Kazakhtelecom 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 Kazakhtelecom JSC

Opinion

We have audited the consolidated financial statements of Kazakhtelecom JSC and its subsidiaries (hereinafter, the Group), which comprise the consolidated statement of financial position as at 31 December 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 – accuracy of revenue recorded given the complexity of the billing systems	
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 involve a number of key judgements and estimates by management, and therefore revenue could be subject to misstatement, whether due to fraud or error. 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 34** 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 in the billing systems; authorisation of changes in tariff rates input to the billing systems; and calculation of tariff 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 selected and applied revenue recognition policies and disclosures in respect of revenue in light of the requirements of IFRS 15.

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Valuation of non-current assets, including property and equipment, intangible assets and goodwill – risk of impairment

There is a significant risk of impairment of the Group's non-current assets. Property and equipment, intangible assets and goodwill bear risk of impairment in light of fast technological changes in telecom industry.

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 amounts.

Testing for impairment of cash-generating units (CGU's) when impairment indicators are present, or annual test for impairment entails highly judgmental assumptions, specifically customer base and average revenue per user (ARPU), CAPEX and EBITDA margin during the forecast period, growth rate used to extrapolate cash flows beyond the forecast period, and discount rate.

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

The Group's disclosure in respect of the accounting policies on impairment of non-financial assets is included in Note 3 to the consolidated financial statements and detailed disclosure about impairment testing of the goodwill is included in Note 12 to the consolidated financial statements, which specifically explains that small changes in the key assumptions used could give rise to an impairment of goodwill balances in the future.

Our audit procedures included, amongst others, evaluating and testing the assumptions used in the impairment models. We assessed methodology used by the Group, for compliance with IAS 36 requirements. We involved an internal valuation specialist to assist us with our procedures. We compared assumptions and data used by the Group to the historical data and current industry data. We specifically focused on the sensitivity of the main assumptions during the testing, given the likelihood of a reasonably possible change in assumptions could cause the carrying amounts of the cash-generating units to exceed its recoverable amounts.

We also assessed the related disclosures in the Group's consolidated financial statements.

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Provisional purchase price allocation assessment	
On 28 June 2019, the Group acquired additional 49% share of Khan Tengri Holding B.V. and obtained control over this entity. The Group has previously equity accounted for its 51% interest in Khan Tengri Holding B.V. This acquisition is disclosed in detail in Note 5 **to the consolidated financial statements.**	In the course of the audit procedures, we read the sale-purchase agreement between the Group and the seller of interest in Khan Tengri Holding B.V. and other transaction documentation necessary to record accounting entries on the business combination.
We considered assessing the provisional purchase price allocation to be one of most significance in the audit of the consolidated financial statements, due to the fact that the goodwill from this acquisition, represented by the excess of the remuneration paid over the fair value of identifiable net assets of the acquired company in the amount of **100,398,177** thousand Tenge, significantly affected the Group assets. Determining the fair value of assets and liabilities and the value of separately identifiable intangible assets acquired during business combination involves significant judgments and estimates by the management, including input data for the forecast of the future cash flows, growth rate used to extrapolate cash flows beyond the forecast period, and discount rate These significant judgments and estimates are disclosed in Note 5 to the consolidated financial statements.	We evaluated the methodology and assumptions behind the significant judgments involved in the determination of the provisional fair values of the identifiable net assets acquired. We involved our valuation specialists to assess the methodology and assumptions used by management to value certain categories of assets and liabilities of the acquired subsidiary, and tested, on a sample basis, estimates of the fair values of assets and liabilities of the subsidiary acquired. We analysed management's assessment of the nature and value of separately identifiable intangible assets acquired. We assessed the presentation and disclosure of business combination in the consolidated financial statements.

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 assets of 71,929,617 thousand tenge, including 42,229,062 thousand tenge of lease assets previously recognised under finance leases, additional lease liabilities of 30,472,244 thousand 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 analysed 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. We recalculated the right-of-use assets and lease liabilities for different types of lease contracts.

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

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

Responsibilities of management and the Audit committee of the Board of directors for the consolidated financial statements

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

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

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

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

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

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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.

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

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

Ernst & Young LLP

Paul Cohn
Audit Partner

Rustamzhan Sattarov
Auditor

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

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

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16 March 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

In thousands of tenge	Note	2019	2018*, **
Assets			
Non-current assets			
Property and equipment	9	**437,315,934**	389,930,113
Right-of-use assets	3	**89,670,048**	–
Intangible assets	10	**223,340,462**	121,476,465
Goodwill	5, 12	**158,684,705**	58,286,528
Advances paid for non-current assets	9	**8,998,288**	765,088
Investments in associates	11	**2,218,889**	77,669,224
Deferred tax assets	43	**1,766,127**	246,884
Cost to obtain contracts		**977,279**	1,037,984
Cost to fulfil contracts		**574,012**	107,539
Other non-current non-financial assets	15	**2,798,316**	3,194,682
Other non-current financial assets	14	**4,170,159**	9,649,734
Total non-current assets		**930,514,219**	662,364,241
Current assets			
Inventories	16	**10,565,074**	8,402,436
Trade receivables	17	37,255,772	52,173,348
Advances paid	18	**5,696,515**	1,416,363
Indemnification assets	33	–	10,171,407
Corporate income tax prepaid		4,237,313	1,849
Cost to obtain contracts		**457,366**	420,604
Cost to fulfil contracts		**859,495**	115,285
Other current non-financial assets	21	**6,072,482**	6,867,549
Other current financial assets	19	**5,227,326**	4,685,111
Financial assets at fair value through other comprehensive income	20	**4,964,633**	–
Cash and cash equivalents	22	**71,321,822**	45,350,092
		146,657,798	129,604,044
Assets held for sale	44	**1,878,033**	–
Total current assets		**148,535,831**	129,604,044
Total assets		**1,079,050,050**	791,968,285

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In thousands of tenge	Note	2019	2018*, **
Equity			
Share capital	23	**12,136,529**	12,136,529
Treasury shares	23	**(7,065,614)**	(6,464,374)
Foreign currency translation reserve	23	**(3,292)**	(15,157)
Other reserves	23	**1,820,479**	1,820,479
Retained earnings		**420,469,917**	373,429,312
		427,358,019	380,906,789
Non-controlling interests	7	**35,507,909**	33,873,826
Total equity		**462,865,928**	414,780,615
Non-current liabilities			
Borrowings: non-current portion	24	**339,138,061**	135,838,411
Lease liabilities: non-current portion	3	**55,236,254**	–
Finance lease liabilities: non-current portion		**–**	15,975,306
Other non-current financial liabilities	26	**1,318**	993,705
Deferred tax liabilities	43	**42,448,856**	41,056,405
Employee benefit obligations	25	**16,315,828**	14,471,353
Debt component of preferred shares	23	**814,868**	874,244
Non-current contract liabilities	27	**6,878,309**	5,699,301
Asset retirement obligations	28	**6,875,583**	1,444,530
Total non-current liabilities		**467,709,077**	216,353,255
Current liabilities			
Borrowings: current portion	24	**28,477,663**	57,614,129
Lease liabilities: current portion	3	**15,291,266**	–
Finance lease liabilities: current portion		**–**	6,754,019
Other current financial liabilities	30	**20,151,913**	18,853,954
Employee benefit obligations: current portion	25	**1,147,812**	1,334,417
Trade payables	29	**59,397,839**	42,147,405
Current corporate income tax payable		**1,345,601**	3,319,656
Current contract liabilities	31	**18,971,934**	9,142,320
Obligation to pay a fine for termination of the contract	33	**–**	14,551,865
Other current non-financial liabilities	32	**3,247,984**	7,116,650
		148,032,012	160,834,415
Liabilities directly associated with the assets held for sale	44	**443,033**	–
Total current liabilities		**148,475,045**	160,834,415
Total liabilities		**616,184,122**	377,187,670
Total equity and liabilities		**1,079,050,050**	791,968,285

* *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 corrections made, as detailed in Note 4 and Note 7.*

Chairman of the Management Board ______ *Yessekeyev K.B.*

Chief financial officer ______ *Uzbekov A.A.*

Chief accountant ______ *Suleimanov Y.K.*

The accounting policies and notes on pages 8 to 86 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

