaty, the Republic of Kazakhstan.

On 25 December 2010, the Committee of Communications, Informatization and Information under the Ministry of Investments and Development of the Republic of Kazakhstan 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 Nur-Sultan and Almaty. As at 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.

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 at the date of the conversion became share capital of the Company and ceased to be available for distribution to shareholders.

In 2016 the Group paid 26,000 million tenge for LTE radio frequencies. On 1 March 2016, the Group launched LTE in its network on the previously granted frequencies.

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 14 June 2021, the Group officially completed delisting of Global Depository Receipts (GDR) on LSE and Astana International Exchange (AIX).

As at 30 June 2022 and 31 December 2021 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.

On 30 September 2021 Kazakhtelecom sold 24 % of shares of the Company on Kazakhstan Stock Exchange (KASE).

As at 30 June 2022 and 31 December 2021, the shareholders of the Company are presented as follow:

	30 June 2022 (unaudited)	31 December 2021
Kazakhtelecom JSC	51.00%	51.00%
PIONEER TECHNOLOGIES S.A.R.L.	14.87%	14.87%
First Heartland Jusan Bank JSC	9.08%	9.08%
Single accumulative pension fund JSC	7.06%	7.06%
Asel Invest JSC	3.29%	-
Raiffeisenbank JSC	1.54%	1.54%
Other	13.16%	16.45%
	100.00%	100.00%

As at 30 June 2022 and 31 December 2021, the Company has the following principal subsidiaries:

	30 June 2022 (unaudited)	31 December 2021
KazNet Media LLP	100%	100%

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

The interim condensed consolidated financial statements were authorised for issue by the Chairman of the Management Board on 8 August 2022.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the three and six months ended 30 June 2022 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2021 and for the year then ended. The interim condensed consolidated financial statements are presented in Kazakhstan tenge, and all amounts are rounded to nearest millions, except otherwise indicated.

Going concern

The interim condensed consolidated financial statements have been prepared on a going concern basis, which assumes continuation of the course of business, realization of assets and settlement of liabilities in the normal course of business.

Foreign currency translation

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

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

	30 June 2022	31 December 2021
US dollar	470.34	431.67
Euro	490.47	487.79
Russian ruble	8.98	5.77

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New and amended standards and interpretations

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of new standards effective as at 1 January 2022. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Several amendments apply for the first time in 2022, but do not have an impact on the interim condensed consolidated financial statements of the Group.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments had no impact on the interim condensed consolidated financial statements of the Group as there were no such onerous contracts arisen during period.

Reference to the Conceptual Framework – Amendments to IFRS 3

The amendments replace a reference to a previous version of the IASB's Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements. The amendments add an exception to the recognition principle of IFRS 3 Business Combinations to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

These amendments had no impact on the interim condensed consolidated financial statements of the Group as there were no contingent assets, liabilities and contingent liabilities within the scope of these amendments arisen during the period.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

These amendments had no impact on the interim condensed consolidated financial statements of the Group as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

These amendments had no impact on the interim condensed consolidated financial statements of the Group as it is not a first-time adopter.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 Financial Instruments: Recognition and Measurement.

These amendments had no impact on the interim condensed consolidated financial statements of the Group as there were no modifications of the Group's financial instruments during the period.

IAS 41 Agriculture – Taxation in fair value measurements

The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

These amendments had no impact on the interim condensed consolidated financial statements of the Group as it did not have assets in scope of IAS 41 as at the reporting date.

4. 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.

5. SHARE CAPITAL AND EARNINGS PER SHARE

Share capital of the Group is as follows:

	30 June 2022		31 December 2021	
	Share	Number of shares	Share	Number of shares
Kazakhtelecom JSC	51.00%	102,000,000	51.00%	102,000,000
PIONEER TECHNOLOGIES S.A.R.L	14.87%	29,745,215	14.87%	29,745,215
First Heartland Jusan Bank JSC	9.08%	18,167,753	9.08%	18,167,753
Single accumulative pension fund JSC	7.06%	14,144,273	7.07%	14,144,273
Asel Invest JSC	3.29%	6,582,000	0%	-
Raiffeisenbank JSC	1.54%	3,070,664	1.54%	3,070,664
Other	13.16%	26,290,095	16.44%	32,872,095
	100.00%	200,000,000	100.00%	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.