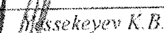
In thousands of tenge	Note	2019	2018*, **
Revenue from contracts with customers	34	**420,659,896**	216,542,790
Compensation for provision of universal services in rural areas	35	**7,420,778**	6,183,581
		428,080,674	222,726,371
Cost of sales	36	**(292,479,664)**	(154,015,612)
Gross profit		**135,601,010**	68,710,759
General and administrative expenses	37	**(37,911,683)**	(23,311,666)
Impairment losses on financial assets	47	**(2,689,585)**	(3,907,083)
Impairment losses on non-financial assets	9, 10, 18, 44	**(5,679,796)**	(1,169,713)
Selling expenses	38	**(12,770,588)**	(4,387,521)
Reversal of tax and related fines and penalties provision	48	**5,816,045**	–
Operating profit		**82,365,403**	35,934,776
Share in profits of associates	11	**6,027,195**	7,860,084
Finance costs	40	**(42,484,296)**	(7,349,641)
Finance income	40	**4,305,508**	3,067,029
Net foreign exchange (loss)/income	41	**(1,269,021)**	10,591,474
Gain on disposal of property and equipment		**386,915**	321,632
Gain from re-measurement of previously held interest in the associate	5	**17,310,113**	–
Other income	42	**3,442,931**	4,358,724
Other expenses	42	**(310,298)**	(793,182)
Profit before tax		**69,774,450**	53,990,896
Income tax expenses	43	**(9,429,152)**	(11,107,580)
Profit for the year		**60,345,298**	42,883,316
Attributable to:			
Equity holders of the Parent		**57,086,449**	43,067,365
Non-controlling interests	7	**3,258,849**	(184,049)

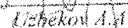
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

In thousands of tenge	Note	2019	2018*, **
Other comprehensive income/(loss)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods (net of tax)			
Foreign exchange differences from translation of financial statements of foreign subsidiaries		11,865	(8,803)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		11,865	(8,803)
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods (net of tax)			
Actuarial losses on defined benefits plans, net of tax	25	**(1,156,810)**	(2,512,956)
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		**(1,156,810)**	(2,512,956)
Other comprehensive loss for the year, net of tax		**(1,144,945)**	(2,521,759)
Total comprehensive income for the year, net of tax		**59,200,353**	40,361,557
Attributable to:			
Equity holders of the Parent		55,941,504	40,545,606
Non-controlling interests	7	3,258,849	(184,049)
		59,200,353	40,361,557
Earnings per share			
Basic and diluted, net profit for the year, tenge	23	**5,192.83**	3,914.04

* *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  Yessekeyev K.B.

Chief financial officer  Uzbekov A.A.

Chief accountant Suleimanov Y.B.

The accounting policies and notes on pages 8 to 86 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

In thousands of tenge	Attributable to equity holders of the Parent							
	Shares outstanding	Treasury shares	Foreign currency translation reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Note	23	23	23	23	–	–	–	–
At 1 January 2018	12,136,529	(6,464,374)	(6,354)	1,820,479	351,621,657	359,107,937	–	359,107,937
Change in accounting policy due to application of IFRS 15 and IFRS 9	–	–	–	–	(1,244,742)	(1,244,742)	–	(1,244,742)
At 1 January 2018 (restated)	12,136,529	(6,464,374)	(6,354)	1,820,479	350,376,915	357,863,195	–	357,863,195
Net profit for the year	–	–	–	–	43,067,365	43,067,365	(184,049)	42,883,316
Other comprehensive loss	–	–	(8,803)	–	(2,512,956)	(2,521,759)	–	(2,521,759)
Total comprehensive income	–	–	(8,803)	–	40,554,409	40,545,606	(184,049)	40,361,557
Dividends *(Note 23)*	–	–	–	–	(17,502,012)	(17,502,012)	–	(17,502,012)
Non-controlling interests *(Note 5)***	–	–	–	–	–	–	34,057,875	34,057,875
At 31 December 2018**	12,136,529	(6,464,374)	(15,157)	1,820,479	373,429,312	380,906,789	33,873,826	414,780,615
At 1 January 2019*	12,136,529	(6,464,374)	(15,157)	1,820,479	373,429,312	380,906,789	33,873,826	414,780,615
Change in accounting policy due to application of IFRS 16 *(Note 3)**	–	–	–	–	(372,725)	(372,725)	(131,766)	(504,491)
At 1 January 2019 (restated)	12,136,529	(6,464,374)	(15,157)	1,820,479	373,056,587	380,534,064	33,742,060	414,276,124
Net profit for the year	–	–	–	–	57,086,449	57,086,449	3,258,849	60,345,298
Other comprehensive loss	–	–	11,865	–	(1,156,810)	(1,144,945)	–	(1,144,945)
Total comprehensive income	–	–	11,865	–	55,929,639	55,941,504	3,258,849	59,200,353
Dividends *(Note 23)*	–	–	–	–	(8,516,309)	(8,516,309)	(1,493,000)	(10,009,309)
Own repurchased shares *(Note 23)*	–	(601,240)	–	–	–	(601,240)	–	(601,240)
At 31 December 2019	12,136,529	(7,065,614)	(3,292)	1,820,479	420,469,917	427,358,019	35,507,909	462,865,928

* *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 corrections made, as detailed in Note 5.*

Chairman of the Management Board ________ Yessekeyev K.B.

Chief financial officer ________ Uzbekov H.A.

Chief accountant ________ Suleimanov D.E.

The accounting policies and notes on pages 8 to 86 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

In thousands of tenge	Note	2019	2018*
Operating activities			
Profit before tax for the year		69,774,450	53,990,896
Adjustment for:			
Depreciation of property and equipment and right of use assets (for the year ended 31 December 2018: depreciation of property and equipment)	3, 9	73,481,369	35,546,828
Amortisation of intangible assets	10	21,470,527	3,329,003
Impairment loss on non-financial assets		5,679,796	1,169,713
Impairment loss on financial assets	47	2,689,585	3,907,083
Unrealised foreign exchange loss/(gain), net		1,357,817	(6,405,452)
Changes in employee benefit obligations		266,452	126,551
Write-down of inventories to net realizable value	37	57,343	30,673
Share in profits of associates	11	(6,027,195)	(7,860,084)
Finance costs	40	42,484,296	7,349,641
Finance income	40	(4,305,508)	(3,067,029)
Gain on disposal of property and equipment		(386,915)	(321,632)
Reversal of tax and related fines and penalties provision	48	(5,816,045)	–
Gain from re-measurement of previously held interest in the associate	5	(17,310,113)	–
Operating cash flows before changes in operating assets and liabilities		183,415,859	87,796,191
Changes in operating assets and liabilities			
Change in trade receivables		21,894,941	(5,602,091)
Change in inventories		(1,320,367)	262,303
Change in indemnification assets		10,171,407	–
Change in other current assets		13,320,260	(4,152,583)
Change in advances paid		138,132	888,909
Change in trade payables		(20,225,411)	(318,020)
Change in cost to obtain contracts and cost to fulfil contracts		(1,186,740)	(375,931)
Change in contract liabilities		3,303,265	906,894
Changes in other current liabilities		(12,242,827)	283,619
Cash flows from operating activities		197,268,519	79,689,291
Income tax paid		(21,593,054)	(11,211,037)
Interest paid	47	(35,690,260)	(3,788,368)
Interest received		1,136,754	1,661,720
Net cash flows received from operating activities		141,121,959	66,351,606
Investing activities			
Purchase of property and equipment		(60,371,459)	(19,615,661)
Purchase of intangible assets		(9,337,598)	(2,875,572)
Purchase of financial assets at fair value through other comprehensive income	20	(5,021,171)	–
Proceeds from sale of property and equipment		972,881	1,534,246
Acquisition of subsidiary, net of cash received	5	(176,143,312)	(158,819,914)
Placement of deposits		–	(12,196,800)
Return of cash on deposits		175,968	74,525,196
Issuance of a covered bank guarantee		(997,730)	(7,411,000)
Issue of long-term loans to employees		(2,567,141)	(2,858,020)
Repayment of loans to employees		401,182	394,960
Investments in associates	11	(423,980)	(563,000)
Return of funds of covered bank guarantee		1,018,925	7,608,800
Net cash flows used in investing activities		(252,293,435)	(120,276,765)

The accounting policies and notes on pages 8 to 86 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of tenge	Note	2019	2018*
Financing activities			
Borrowings received	47	214,202,637	100,000,000
Borrowings repaid	47	(53,118,449)	(2,029,593)
Dividends paid to equity holders of the parent	23	(9,041,085)	(16,996,235)
Dividends paid to non-controlling interests	7, 23	(1,493,000)	–
Repayment of finance lease liabilities	47	–	(3,697,239)
Repayment of lease liabilities	47	(11,332,544)	–
Own repurchased shares	23	(660,616)	–
Net cash flows received from financing activities		138,556,943	77,276,933
Effect of exchange rate changes on cash and cash equivalents		(1,086,160)	6,519,140
Effect of changes in expected credit losses	22	(12,021)	(506,765)
Net change in cash and cash equivalents		26,287,286	29,364,149
Cash and cash equivalents, as at 1 January		45,350,092	15,985,943
Cash and cash equivalents, as at 31 December	22	71,637,378	45,350,092

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

Disclosure of significant non-cash transactions is presented in *Note 45*

Chairman of the Management Board ________ *Yessekeyev K.B.*

Chief financial officer ________ *Uzbekov A.A.*

Chief accountant ________ *Suleimanov T.E.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. GENERAL INFORMATION

Kazakhtelecom JSC (the "Company" or "Kazakhtelecom") was established in June 1994 in accordance with the legislation of the Republic of Kazakhstan.

The Company is incorporated, domiciled and operates in the Republic of Kazakhstan. The legal address of the Company is: 12 Sauran Str., Nur-Sultan, 010000, Republic of Kazakhstan.

The Company is controlled by the Government of the Republic of Kazakhstan through Sovereign Wealth Fund "Samruk-Kazyna" JSC ("Samruk-Kazyna" or the "Parent"), which owns 51% of the Company's controlling shares. Below is a list of the Company's shareholders as at 31 December 2019:

	At 31 December 2019	At 31 December 2018
Samruk-Kazyna	**51.0%**	51.0%
SKYLINE INVESTMENT COMPANY S.A.	**24.5%**	24.5%
ADR (The Bank of New York – depositor)	**9.6%**	9.2%
Alatau Capital Invest LLP	**3.7%**	3.7%
United Accumulative Pension Fund JSC	**3.4%**	3.4%
Deran Investment B.V.	**–**	2.0%
Other	**7.8%**	6.2%
	100%	100%

The Company is included in the register of natural monopolists in relation to transit traffic services provided to telecommunication operators, public switch telecommunication network ("PSTN"), connection services provided to third party telecommunication operators, and rental of phone channels to telecommunication operators for connection to PSTN.

The Company and its subsidiaries listed in *Note 6* (hereinafter collectively referred to as the "Group") have a significant share of the fixed line communication market, including local, long-distance intercity and international telecommunication services including CIS and non-CIS countries; and also leases out lines and provides data transfer services, as well as wireless communication.

These consolidated financial statements of the Group were approved for issue by the Chairman of the Management Board on behalf of the Management of the Company on 16 March 2020.

2. BASIS FOR PREPARATION

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (hereinafter, "IFRS"), as issued by International Accounting Standard Board (hereinafter, "IASB").

These consolidated financial statements have been prepared on a historical cost basis, except as described in the accounting policies and the notes to these consolidated financial statements. The consolidated financial statements are presented in Kazakhstan tenge ("tenge") and all amounts are rounded to the nearest thousand, except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include financial statements of the Kazakhtelecom JSC and its subsidiaries as at 31 December 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.

2. BASIS FOR PREPARATION (continued)

Basis of consolidation (continued)

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- Voting rights or potential voting rights belonging to the Group.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control over subsidiary. Assets, liabilities, revenue and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group obtains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, revenue, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interests 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 applies IFRS 16 *Leases* for the first time. The nature and effect of these 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.

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').

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 16 Leases (continued)

In thousands of tenge	**Adjustments**
Non-current assets	
Right-of-use assets	71,929,617
Property and equipment *(Note 9)*	(42,229,062)
Total non-current assets	**29,700,555**
Current assets	
Advances paid	(10,202)
Total current assets	**(10,202)**
Total assets	**29,690,353**
Non-current liabilities	
Lease liabilities	27,303,654
Deferred tax liabilities	(154,337)
Total non-current liabilities	**27,149,317**
Current liabilities	
Lease liabilities	3,168,590
Other payables	(123,063)
Total current liabilities	**3,045,527**
Total liabilities	**30,194,844**
Total adjustment on equity	
Retained earnings	(372,725)
Non-controlling interests	(131,766)
	(504,491)

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

The Group has lease contracts for cell sites (land, space in cell tower or rooftop surface areas), equipment, buildings used for administrative or 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. Finance leases were capitalized 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 interest (recognised as finance costs) and reduction of the lease liabilities. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under advances paid and other payables, respectively.

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

Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 were applied to these leases from 1 January 2019.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 16 Leases (continued)

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

Leases previously accounted for as operating leases (continued)

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 KZT 71,929,617 thousand were recognised and presented separately in the statement of financial position. This includes the lease assets recognised previously under finance leases of KZT 42,229,062 thousand that were reclassified from Property and equipment.
- Additional lease liabilities of KZT 30,472,244 thousand (included in Lease liabilities) were recognised.
- Advances paid of KZT 10,202 thousand and other payables of KZT 123,063 thousand related to previous operating leases were derecognised.
- Deferred tax liabilities decreased by KZT 154,337 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 (KZT 372,725 thousand) and non-controlling interests (KZT 131,766 thousand).

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	**7,928,218**
Weighted average incremental borrowing rate as at 1 January 2019	11.91%
Discounted operating lease commitments at 1 January 2019	**7,511,495**
Less	
Commitments relating to short-term leases	(1,419,969)
Add	
Commitments relating to leases previously classified as finance leases	22,729,325
Payments in optional extension periods not recognised as at 31 December 2018	24,380,718
Lease liabilities as at 1 January 2019	**53,201,569**

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:

	Right-of-use assets			
In thousands of tenge	**Buildings and constructions**	**Equipment**	**Total**	**Lease liabilities**
At 1 January 2019	29,700,555	42,229,062	71,929,617	53,201,569
Additions and modifications	**4,160,502**	**619,429**	**4,779,931**	**4,779,931**
Acquisition of subsidiary *(Note 5)**	**23,423,176**	–	**23,423,176**	**23,878,564**
Depreciation expenses	**(6,563,967)**	**(3,898,709)**	**(10,462,676)**	–
Interest expenses *(Note 40)*	–	–	–	**8,006,074**
Payments	–	–	–	**(19,338,618)**
At 31 December 2019	**50,720,266**	**38,949,782**	**89,670,048**	**70,527,520**
Current portion	–	–	–	**15,291,266**
Non-current portion	–	–	–	**55,236,254**

* *Certain amounts shown here do not correspond to the Note 5, as they reflect elimination adjustments made.*

The following are the amounts recognised in profit or loss:

In thousands of tenge	**2019**
Depreciation expense of right-of-use assets	10,462,676
Interest expense on lease liabilities	8,006,074
Expense relating to short-term leases (included in cost of sales)	1,708,320
Expense relating to short-term leases (included in general and administrative expenses)	111,427
Total amount recognised in profit or loss	**20,288,497**

The Group had total cash outflows for leases of KZT 21,158,365 thousand in 2019. The Group also had non-cash additions to right-of-use assets and lease liabilities of KZT 4,779,931 thousand 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.

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 the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the consolidated financial statements of the Group.

Amendments to IAS 19 Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

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

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.

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.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

Annual improvements 2015-2017 cycle (continued)

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 and interpretations issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 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.

International Accounting Standards Board tentatively decided to propose an amendment of the IFRS 17 effective date to reporting periods beginning on or after 1 January 2022. This is a deferral of one year compared to the current date of 1 January 2021. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards and interpretations 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.

The amendments to IFRS 3 must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. Consequently, entities do not have to revisit such transactions that occurred in prior periods. Earlier application is permitted and must be disclosed.