In 2021 the Group obtained loans from First Heartland Jusan Bank JSC at interest rate lower than market rate and recognised discount in the amount of 1,260 million tenge as additional paid in capital (*Note 12*).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SHARE CAPITAL AND EARNINGS PER SHARE (continued)

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

	Three months ended		Six months ended	
	30 June 2022	30 June 2021	30 June 2022	30 June 2021
<i>In millions of tenge</i>				
Profit for the period attributable to equity shareholders	10,125	8,477	19,357	15,627
Weighted average number of ordinary shares	200,000,000	200,000,000	200,000,000	200,000,000
Earnings per share (tenge), basic and diluted	50.63	42.39	96.79	78.14

The Group has no dilutive or potentially dilutive securities outstanding.

Additional information disclosed in accordance with “KASE” requirements

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

According to the requirements of the “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 30 June 2022 and 31 December 2021 is presented below.

<i>In millions of tenge</i>	30 June 2022	31 December 2021
Net assets, excluding intangible assets	76,110	55,987
Number of ordinary shares in issue	200,000,000	200,000,000
Cost of ordinary share, calculated in accordance with listing requirements of the “KASE” (tenge)	380.55	279.94

During the six months ended 30 June 2022, the Group did not declare and pay dividends (30 June 2021: 17,578 million tenge)

6. PROPERTY AND EQUIPMENT

During the three and six-month period ended 30 June 2022, additions to property and equipment totaled to 4,086 million tenge and 7,146 million tenge, respectively (during three and six-month period ended 30 June 2021: 1,146 million tenge and 3,867 million tenge, respectively).

During the three and six-month period ended 30 June 2022, transfer from construction-in-progress to property and equipment amounted to 1,901 million tenge and 3,998 million tenge, respectively (during three and six-month period ended 30 June 2021: 2,365 million tenge and 4,635 million tenge, respectively).

During the three and six-month period ended 30 June 2022, the Group recognised depreciation expense in the amount of 3,518 million tenge and 7,135 million tenge, respectively (during three and six-month ended 30 June 2021: 3,894 million tenge and 7,716 million tenge, respectively).

During the three and six-month period ended 30 June 2022, the Group recognised decrease in changes in estimates in assets retirement obligation in the amount of 293 million tenge and 274 million tenge, respectively (during three and six-month period ended 30 June 2021: nil and 64 million tenge, respectively).

During the three and six-month period ended 30 June 2022, the Group sold property with gross book value in the amount of 18 million tenge with net book value in the amount of 7 million tenge (during three and six-month ended 30 June 2021: gross book value in the amount of 156 million tenge, net book value 41 million tenge).

During six-month period ended 30 June 2022, a building with carrying amount of 2,243 million tenge was transferred to investment property, because it was no longer used by the Group and it was decided that the building would be leased to third and related parties. As of 30 June 2022, fair value of investment property equaled to 6,573 million tenge.

As at 30 June 2022, the gross carrying value of property and equipment which has been fully depreciated and still in use, was 176,510 million tenge (as at 31 December 2021: 173,272 million tenge). During the six-month period ended 30 June 2022, the Group has written off the fully amortized property and equipment with gross book value in the amount of 1,070 million tenge (during six-month period ended 30 June 2022: nil tenge).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. INTANGIBLE ASSETS

During the three and six-month ended 30 June 2022, the Group acquired intangible assets in the amount of 3,580 million tenge and 4,719 million tenge, respectively (during three and six-month ended 30 June 2021: 754 million tenge and 819 million tenge, respectively).

During the three and six-month ended 30 June 2022, the Group recognized amortization expense in the amount of 2,839 million tenge and 5,485 million tenge, respectively (during three and six months ended 30 June 2021: 2,673 million tenge and 5,311 million tenge, respectively).

As at 30 June 2022, the carrying amount of 3G license was 1,167 million tenge (31 December 2021: 1,333 million tenge) and its remaining amortization period was 4 years. As at 30 June 2022, the carrying amount of the 4G license was 14,878 million tenge (31 December 2021: 15,744 million tenge) and its remaining amortization period was 9 years.

As at 30 June 2022, the gross carrying value of intangible assets, which have been fully amortized and still in use, was 39,249 million tenge (31 December 2021: 42,175 million tenge). During the six months period ended 30 June 2022, the Group has written off the fully amortized intangible assets with gross book value in the amount of 2,983 million tenge (during six months period ended 30 June 2022 nil tenge).

8. TRADE RECEIVABLES

As at 30 June 2022 and 31 December 2021, trade receivables comprised of the following:

<i>In millions of tenge</i>	30 June 2022 (unaudited)	31 December 2021
Trade receivable from subscribers	31,813	23,262
Trade receivable from interconnect services	1,212	1,129
Trade receivables from roaming operators	226	173
Trade receivables from dealers and distributors	891	748
Trade receivables from related parties (<i>Note 21</i>)	4,498	3,238
Less: allowance for expected credit losses	(8,446)	(6,651)
	30,194	21,899
Less: long-term portion of trade receivable from subscribers	(7,063)	(4,148)
	23,131	17,751

During the six months ended 30 June 2022 and 2021, movements in the allowance for expected credit losses were as follows:

<i>In millions of tenge</i>	30 June 2022 (unaudited)	30 June 2021 (unaudited)
Allowance for expected credit losses at the beginning of the period	(6,651)	(9,964)
Charge for the period	(1,795)	(630)
Write-off for the period	-	776
Sales of trade receivables	-	4,110
Allowance for expected credit losses at the end of the period	(8,446)	(5,708)

On 18 and 19 February 2021 the Group sold overdue receivables with gross value in the amount of 4,548 million tenge and net book value in the amount of 438 million tenge for 438 million tenge.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. INVENTORY

As at 30 June 2022 and 31 December 2021, inventories comprised:

<i>In millions of tenge</i>	30 June 2022 (unaudited)	31 December 2021
Handsets and accessories (at lower of cost and net realizable value)	9,659	5,898
Start packages (at cost)	134	207
Marketing materials (at cost)	68	70
SIM-cards (at cost)	71	85
Other materials (at cost)	364	322
	10,296	6,582

For six month-period ended 30 June 2022, the Group recognised as an expense 296 million tenge (six month-period ended 30 June 2021: 55 million tenge) for inventories carried at net realisable value, which is recognised within general and administrative expenses. In addition, for six month-period ended 30 June 2022 the Group wrote-off inventory in the amount of 553 million tenge due to consequences of protests held in Kazakhstan in January 2022 (*Note 23*).

10. OTHER CURRENT NON-FINANCIAL ASSETS

As at 30 June 2022 and 31 December 2021, other current non-financial assets comprised of the following:

<i>In millions of tenge</i>	30 June 2022 (unaudited)	31 December 2021
Advances paid	2,665	3,120
VAT recoverable	2,504	3,578
Prepaid taxes other than income taxes	146	2,535
Prepaid expenses	713	878
	6,028	10,111

11. CASH AND CASH EQUIVALENTS

As at 30 June 2022 and 31 December 2021, cash and cash equivalents comprised of the following:

<i>In millions of tenge</i>	30 June 2022 (unaudited)	31 December 2021
Bank deposits with original maturity of less than 90 days	30,562	45,018
Cash on current bank accounts	14,835	6,380
Cash on hand	6	4
	45,403	51,402

As of 30 June 2022, short-term bank deposits represent overnight deposits in tenge in Altyn Bank JSC at interest rate 12.8% in the amount of 9,141 million tenge, Halyk Bank JSC at interest rate 12% in the amount of 500 million tenge, City Bank JSC at interest rate 6,5% in the amount of 1 million tenge, and KazPost JSC at interest rate 12.6% in the amount of 5,000 million tenge. Deposits in USD at Halyk Bank JSC at interest rate 0,5% in the amount of 11,865 million tenge, and in Altyn Bank JSC at interest rate 0.5% in the amount of 4,055 million tenge. As at 30 June 2022 and 31 December 2021, cash and cash equivalents were denominated in various currencies as follows:

<i>In millions of tenge</i>	30 June 2022 (unaudited)	31 December 2021
US dollars	20,239	16,651
Tenge	24,655	34,133
Euro	501	526
Russian rubles	7	91
Other	1	1
	45,403	51,402