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 IAS 1 and IAS 8 are required to be applied for annual periods beginning on or after 1 January 2020. The amendments must be applied prospectively and earlier application is permitted. 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 apply for annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards and interpretations issued but not yet effective (continued)

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.

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.

Foreign currency translation

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

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates prevailing at the date when the transaction meets recognition criteria. Monetary assets and liabilities denominated in foreign currency are translated at the official exchange rate ruling at the reporting date established by Kazakhstan Stock Exchange (“KASE”) and published by the National Bank of the Republic of Kazakhstan (“NBRK”). All translation differences are recognized in the consolidated statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. 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	**429.00**	439.37
Russian rouble	**6.16**	5.52

The functional currencies of foreign operations KT-IX LLC (Russian Federation) are Russian Roubles. During consolidation the assets and liabilities of foreign operations are translated into tenge at the rate of exchange prevailing at the reporting date and their statements of comprehensive income are translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquire. For each business combination, the Group elects whether to measure the non-controlling interests in the acquire at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in general and administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 *Financial Instruments*, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Investments in associates

An associate is a company, which is significantly influenced by the Company. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Group's investments in its associates are accounted for using the equity method.

According to the equity method, investment in an associate is initially stated at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment individually.

If interest in an associate is acquired in exchange for contribution of a non-monetary asset in an associate, the Group (a) assesses its share in an associate at fair value in accordance with IFRS 3; and (b) fully recognises profit or loss incurred due to sale or contribution of assets that are businesses as defined in accordance with IFRS 3.

The consolidated statement of comprehensive income reflects the Group share in the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The Group's share in profit or loss of the associate is shown directly in the consolidated statement of comprehensive income beyond the operating profit. It represents profit or loss after taxes and non-controlling interests in subsidiaries of the associate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates (continued)

The financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring their accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the investment in an associate and its carrying amount and recognises resulting loss in the 'share in profits of associates' line in the consolidated statement of comprehensive income.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at fair value. Any difference between the carrying amount of the investment in associate upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset as current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within 12 (twelve) months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 (twelve) months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled within normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within 12 (twelve) months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least 12 (twelve) months after the reporting period.

The terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

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 47*.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

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

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

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

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

External valuation experts are involved for valuation of significant assets, such as investment property and AFS financial assets, and significant liabilities, such as contingent consideration. The decision to engage external value experts is taken on an annual basis by the Working Group after it is discussed and approved by the Company's Audit committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Working Group decides, after discussions with the Group's external valuation experts, which valuation techniques and inputs to use for each case.

At each reporting date the Working Group analyses changes in the cost of assets and liabilities that should be reanalyzed reassessed in accordance with the Group's accounting policy. As a part of such analysis, the Working Group checks main inputs used at the latest valuation by comparing information used at valuation with agreements and other relevant documents.

The Working Group and external valuation experts of the Group also compare changes in fair value of each asset and liability with relevant external sources in order to determine the change relevancy.

The Working Group and external valuation experts of the Group provide valuation results to the Audit committee and independent auditors of the Group on a regular basis that assumes discussion of main assumptions used in valuation.

For the purpose of fair value disclosure, the Group classified assets and liabilities based on their nature, characteristics and risks related to them and applicable level of fair value hierarchy, as specified above.

Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Criteria for classification of the item as held-for-sale is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property and equipment and intangible assets once classified as held for sale are not depreciated or amortized.

Assets and liabilities classified as held for distribution are presented separately as current items in the consolidated statement of financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-current assets held for sale and discontinued operations (continued)

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented in the consolidated statement of comprehensive income as a separate item as profit or loss after tax from discontinued operations.

Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Please refer to asset retirement obligations *(Note 28)* for further information about decommissioning provision recognised.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

	Years
Buildings	50
Constructions	10-20
Telecommunication equipment	3-20
Other	3-20

Land is not depreciated.

An item of property and equipment and any significant component initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Construction-in-progress

Construction-in-progress represents property and equipment under construction and machinery and equipment awaiting installation and is recorded at cost. Construction-in-progress includes cost of construction and equipment and other direct costs. When construction of such assets is completed or when the machinery and equipment are ready for their intended use, construction-in-progress is transferred to the appropriate category of depreciable assets. Construction-in-progress is not depreciated.

Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing component of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and accumulated impairment loss. Depreciation is calculated on a straight-line basis over the estimated useful life, which is 50 years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment property (continued)

Investment properties are derecognised in the consolidated statement of financial position when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of comprehensive income when the asset is derecognized.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at initial cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

Intangible assets have finite useful lives.

Intangible assets with finite useful lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. Expenses on amortization of intangible assets with finite useful life are recognized in the consolidated statement of comprehensive income in the category of expenses, which corresponds to the function of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of comprehensive income when the asset is derecognised.

Intangible assets are amortized on a straight-line basis within the following estimated useful lives.

	Years
Licenses and trademarks	3-20
Computer software	1-14
Customer base	8-10
Other	2-15

Impairment of non-financial assets

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of comprehensive income.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

Goodwill is tested for impairment annually as at 31 December, and when circumstances indicate that the carrying amount may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

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 receivables, financial asset at fair value through other comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

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 receivables, loans to employees, bank deposits and other non-current and current financial assets

Financial assets at fair value through OCI (debt instruments)

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Group's debt instruments at fair value through OCI includes investments in quoted debt instruments included under other non-current financial assets.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized (i.e. exluded from the Group's consolidated statement of financial position):

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred not 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

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 sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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 payables, loans and borrowings, lease liabilities and debt component of preferred shares.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings

This category is the most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the consolidated statement of comprehensive income.

This category generally applies to interest-bearing loans and borrowings. Further details are contained in *Note 24*.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement (continued)

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of: the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

Debt component of preferred shares recorded in liabilities

The debt component of the preferred shares that exhibits characteristics of a liability is recognised as a liability in the consolidated statement of financial position, net of transaction costs. The corresponding minimal guaranteed dividends on those shares are charged as interest expense in the consolidated statement of comprehensive income. On initial recognition, the fair value of the liability component is determined by discounting expected future cash flows at a market interest rate for a comparable debt instrument. The fair value of the equity component on initial recognition is assigned the residual amount after deducting from the initial carrying amount of the instrument as a whole the fair value determined for the liability component. Subsequently, the liability component is measured according to the same principles used for loans and borrowings, and the equity component is not remeasured in subsequent years.

Trade payables

Liabilities for trade payables are recognised at fair value to be paid in the future for goods and services received, whether or not billed to the Group.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised through the consolidated statement of comprehensive income.

Offsetting of financial instruments

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

Inventories

Inventories are valued at the lower of: cost of acquisition and net realisable value.

Cost comprise expenses incurred in bringing inventory to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. The same cost formula is used for all inventories having a similar nature and use. All inventories are determined based on weighted average cost method.

Cash and short-term deposits

Cash and short-term deposits in the consolidated statement of financial position comprise cash at banks and on hand and short-term highly liquid deposits with a maturity of three months or less, that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

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.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

	Years
Buildings and constructions	5-10
Equipment	3-15

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessee (continued)

Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of property and equipment that have a lease term of 12 months or less from the commencement date. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Decommissioning liabilities

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefit (continued)

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.

Defined benefits pension plan

In accordance with the Collective Agreement the Company provides certain long-term and retirement benefits to some of its employees (the "Defined Benefit Scheme").

Long-term benefits are paid to employees upon completion of a certain number of years of service whereas retirement benefits represent one-off payments paid upon retirement in accordance with the the Collective Agreement. Both items vary according to the employee's average salary and length of service.

Cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit obligation and the return on plan assets (excluding amounts included in net interest on the net defined benefit obligation), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment; and
- The date that the Group recognises related restructuring costs.

Net interest is calculated by applying the discount rate to the net defined benefit obligation or asset. The Group recognises the outlined changes of net defined benefit obligation in the lines: "cost of sales", "general and administrative expenses" in the consolidated statement of comprehensive income.

Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the acquisition, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in equity.

Cash dividend and non-cash distribution to equity holders of the Parent

The 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.

The Group's activities mainly relates to the provision of data transmission services, rending of fixed line and wireless phone services, rent of channels, local, intercity and international calls, interconnect / traffic transmission of other operators, value added services and sale of handsets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (continued)

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

At the beginning of the contract, the Group assesses the goods and services promised in the contract with the buyer and defines as a performance obligation each promise to transfer to the buyer a certain product or service or a set of certain goods or services.

The Group has concluded that it is acting as a principal in all of its revenue arrangements, since in all cases it is the main party that assumed obligations under the contract, controls the goods and services before transferring them to the customer.

Rendering of services

The main sources of income of the Group are the provision of local, long-distance and international telecommunication services.

Interconnection fees from domestic and foreign telecommunication operators are recognized when the services are rendered based on the actual minutes of traffic transferred through the network.

Revenue from international and intercity calls and calls to local operators are recognized at the time the call is made over the Group's network.

Subscription fees, consisting primarily of monthly charges for access to broadband and other internet services or voice services, are recognised as revenue over time on a straight-line basis. Revenue from dial up internet is recognized based on the actual airtime provided to the customers.

Revenue from the rental of analogue and digital channels and private circuits as well as wholesale access revenue is recognised on a straight-line basis over the period to which it relates.

Non-refundable upfront fees received for initial connection of new subscribes to fixed line and wireless networks are recognized during the expected period of the customer relationship. The expected period of the customer relationship is based on past history of customer period and industry practice.

Equipment provided to customers

The Group provides Internet and other data transmission services and equipment for the provision of these services, including modem, routers and others.

Based on the analysis of current operating indicators, the Group concluded that equipment that cannot be used by the subscriber separately from the services of the Group is not a separately identifiable performance obligation.

The Group capitalized the cost of equipment provided free of charge as costs to fulfil a contract. Costs to fulfil a contract are amortized over the period the service is provided to the customer.

Sale of equipment and mobile devices

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (continued)

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 statement of financial position.

Significant financing component

Generally, the Group receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

The Group also receives long-term advances from customers for the connection to international telecommunication network. The transaction price for such contracts is discounted, using the rate that would be reflected in a separate financing transaction between the Group and its customers at contract inception, to take into consideration the significant financing component.

Contract balances

Costs to obtain a contract

The Group sells part of payment scratch cards, sim cards, and handsets using sales agents. The Group pays commission to sales agents for new connected subscribers in the B2C segment. The commission to sales agents is capitalized as costs to obtain a contract in the consolidated statements of financial position. Costs to obtain a contract are amortized over the period the service is provided to the customer.

Contract assest

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Trade receivables

A receivable represents the Group’s right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in section Financial instruments – initial recognition and subsequent measurement.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Compensation for provision of universal services in rural areas

Compensation for provision of universal services is recognised where there is reasonable assurance that the compensation will be received and all attached conditions will be complied with. When the compensation relates to an expense item, it is recognised as income over the period necessary to match the compensation on a systematic basis to the costs that it is intended to compensate. Where the compensation relates to an asset, it is recognised as deferred income and released to the consolidated statement of comprehensive income in equal amounts over the expected useful life of the related asset.

Compensation related to income is presented separately in the consolidated statement of comprehensive income within revenues from operating activities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contract balances (continued)

Interest income

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as AFS, interest income is recorded using the effective interest rate (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The interest income is recorded as part of finance income in the consolidated statement of comprehensive income.

Dividends

Revenue is recognised when the Group's right to receive the payment is established, which is generally when shareholders approve the dividend.

Expense recognition

Expenses are recognized as incurred and reported in the consolidated statement of comprehensive income in the period to which they relate on the accrual basis.

Connection cost

The Group records connection costs incurred and attributable to the related deferred income over the expected period of the customer relationship.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

Income tax

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Group operates and generates taxable profit.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated statement of comprehensive income. Management of the Group periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

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

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred income tax (continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in relation to the underlying transaction either in the consolidated statement of comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

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 consolidated financial statements.

4. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires the management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of these items and contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Other disclosures relating to the Group's exposure to risks and uncertainties includes:

- Financial instruments and financial risk management objectives and principles – *Note 47*;
- Sensitivity analyses disclosures – *Notes 12 and 25*.

4. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

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.

The Group included the renewal period as part of the lease term for leases of space for technical sites with shorter non-cancellable period. The Group typically exercises its option to renew for these leases because there will be a significant negative effect on production if a replacement asset is not readily available.

Refer to *Note 47* for information on potential future rental payments relating to periods following the exercise date of extension and termination options that are not included in the lease term.

Assets held for sale

On 17 June 2019, the Group announced the decision of its Board of Directors to sell 100% share in the charter capital of KT Cloud Lab LLP, a wholly owned subsidiary, through open of two-step tender. Operations of KT Cloud Lab LLP are classified as a disposal group held for sale. The Board considered the subsidiary met the criteria to be classified as held for sale at that date for the following reasons:

- KT Cloud Lab LLP is available for immediate sale and can be sold to the buyer in its current condition;
- The actions to complete the sale were initiated and expected to be completed within one year from the date of initial classification;
- A potential buyer has been identified and negotiations as at the reporting date are at an advance stage;
- The shareholders approved the plan to sell on 17 June 2019.

For more details on the disposed group, refer to *Note 44*.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Useful lives of property and equipment and intangible assets

The Group assesses the remaining useful lives of items of property and equipment and intangible assets at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

4. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Impairment of non-financial assets

An impairment exists when the carrying amount of an asset or cash generating unit exceeds its recoverable amount, which is the higher of: its fair value less costs of disposal and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next 5 (five) years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and growth rates used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in *Note 12*.

Provision for expected credit losses

The Group recognizes provision for expected credit losses for trade receivable, other current financial assets and funds in credit instituions (cash and cash equivalents, bank deposits).

For trade receivables, the Group has applied the standard's simplified approach and has calculated expected credit losses based on lifetime of these financial instruments. The Group used a provision model that is prepared taking into account Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in *Note 17*.

For funds in credit institutions (cash and cash equivalnes, bank deposits), the Group calculated expected credit losses based on the 12-month period. The 12-month expected credit losses is the portion of lifetime expected credit losses that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime expected credit losses.

The Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due. Also it is considered a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

Thus, as at 31 December 2019 provision for expected credit losses was created in the amount of KZT 9,791,112 thousand (2018: KZT 7,902,678 thousand) *(Notes 14, 17, 19 and 22)*. Changes in the economy, industry or specific customer conditions would have impact to these allowance recorded in the consolidated financial statements.

Significant financing component

The Group concludes that certain long-term contracts contain significant financing components due to the time interval between the provision of the Group's services to the customer and the moment the customer pays for such services.

The transaction price for such contracts is discounted, using the rate that would be reflected in a separate financing transaction between the Group and its customers at contract inception, to take into consideration the significant financing component.

4. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

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 contracts with customers set out in IFRS 15, industry practice and the Company's historical churn rate.

Non-refundable upfront fees

Upfront fees received for activation and connection to the fixed line and wireless network that do not represent a separate earning process are recognized as contract liabilities and recognized over the expected period of the customer relationship. In making its judgments, management considered the detailed criteria for the recognition of revenues from connection fees set out in IFRS 15, industry practice and the Company's historical churn rate. As at 31 December 2019, average customer relationship period is assessed as 13 (thirteen) years for fixed line customers and 5 (five) years for internet customers.

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.

Employee benefit obligations

The Group uses actuarial valuation method for measurement of the present value of defined employee benefit obligation and related current service cost. This involves the use of demographic assumptions about the future characteristics of current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, etc.) as well as financial assumptions (discount rate, future salary increases). Due to the long term nature of these benefits, such estimates are subject to significant uncertainty.

The current portion of employee benefit obligations represents the obligations which the Group is going to repay within the twelve months period since the end of the annual reporting period.

In determining the appropriate discount rate, management of the Group considers the interest rates of high-yield corporate bonds in respective currencies.

The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates.

Further details about employee benefit obligations are contained in *Note 25*.

4. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

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.

In 2019 the Group reconsidered the tax treatment of deductibility of allowance for expected credit loss from physical entities, and derecognized deferred tax assets on the allowance for expected credit losses related to the trade receivables from physical entities in the amount of KZT 520,178 thousand.