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. BORROWINGS

As at 30 June 2022 and 31 December 2021, borrowings comprised of the following:

<i>In millions of tenge</i>	Currency	Effective interest rate	Maturity date	30 June 2022 (unaudited)	31 December 2021
First Heartland Jusan Bank JSC (Note 21)	Tenge	11.70%	10 November 2024	40,036	39,871
Bank of China Kazakhstan JSC	Tenge	10.70%	1 June 2024	13,112	13,105
VTB Bank JSC	Tenge	11.90%	15 October 2023	5,179	7,006
				58,327	59,982
Less: non-current portion				(46,468)	(48,283)
				11,859	11,699

The Group's borrowings are denominated in Kazakhstani tenge and represented by unsecured loans. The borrowings have financial and non-financial covenants. Breaches in meeting the covenants would permit the banks to immediately call loans and borrowings. As at 30 June 2022, there have been no breaches of the covenants.

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

During 2019 and 2020, the Group obtained loan in the amount of 5,000 million and 6,000 million tenge, respectively, within credit line agreement with Bank of China Kazakhstan JSC with a repayment period of 36 months and a fixed interest rate of 10.5% per annum. On 14 October 2020 the Group has signed addendum to loan agreement with Bank of China JSC to decrease interest rate from 10.5% to 10.3% per annum under credit line agreement. The change in the interest rate does not represent a substantial modification in accordance with IFRS 9 and thus, it did not lead to the derecognition of the original liability. Consequently, in 2020 the Group recognized finance income in the amount of 33 million tenge as a result of change in the interest rate. The loan is secured by the financial guarantee provided by Kazakhtelecom JSC, the parent company. The Group considers the financial guarantee provided by the parent to be an integral part of the loan, and therefore does not recognize the guarantee received separately in its consolidated financial statements.

On 2 June 2021 the Group obtained additional tranche in the amount of 2,000 million tenge from Bank of China JSC within the same credit line agreement with maturity on 1 June 2024.

On 28 October 2020 the Group obtained loan in the amount of 6,000 million tenge within the credit line agreement with VTB Bank JSC with maturity till October 2023 at interest rate 10.7% per annum. On 31 March 2021 the Group signed an additional agreement with VTB Bank JSC to increase the amount of the credit line from 6,000 million tenge to 7,000 million tenge, and obtained 1,000 million tenge with a maturity until 15 October 2023 and an interest rate of 10.7% per annum. On 1 March 2022, the Group partially repaid principal in the amount of 2,000 million tenge.

On 10 November 2021, the Group and First Heartland Jusan Bank JSC, one of the shareholders of the Company, signed a credit line agreement in the amount of 60,500 million tenge. On 11 November 2021 two tranches were received from First Heartland Jusan Bank JSC in the amount of 22,000 million tenge and 12,000 million tenge with an interest rate of 11% per annum and 10.7% per annum, respectively. Additionally, on 25 November 2021, third tranche was received from First Heartland Jusan Bank JSC in the amount of 6,500 million tenge with an interest rate of 11% per annum, with a maturity until 10 November 2024. At the date of initial recognition, the loan was recognized at fair value based on expected cash outflows at a market rate observable for similar instruments of 12.9% at the time the loan was issued. On initial recognition of all three tranches total discount in the amount of 1,260 million tenge was recognised within equity as the additional paid-in capital.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Group's right of use assets are represented by buildings and constructions. Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

<i>In millions of tenge</i>	Total
Cost	
At 1 January 2021 (audited)	29,485
Modification	50
Cancellation	(62)
At 30 June 2021 (unaudited)	29,473
At 1 January 2022 (audited)	30,238
Modification	2,702
At 30 June 2022 (unaudited)	32,940
Accumulated depreciation	
At 1 January 2021 (audited)	(8,681)
Depreciation charge	(2,291)
Cancellation	19
At 30 June 2021 (unaudited)	(10,953)
At 1 January 2022 (audited)	(13,295)
Depreciation charge	(2,417)
At 30 June 2022 (unaudited)	(15,712)
Net book value	
At 31 December 2021 (audited)	16,943
At 30 June 2022 (unaudited)	17,228

Set out below are the carrying amounts of lease liabilities and the movements during the period:

<i>In millions of tenge</i>	30 June 2022 (unaudited)	30 June 2021 (unaudited)
At the beginning of the period	20,129	23,666
Interest expenses	1,291	1,420
Payments	(3,763)	(3,502)
Modifications	2,702	50
Cancellation	-	(51)
At the end of the period	20,359	21,583
Long-term lease liabilities	15,108	17,125
Short-term lease liabilities	5,251	4,458

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (continued)

The following amounts are recognised in profit or loss:

<i>In millions of tenge</i>	For three months ended 30 June		For six months ended 30 June	
	2022 (unaudited)	2021 (unaudited)	2022 (unaudited)	2021 (unaudited)
Depreciation expense of right-of-use assets	1,193	1,144	2,417	2,291
Interest expense on lease liabilities	656	698	1,291	1,420
	1,849	1,842	3,708	3,711

14. TRADE PAYABLES

As at 30 June 2022 and 31 December 2021, trade payables comprised of the following:

<i>In millions of tenge</i>	30 June 2022 (unaudited)	31 December 2021
Trade payables to third parties	6,811	32,603
Trade payables to related parties (Note 21)	3,454	3,102
	10,265	35,705

As at 30 June 2022 and 31 December 2021, the Group's trade payables were denominated in the following currencies:

<i>In millions of tenge</i>	30 June 2022 (unaudited)	31 December 2021
Tenge	8,425	33,119
US dollars	1,152	1,460
Other currency	688	1,126
	10,265	35,705

15. FINANCIAL GUARANTEE OBLIGATION

On 27 November 2020 the Group issued the financial guarantee on loan agreement of Kazakhtelecom JSC obtained from Development Bank of Kazakhstan JSC in the amount of 18,266 million tenge. The financial guarantee has maturity till 19 December 2024. The Group initially recognised the financial guarantee at fair value in the amount of 592 million tenge through retained earnings in equity. As at 30 June 2022 and 31 December 2021, the Group measured financial guarantee obligation at the higher of the amount of the loss allowance determined in accordance with IFRS 9 *Financial Instruments* and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with IFRS 15 *Revenue from Contracts with Customers*. As of 30 June 2022, financial guarantee obligation equaled to 235 million tenge, which represents the initial amount less the cumulative amount of income recognised in accordance with IFRS 15 (31 December 2021: 330 million tenge).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. PROVISIONS

In 2020 the Group accrued provision related to legal claims on contractual obligation and fines and penalties that Management considers as probable in the amount of 3,685 million tenge.

<i>In millions of tenge</i>	30 June 2022 (unaudited)	31 December 2021
Legal claims on contractual obligation	3,685	3,685
Asset retirement obligation: current portion	–	132
	3,685	3,817

17. GOVERNMENT GRANTS

<i>In millions of tenge</i>	30 June 2022 (unaudited)	30 June 2021 (unaudited)
Government grants as at 1 January	7,925	–
Received during the period	3,234	–
Released to profit or loss	(1,179)	–
Government grants as at 30 June	9,980	–
Government grants current portion	2,237	–
Government grants non-current portion	7,743	–

In 2021 the Government approved the changes to the Rules for the assignment of frequency bands, radio frequencies, operation of radio-electronic means and high-frequency devices (“the Rules”), based on which the Group is eligible for government grants in form of 90% reduction in the annual fee for use of radio frequencies from 1 January 2020 till 1 January 2025. The government grants are subject to conditions, namely financing of the projects related to broadband internet in rural and urban areas. If the financing of the projects related to broadband internet is lower than the amount of the tax incentive received, the Group should pay the annual fee equal for use of radio frequencies to the amount of unfulfilled obligations to the authorities.

The funds released as a result of reduction in the annual fee for use of radio frequencies for 2020 and 2021 in the amount of 4,725 million tenge and 5,308 million tenge, respectively, were used by the Group for the purchase and construction of broadband internet. Government grants related to assets are recognized as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset. As of 30 June 2022 the balance of deferred income recognized was equal to 9,980 million tenge (As of 31 December 2021: 7,925 million tenge), and part of the government grants released to the profit and loss over the period necessary to match the related depreciation charges equal to 1,179 million tenge.