As at 31 December 2019 the Group recognized tax loss carry forward in the amount of KZT 1,377,725 thousand (31 December 2018: nil KZT).

As at 31 December 2019, deferred tax assets of the Group were equal to KZT 1,766,127 thousand (at 31 December 2018: KZT 246,884 thousand). As at 31 December 2019, the carrying amount of non-recognized tax assets was equal to nil KZT (31 December 2018: KZT 1,377,725 thousand). Further details are contained in *Note 43*.

Leases – estimating the incremental borrowing rate

For those lease agreements, for which the Group cannot readily determine the interest rate implicit in the lease, 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 or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

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. 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 47*.

Fair value of assets and liabilities acquired in a business combination

The Group must separately, at the acquisition date, recognize identifiable assets, liabilities and contingent liabilities acquired or assumed in a business combination at their fair value, which implies the use of valuations. Such estimates are based on various valuation methods, which require the use of significant judgments in predicting future cash flows and making other assumptions.

At the acquisition dates, net assets of Kcell JSC and Khan Tengri Holding B.V. were recognized based on their fair value *(Note 5)*.

Reclassifications of comparative information

Certain amounts in the consolidated statement of comprehensive income for the year ended 31 December 2018 were reclassified to conform with the presentation adopted in the consolidated statement of comprehensive income 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.

4. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Reclassifications of comparative information (continued)

In thousands of tenge	As presented earlier	Reclassifications	Notes	Corrected
Consolidated statement of comprehensive income for the year ended 31 December 2018				
Impairment loss on non-financial assets	–	(1,169,713)	[1]	(1,169,713)
Operating profit	**37,104,489**	**(1,169,713)**		**35,934,776**
Other expenses	(1,962,895)	1,169,713	[1]	(793,182)
Profit before tax	**53,990,896**	**–**		**53,990,896**

[1] Impairment loss on non-financial assets in the amount of KZT 1,169,713 thousand were reclassified from other non-operating expenses into separate line within the operating expenses in its consolidated statement of comprehensive income.

The above reclassification had no impact on net profit, total comprehensive income or equity.

Addtionally, goodwill was reclassified as separate line in the consolidated statement of financial position as at 31 December 2018 to conform with the presentation adopted in the consolidated statement of financial position as at 31 December 2019.

5. BUSINESS COMBINATIONS

Acquisition in 2019

Acquisition of Khan Tengri Holding B.V.

On 29 February 2016, the Group acquired 51% share capital and 49.48% of voting shares in Khan Tengri Holding B.V., the company rendering GSM and LTE mobile telecommunication services in the Republic of Kazakhstan. Khan Tengri Holding B.V. is a private entity and not listed on the stock exchange. Khan Tengri Holding B.V. was an equity accounted associate for the Group till 28 June 2019 *(Note 11)*.

According to the agreement between the Group and Tele2, the Group had an unconditional right to require Tele2 to sell its 49% of the interest in Khan Tengri Holding B.V. at any time, after three years after the closing date of the transaction on 29 February 2016 (call option). Tele2 had a similar unconditional right to require the Group to acquire a 49% interest in Khan Tengri Holding B.V. (put option).

In connection with the closure of the transaction on the acquisition by Kazakhtelecom JSC of 75% of shares in Kcell JSC in the end of December 2018, on 28 December 2018, the Group received notice on exercising of put option from Tele2 A.B.

On 1 March 2019 the Group's call option in relation to right to require Tele2 to sell its 49% of the interest in Khan Tengri Holding B.V. became exercisable. As of 1 March 2019 neither call or put option provided the Group ability to direct relevant activities of Khan Tengri Holding B.V. as the Group is obliged to transfer shares of Khan Tengri Holding B.V. to a trust management company within 12 months after closing of transaction for acquiring 49% from Tele2 which is also subject to the approval of the Committee on Regulation of Natural Monopolies and Protection of Competition under the Ministry of National Economy of the Republic of Kazakhstan. As at 1 March 2019 the Group did not obtain control over Khan Tengri Holding B.V.

On 23 May 2019, the Group concluded an agreement with Tele2 for the purchase of remaining 49% share of Khan Tengri Holding B.V. and 50.52% of the voting rights of all outstanding shares and completed the acquisition on 28 June 2019. The consideration transferred for 49% interest acquired by the Group was KZT 181,534,893 thousand, including cash paid in the amount of KZT 101,118,483 thousand and loan provided to Mobile Telecom Service LLP in the amount of 80,416,410 thousand tenge for the purpose of consideration payment to the seller, Tele2.

In June 2019, the Group received approval from the Committee on Regulation of Natural Monopolies and Protection of Competition under the Ministry of National Economy of the Republic of Kazakhstan of the terms of the trust management agreement that indicate that the Group has control over Khan Tengri Holding B.V.

On 25 February 2016, the Group provided a guarantee to associate organization Khan Tengri Holding B.V. under the credit facility from Development Bank of Kazakhstan JSC with a credit limit of up to KZT 10,008,780 thousand for the period until 19 December 2024. Guarantee issued in the amount of KZT 937,145 thousand was included into the consideration of business combination due to the acquisition of residual shares in associate of Khan Tengri Holding B.V.

5. BUSINESS COMBINATIONS (continued)

Acquisition in 2019 (continued)

Acquisition of Khan Tengri Holding B.V. (continued)

The Group's interest in Khan Tengri Holding B.V. was recorded in the consolidated financial statements using the equity method till the date of control acquisition.

Provisional fair value of the identified assets and liabilities of Khan Tengri Holding B.V. as at the date of acquisition were:

In thousands of tenge	**Provisional fair value recognized on acquisition**
Assets	
Property and equipment	99,771,598
Right-of-use assets	26,457,939
Intangible assets	112,272,032
Advances paid for non-current assets	2,061,017
Cash and cash equivalents	5,391,581
Other non-current financial assets	77,640
Trade receivables	14,921,849
Inventories	909,245
Advances paid	2,439,609
Corporate income tax prepaid	614,125
Other current non-financial assets	2,023,828
Other current financial assets	887,739
Total assets	**267,828,202**
Liabilities	
Trade payables	(27,070,515)
Borrowings	(8,799,548)
Lease liabilities	(26,913,327)
Contract liabilities	(8,094,854)
Deferred tax liabilities	(9,058,099)
Asset retirement obligations	(4,826,230)
Other current financial liabilities	(2,460,538)
Other current non-financial liabilities	(1,193,897)
Total liabilities	**(88,417,008)**
Net identifiable assets at fair value	**179,411,194**
Consideration transferred for 49% interest acquired on 28 June 2019*	181,534,893
Acquisition-date provisional fair value of initial 51% interest	99,211,623
	280,746,516
Acquisition-date provisional fair values of identifiable net assets acquired	179,411,194
Guarantee issued to Mobile Telecom Service LLP	937,145
Goodwill (*Note 12*)	**100,398,177**
Analysis of cash flows on acquisition	
Net cash acquired with the subsidiary	5,391,581
Consideration transferred*	(181,534,893)
Net cash outflow	**(176,143,312)**

* *The consideration transferred for 49% interest acquired by the Group was KZT 181,534,893 thousand, including cash paid in the amount of KZT 101,118,483 thousand and loan provided to Mobile Telecom Service LLP in the amount of KZT 80,416,410 thousand.*

5. BUSINESS COMBINATIONS (continued)

Acquisition in 2019 (continued)

Acquisition of Khan Tengri Holding B.V. (continued)

Net assets recognized in the consolidated financial statements as at 31 December 2019 are based on a preliminary assessment of their fair value, while the Group makes an independent assessment of assets owned by Khan Tengri Holding B.V. This estimate has not been completed at the time of issuing the consolidated financial statements for the year ended 31 December 2019.

The main components of intangible assets are licenses, trademarks, software and subscriber base.

At the date of the acquisition, the fair value of the trade receivables was KZT 14,921,849 thousand. The carrying amount of trade receivables is KZT 14,921,849 thousand and it is expected that the full contractual amounts can be collected.

The Group measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use assets were measured at an amount equal to the lease liabilities and adjusted to reflect the favourable terms of the lease relative to market terms.

Transaction costs in the amount of KZT 1,167,150 thousand were included in administrative expenses.

The deferred tax liability is mainly due to the tax effect of accelerated depreciation of fixed assets and intangible assets for tax purposes.

The amount of goodwill equal to KZT 100,398,177 thousand and includes the cost of the expected synergetic effect from the acquisition. The entire amount of goodwill is allocated to the mobile telecommunications segment. It is expected that recognized goodwill will not be deductible for the purposes of the taxation either in full or in part.

During 2019, the Group recognized income from re-measurement of previously held interest in the equity-accounted associate in the amount of KZT 17,310,113 thousand as a result of remeasuring its existing interest in the equity-accounted associate amount of KZT 81,901,510 thousand at the date of obtaining control to its acquisition-date fair value of KZT 99,211,623 thousand.

From the date of acquisition, the contribution of Khan Tengri Holding B.V. to the Group's revenue amounted to KZT 75,553,128 thousand, and to the Group’s net profit before tax in the amount of KZT 13,211,745 thousand. If the combination had taken place at the beginning of 2019, the Group’s revenues would have been KZT 468,651,157 thousand, and the profit before tax would have been KZT 80,653,198 thousand.

Acquisition in 2018

Acquisition of Kcell JSC

On 21 December 2018, the Group acquired 75% of voting shares in Kcell JSC, whose shares are listed on London Stock Exchange and Kazakhstan Stock Exchange. Kcell JSC is registered in Republic of Kazakhstan and provides mobile services in Republic of Kazakhstan.

The Group has acquired Kcell JSC, because it allows to significantly expand its presence in the segment of Mobile telecommunication services in GSM and LTE standards.

As part of the purchase agreement with the previous owners of Kcell JSC, the consideration in the amount of KZT 165,742,447 thousand was transferred by cash payments.

The Group decided to measure the non-controlling interests in the acquisition object by the proportionate share of its participation in the identifiable net assets of the acquisition.

5. BUSINESS COMBINATIONS (continued)

Acquisition in 2018 (continued)

Acquisition of Kcell JSC (continued)

The fair value of the identified assets and liabilities of Kcell JSC as at the date of acquisition were:

In thousands of tenge	**Fair value recognized on acquisition**
Assets	
Property and equipment	120,440,693
Intangible assets	110,130,516
Advances paid for non-current assets	729,049
Cash and cash equivalents	6,922,533
Indemnification assets	10,171,407
Trade receivables	15,969,678
Inventories	5,680,540
Advances paid	975,529
Cost to obtain contracts	388,802
Other non-current assets	37,986
Other current assets	6,232,204
Total assets	**277,678,937**
Liabilities	
Trade payables	(14,047,602)
Borrowings	(66,316,119)
Contract liabilities	(3,772,341)
Taxes payable other than income tax	(2,694,377)
Deferred tax liabilities	(22,679,511)
Asset retirement obligations	(1,285,482)
Obligation to pay a fine for termination of the contract	(14,551,865)
Other current liabilities	(8,111,511)
Total liabilities	**(133,458,808)**
Net identifiable assets at fair value	**144,220,129**
Non-controlling interests	(34,057,875)
Total identifiable net assets at fair value	**110,162,254**
Goodwill arising on acquisition (*Note 12*)	55,580,193
Purchase consideration transferred	**165,742,447**

Analysis of cash flows on acquisition	
Net cash acquired with the subsidiary	6,922,533
Cash paid	(165,742,447)
Net cash outflow	**(158,819,914)**

Net assets recognized in the consolidated financial statements as at 31 December 2018 were based on a provisional assessment of their fair value, while the Group sought an independent valuation for the assets owned by Kcell JSC. The valuation had not been completed by the date the 2018. Consolidated financial statements were approved for issue by the Chairman of the Management Board.

5. BUSINESS COMBINATIONS (continued)

Acquisition in 2018 (continued)

Acquisition of Kcell JSC (continued)

In December 2019, the valuation was completed, and the acquisition date fair value of the following accounts has been changed:

- Property and equipment were KZT 120,440,693 thousand, decrease of KZT 379,000 thousand over the provisional value;
- Intangible assets were KZT 110,130,516 thousand, increase of KZT 2,297,000 thousand over the provisional value;
- Indemnification assets was KZT 10,171,407 thousand, decrease of KZT 742,492 thousand over the provisional value;
- Other current assets were KZT 6,232,204 thousand and contract liabilities was KZT 3,772,341, decrease of KZT 3,525,405 thousand over the provisional value;
- Deferred tax liabilities were KZT 22,679,511 thousand, increase of KZT 2,159,279 thousand over the provisional value.

The 2018 comparative information was restated to reflect the adjustment to the provisional amounts. As a result, there was a decrease in the non-controlling interests of KZT 60,320 thousand and a corresponding increase in goodwill of KZT 923,451 thousand, resulting in KZT 55,580,193 thousand of total goodwill arising on the acquisition. The increased depreciation charge on the tangible and intangible assets from the acquisition date to 31 December 2018 was not material.

The main components of intangible assets are licenses, trademarks, software and subscriber base.

At the date of the acquisition, the fair value of the trade receivables amounts to KZT 15,969,678 thousand. The gross amount of trade receivables is KZT 15,969,678 thousand and it is expected that the full contractual amounts can be collected.

Transaction costs in the amount of KZT 1,933,255 thousand were included in administrative expenses.

The deferred tax liability is mainly due to the tax effect of accelerated depreciation of fixed assets and intangible assets for tax purposes.

The amount of goodwill equal to KZT 55,580,193 thousand and includes the cost of the expected synergetic effect from the acquisition. The entire amount of goodwill is allocated to the mobile telecommunications segment. It is expected that recognized goodwill will not be deductible for the purposes of the taxation either in full or in part.

At the acquisition date, was recognized the obligation to pay a fine for termination of the Network Sharing Agreement between Kcell JSC and Kar-Tel LLP in the amount of KZT 14,551,865 thousand and a indemnification asset for reimbursement of 75% of this penalty receivable from Telia Company and Fintur Holding B.V. in the amount of KZT 10,171,407 thousand, and the effect of the above amounts on deferred tax liabilities.

From the date of acquisition, the contribution of Kcell JSC to the Group's revenue amounted to KZT 4,257,756 thousand, and to the Group's net profit before tax – KZT 544,955 thousand. If the combination had taken place at the beginning of 2018, the Group’s revenues would have been KZT 355,148,278 thousand, and the profit before tax would have been KZT 50,722,371 thousand.

6. CONSOLIDATION

The following subsidiaries have been included in these consolidated financial statements:

		Percentage ownership	
	Country of incorporation	**31 December 2019**	31 December 2018
Khan Tengri Holding B.V.	Netherlands	**100.00%**	51%
KT-IX LLC	Russia	**100.00%**	100.00%
KT Cloud Lab LLP	Kazakhstan	**100.00%**	100.00%
VostokTelecom LLP	Kazakhstan	**100.00%**	100.00%
Info-Net Wireless LLP	Kazakhstan	**100.00%**	100.00%
Nursat+ LLP	Kazakhstan	**100.00%**	100.00%
Kcell JSC	Kazakhstan	**75.00%**	75.00%
Nursat JSC	Kazakhstan	**–**	100.00%

6. CONSOLIDATION (continued)

On 28 June 2019, the Group has obtained control over Khan Tengri Holding B.V., in which the Group previously held investment in associate as described in *Note 5*.

Based on the decision of the board of directors of Kazakhtelecom JSC *On the Voluntary Liquidation of a Subsidiary of "Nursat JSC"* (dated 31 March 2017), the final liquidation balance sheet of Nursat JSC as of 31 December 2018 was approved on 6 February 2019. The certificate of the National Bank on cancellation of the issue of announced shares of Nursat JSC was received on 22 February 2019.

7. MATERIAL PARTLY-OWNED SUBSIDIARIES

Kcell JSC

Financial information of subsidiary Kcell JSC that has material non-controlling interests is provided below:

Name	**Country of incorporation**	**31 December 2019**	31 December 2018
Kcell JSC	Kazakhstan	**25.00%**	25.00%

The following tables illustrate summarized financial information of subsidiary on a stand-alone basis, in which the Group has significant non-controlling interests. This information is based on amounts before inter-company eliminations.