As of 30 June 2022 there are no unfulfilled conditions or contingencies attached to these grants.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. REVENUE FROM CONTRACTS WITH CUSTOMERS

<i>In millions of tenge</i>	For the three months ended 30 June		For the six months ended 30 June	
	2022 (unaudited)	2021 (unaudited)	2022 (unaudited)	2021 (unaudited)
Voice and other services	22,513	19,383	43,426	37,369
Data services	19,019	16,686	36,182	32,433
Sale of handsets and equipment	13,410	7,827	23,929	16,041
Value added services	1,359	2,251	3,097	4,320
Other	90	-	90	-
	56,391	46,147	106,724	90,163
Over time	42,891	38,320	82,705	74,122
At a point of time	13,500	7,827	24,019	16,041
	56,391	46,147	106,724	90,163

As at 30 June 2022 and 31 December 2021, the contract liabilities in the amount of 4,120 million tenge and 3,207 million tenge, respectively, were represented by deferred revenue.

19. COST OF SALES

<i>In millions of tenge</i>	For the three months ended 30 June		For the six months ended 30 June	
	2022 (unaudited)	2021 (unaudited)	2022 (unaudited)	2021 (unaudited)
Cost of SIM-card and handsets	11,609	6,833	19,780	13,733
Depreciation and amortization	6,503	6,507	12,878	12,986
Interconnect fees and expenses	4,527	4,650	9,656	9,051
Personnel costs	3,466	2,526	6,607	5,286
Transmission services	2,591	2,656	5,263	5,240
Repair and maintenance	2,163	1,657	4,148	3,456
Fees for use of frequency range	1,904	1,768	3,734	3,536
Electricity	1,064	1,020	2,336	1,865
Network sharing agreement	929	709	1,726	1,336
Mobile service tax	605	536	1,166	1,037
Security and safety	81	85	154	171
Materials	32	54	41	80
Other	668	722	1,029	1,402
	36,142	29,723	68,518	59,179

20. INCOME TAX EXPENSES

<i>In millions of tenge</i>	For the three months ended 30 June		For the six months ended 30 June	
	2022 (unaudited)	2021 (unaudited)	2022 (unaudited)	2021 (unaudited)
Current income tax expense	4,731	2,245	7,233	4,648
Deferred income tax expense	14	(208)	385	(79)
	4,745	2,037	7,618	4,569

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. 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 30 June 2022, the Group recognized an allowance for expected credit losses in the amount of 145 million tenge in respect of receivables from related parties (31 December 2021: 143 million tenge).

Parent 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 for three and six months ended 30 June 2022 and 2021, and the balances with related parties as at 30 June 2022 and 31 December 2021, were as follows:

<i>In millions of tenge</i>	For the three months ended 30 June		For the six months ended 30 June	
	2022 (unaudited)	2021 (unaudited)	2022 (unaudited)	2021 (unaudited)
Sales of goods and services				
Entities of Samruk Kazyna group	54	54	99	101
Entities of Kazakhtelecom group	3,395	3,578	7,114	6,892
Government entities	55	88	101	130
	3,504	3,720	7,314	7,123
Purchases of goods and services				
Entities of Samruk Kazyna group	132	92	250	235
Entities of Kazakhtelecom group	6,232	7,222	12,511	12,511
Government entities	34	16	57	47
	6,398	7,330	12,818	12,793
Finance expense				
Other Shareholders	1,207	-	2,410	-

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. RELATED PARTY DISCLOSURES (continued)

<i>In millions of tenge</i>	30 June 2022 (unaudited)	31 December 2021
Trade receivables (Note 8)		
Entities of Samruk Kazyna group	49	36
Entities of Kazakhtelecom group	4,322	3,155
Government entities	127	47
	4,498	3,238
Trade payable (Note 14)		
Entities of Samruk Kazyna group	52	14
Entities of Kazakhtelecom group	3,390	3,050
Government entities	12	38
	3,454	3,102
Borrowings (Note 12)		
Other Shareholders	40,036	39,871
Cash and deposit accounts		
Other Shareholders	62	11,010

Compensation to key management personnel

For the three and six-month period ended 30 June 2022, the total compensation to key management personnel included in the accompanying interim condensed consolidated statement of comprehensive income under general and administrative expenses was 284 million tenge and 916 million 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 INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. FINANCIAL INSTRUMENTS

Fair values

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

The tables below present fair value hierarchy of assets and liabilities of the Group. Disclosure of quantitative information of fair value hierarchy of financial instruments as at 30 June 2022 and 31 December 2021 was as follow:

<i>In millions 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	30 June 2022	-	-	23,131	23,131
Long-term trade receivables	30 June 2022	-	-	7,065	7,065
Other current financial assets	30 June 2022	-	-	1,238	1,238
Liabilities for which fair values are disclosed					
Borrowings	30 June 2022	-	-	55,974	55,974
Trade payables	30 June 2022	-	-	10,265	10,265
Financial guarantee obligation	30 June 2022	-	-	235	235
Due to employees	30 June 2022	-	-	5,004	5,004

<i>In millions 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 2021	-	-	17,751	17,751
Long-term trade receivables	31 December 2021	-	-	3,758	3,758
Other current financial assets	31 December 2021	-	-	538	538
Liabilities for which fair values are disclosed					
Borrowings	31 December 2021	-	-	56,289	56,289
Trade payables	31 December 2021	-	-	35,705	35,705
Financial guarantee obligation	31 December 2021	-	-	564	564
Due to employees	31 December 2021	-	-	4,347	4,347

During six months period ended 30 June 2022 the Group acquired short term discount notes of National Bank of the Republic of Kazakhstan (“NBRK”) denominated in tenge in the amount of 39,672 thousand tenge, which were fully redeemed as of 30 June 2022. The Group recognizes the notes as financial assets at amortized cost as the contractual cash flows are solely principal and interest and the financial assets are held within a business model for collecting contractual cash flows.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months period ended 30 June 2022

22. FINANCIAL INSTRUMENTS (CONTINUED)

Fair values (continued)

As at 30 June 2022 and 31 December 2021, the carrying amounts of the Group's financial assets and liabilities presented as follow:

<i>In millions of tenge</i>	Carrying amount 30 June 2022	Fair value 30 June 2022	Unrecog- nised gain/ (loss)	Carrying amount 31 December 2021	Fair value 31 December 2021	Unrecog- nised gain/ (loss)
Financial assets						
Cash and cash equivalents	45,403	45,403	-	51,402	51,402	-
Short-term trade receivables	23,131	23,131	-	17,751	17,751	-
Long-term trade receivables	7,063	7,065	2	4,148	3,758	(390)
Other current financial assets	1,238	1,238	-	538	538	-
Financial liabilities						
Borrowings	58,327	55,974	2,353	59,982	56,289	3,693
Trade payables	10,265	10,265	-	35,705	35,705	-
Due to employees	5,004	5,004	-	4,347	4,347	-
Total unrecognised change in unrealised fair value			2,355			3,303

23. 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.

Protests in Kazakhstan

On 2 January 2022 protests started in Mangystau region of Kazakhstan related to significant increase in the liquified natural gas retail price. These protests spread to other cities and resulted in riots, damage to property and loss of life. On 5 January 2022 the government declared a state of emergency.

As a result of the above protests and state of emergency the President of Kazakhstan has made certain public announcements regarding possible measures including amendments to the tax legislation, introducing measures for financial stability, controlling and stabilizing the inflation rate and the tenge exchange rate.

During the protests, six Kcell Stores located in Almaty and Almaty region, were looted and two large offices of the Group were attacked.

The Management of the Group formed operational headquarters due to state emergency announcement for timely decision making on operational issues for uninterrupted communication of subscribers and facilitate the Government with urgent actions.

Providing subscribers with continuous cellular communications was a priority of the Group and the Management decided to support its subscribers including small and medium sized businesses during the state of emergency. During the state of emergency declared throughout Kazakhstan, and until the end of January 2022, corporate clients of Kcell with a lack of balance on their account were not limited to communication and access to the Internet.

As a result of the above protests and state of emergency the President of Kazakhstan has made certain public announcements regarding possible measures including amendments to the tax legislation, introducing measures for financial stability, controlling and stabilizing the inflation rate and the tenge exchange rate.

On 10 January 2022 the National Security Committee of Kazakhstan reported that the situation in the country has stabilized and was under control. On 19 January 2022 the state emergency was lifted.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Operating environment

Protests in Kazakhstan

The Group incurred losses from those events in amount of 553 million tenge that represents robbery of inventories (goods for resale) and damage of stores, which was recognized within other operating expenses in interim condensed consolidated statement of comprehensive income for six months ended 30 June 2022.

Events in Ukraine and Coronavirus pandemic

The events in Ukraine has had a significant negative impact on the global economic outlook. In response to the offensive, extensive sanctions have been imposed on Russia that largely exclude the country from the international financial markets and significantly curtail trade in goods. These sanctions are intended to have a negative economic impact on the Russian Federation. Sanctions were imposed on certain Russian banks, including JSC “Alfa Bank” and PJSC “Sberbank”, in whose subsidiary located in Kazakhstan the Group held cash as at 31 December 2021 in the total amount of 39 million tenge. The Group timely transferred funds to other banks. The Group’s business activities and hence its results of operations and financial position are not significantly impacted by the consequences of the war in Ukraine, as the Group does not operate any networks in Russia or Ukraine.

Due to geopolitical events around Ukraine and Russia, on 24 February 2022, oil prices exceeded \$100 per barrel. On 23 February 2022, the exchange rate of tenge against the US dollar began to weaken sharply. On 24 February 2022, the National Bank of the Republic of Kazakhstan decided to raise the base rate by 3.25 percentage points to 13.50% while maintaining the +/-1% band.

In addition, the development of the global economy continues to be impacted by the coronavirus pandemic. Due to the spread of the Omicron variant in China, largescale lockdowns have been imposed in Shanghai and other major Chinese cities. Although the pandemic has only had a limited negative impact on the telecommunications sector so far, if the global pandemic were to re-escalate, it could lead to prolonged and increased supply-side shortages. However, visitor and roaming revenues increased slightly thanks to travel returning to more normal levels despite the coronavirus pandemic.

Possible future effects on the measurement of individual assets and liabilities due to war in Ukraine and coronavirus pandemic are being analyzed on an ongoing basis. It is not yet possible to assess with certainty how the Group will be indirectly affected, in particular by the impact on the global economy. The overall economic outlook has deteriorated significantly as a result of the extensive sanctions and limitations on trade in goods. Based on experience so far, the Group expects the events in Ukraine and coronavirus pandemic to only impact business to a limited extent going forward.

Capital commitments

The Group generally enters into contracts for the completion of construction projects and purchase of equipment. As at 30 June 2022, the Group had contractual commitments totaling 16,631 million tenge, excluding VAT (unaudited) (as at 31 December 2021: 21,016 million tenge, excluding VAT), which includes capital expenditures in respect to new technical regulation in the amount of 7,645 million tenge (as of 31 December 2021: 3,490 million tenge) described below.

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.

Management believes that as at 30 June 2022 its interpretation of the relevant legislation is appropriate and that it is probable that the Group’s tax positions will be sustained, except as provided for or otherwise disclosed in these interim condensed consolidated financial statements.

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

23. COMMITMENTS AND CONTINGENT LIABILITIES (continued)**Government grant related to frequency fee**

The shareholder of the Group Kazakhtelecom has submitted consolidated report on expenditures used to finance broadband projects access to the Internet in urban and rural areas included capital and operational costs that are necessary for the provision of broadband Internet access services in urban and rural settlements throughout the territory of the Republic of Kazakhstan. Management believes that there are no unfulfilled conditions or contingencies attached to these grants.

In case if, based on the results of the audited information, the fact of non-fulfillment by the telecom operator of obligations to allocate at least released funds from the reduction of the corresponding fee rate to finance broadband Internet access projects in urban and rural areas is confirmed, the authorized body in the field of communications not earlier than one year after of the year following the reporting year, recalculates the amount of the annual fee for the use of frequency fee for the reporting year, which should be proportional to the unfulfilled volume of financial obligations for this reporting year.

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”).

As of 30 June 2022 the Group partially implemented modernization and expansion of license and port capacity for the total amount of 4,390 million tenge. The Group plans to complete expansion in full in 2022 and expect that total amount of capital expenditures in respect to modernization and expansion will be equaled to 7,645 million tenge.

24. SUBSEQUENT EVENTS

The Group did not have any significant subsequent events after reporting date.