Summarised statement of comprehensive income of Kcell JSC for 2019 and 2018 from the acquisition date:

In thousands of tenge	**2019**	For the period from 21 December 2018 till 31 December 2018
Revenue from contracts with customers	**156,656,861**	4,529,042
Cost of sales	**(122,318,966)**	(3,908,547)
General and administrative expenses	**(8,924,684)**	(539,329)
Impairment of financial assets	**(2,256,120)**	(32,153)
Impairment of property and equipment	**(1,844,104)**	–
Selling expenses	**(2,887,221)**	(94,600)
Reversal of tax and related fines and penalties provision	**5,816,045**	–
Finance costs	**(11,533,490)**	(519,149)
Finance income	**1,448,836**	34,703
Net foreign exchange (loss)/income	**(91,454)**	4,464
Gain on disposal of property and equipment	**18,740**	372
Other income	**298,312**	–
Other expenses	**(84,469)**	(19,758)
Profit before tax	**14,298,286**	(544,955)
Income tax expenses	**(1,262,891)**	(191,237)
Profit for the year	**13,035,395**	(736,192)
Profit attributable to equity holders of the Parent	**9,776,546**	(552,143)
Profit attributable to non-controlling interests	**3,258,849**	(184,049)
Dividends paid to non-controlling interests	**1,493,000**	–

7. MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)

Kcell JSC (continued)

Summarised statement of financial position of Kcell JSC as at 31 December 2019 and 2018:

In thousands of tenge	**31 December 2019**	31 December 2018
Non-current assets	**233,814,894**	233,763,209
Current assets	**42,545,530**	30,830,529
Non-current liabilities	**(94,966,875)**	(36,799,969)
Current liabilities	**(39,361,913)**	(92,298,465)
Total equity	**142,031,636**	135,495,304
Attributable to:		
Equity holders of the Participants	**106,523,727**	101,621,478
Non-controlling interests	**35,507,909**	33,873,826

Summarised cash flow information of Kcell JSC for the years ended 31 December 2019 and 2018:

In thousands of tenge	**2019**	For the period from 21 December 2018 till 31 December 2018
Operating cash flows	**34,625,643**	(637,956)
Investing cash flows	**(18,182,552)**	6,662,534
Financing cash flows	**(13,596,795)**	–
Foreign exchange implementation on cash and cash equivalents	**(50,290)**	4,464
Net increase in cash and cash equivalents	**2,796,006**	6,029,042

8. SEGMENT INFORMATION

For management purposes, the Group represents business units based on the organizational structure of the Group and has reportable operating segments as follows:

- Rendering fixed-line telecommunication services to local, national long-distance and international to business units of Kazakhtelecom JSC, Vostoktelecom LLP and KT Cloud Lab LLP;
- Rendering mobile telecommunication services in GSM and LTE standards by a business units of Khan Tengri Holding B.V. and Kcell JSC.

The Group completed the acquisition of the residual 49% of shares of Khan Tengri Holding B.V. and obtained 100% control over the entity in the late June 2019.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

The following tables disclose revenue and profit information for the Group's operating segments for the years ended 31 December 2019 and 2018.

8. SEGMENT INFORMATION (continued)

For the year ended 31 December 2019

In thousands of tenge	**Fixed line**	**Mobile tele-communication services in GSM and LTE standards**	**Other**	**Elimina-tions and adjustments**	**Group**
Revenue from contracts with customer					
Sales to external customers	**211,648,838**	**215,977,168**	**454,668**	**–**	**428,080,674**
Inter-segment	**22,294,505**	**6,957,249**	**280,201**	**(29,531,955)**	**–**
Total revenue from contracts with customers	**233,943,343**	**222,934,417**	**734,869**	**(29,531,955)**	**428,080,674**
Financial results					
Depreciation and amortisation	**(37,694,711)**	**(57,869,046)**	**(228,346)**	**840,207**	**(94,951,896)**
Finance costs	**(26,007,763)**	**(19,222,602)**	**–**	**2,746,069**	**(42,484,296)**
Finance income	**4,932,477**	**1,585,120**	**433**	**(2,212,522)**	**4,305,508**
Dividends income	**9,101,302**	**–**	**–**	**(9,101,302)**	**–**
Share in profits of associates	**–**	**5,830,925**	**196,270**	**–**	**6,027,195**
Impairment losses on non-financial assets	**(300,971)**	**(5,377,947)**	**(878)**	**–**	**(5,679,796)**
Impairment losses on financial assets	**(28,402)**	**(2,653,023)**	**(8,160)**	**–**	**(2,689,585)**
Income tax expenses	**(6,307,021)**	**(3,090,505)**	**(5,687)**	**(25,939)**	**(9,429,152)**
Segment profit/(loss)	**32,337,163**	**13,808,437**	**(148,686)**	**23,777,536**	**69,774,450**
Operating assets	**750,602,980**	**699,934,914**	**2,677,106**	**(374,164,950)**	**1,079,050,050**
Operating liabilities	**348,535,158**	**301,021,346**	**317,483**	**(33,689,865)**	**616,184,122**
Other disclosures					
Investments in associates	**–**	**–**	**2,218,889**	**–**	**2,218,889**
Assets held for sale	**–**	**–**	**–**	**1,878,033**	**1,878,033**
Capital expenditures	**41,930,188**	**28,758,575**	**–**	**41,085**	**70,729,848**

For the year ended 31 December 2018

In thousands of tenge	Fixed line	Mobile tele-communication services in GSM and LTE standards	Other	Elimina-tions and adjustments	Group
Revenue from contracts with customer					
Sales to external customers	217,668,184	4,493,142	565,045	–	222,726,371
Inter-segment	252,366	35,900	222,987	(511,253)	–
Total revenue from contracts with customer	217,920,550	4,529,042	788,032	(511,253)	222,726,371
Financial results					
Depreciation and amortisation	(37,477,326)	(1,288,815)	(109,690)	–	(38,875,831)
Finance costs	(6,830,492)	(519,149)	(72)	72	(7,349,641)
Finance income	3,030,209	34,703	2,189	(72)	3,067,029
Share in profit/(loss) of associates	–	7,743,570	116,514	–	7,860,084
Impairment losses on non-financial assets	(1,169,713)	–	–	–	(1,169,713)
Impairment losses on financial assets	(3,874,468)	(32,153)	(462)	–	(3,907,083)
Income tax expenses	(10,915,839)	(191,237)	(504)	–	(11,107,580)
Segment profit/(loss)	46,187,814	7,198,613	(130,593)	735,062	53,990,896
Operating assets	551,021,413	406,415,921	2,218,590	(167,687,639)	791,968,285
Operating liabilities	247,072,042	131,281,208	260,773	(1,426,353)	377,187,670
Other disclosures					
Investments in associates	–	76,070,585	1,598,639	–	77,669,224
Capital expenditures	49,676,196	316,434	90,946	–	50,083,576

8. SEGMENT INFORMATION (continued)

1) Income and expenses between segments are excluded during consolidation;
2) Finance costs and finance income comprise intersegment finance costs and intersegment finance income;
3) Operating income of segments comprises income from intersegment transactions;
4) Capital expenditures include additions to property and equipment and intangible assets.

Reconciliation of profit

In thousands of tenge	**2019**	2018
Segment profit	**45,996,914**	53,255,834
Other	**23,777,536**	735,062
Profit of the Group	**69,774,450**	53,990,896

Reconciliation of assets

In thousands of tenge	**2019**	2018
Segment operating assets	**1,453,215,000**	959,655,924
Elimination of the Company's investments in subsidiaries	**(338,530,820)**	(166,261,286)
Elimination of intra-group receivables and payables	**(35,634,130)**	(1,426,353)
Total assets of the Group	**1,079,050,050**	791,968,285

Reconciliation of liabilities

In thousands of tenge	**2019**	2018
Segment operating liabilities	**649,873,987**	378,614,023
Elimination of intra-group receivables and payables	**(33,689,865)**	(1,426,353)
Total liabilities of the Group	**616,184,122**	377,187,670

9. PROPERTY AND EQUIPMENT

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

In thousands of tenge	Land	Buildings and cons-tructions	Equipment	Other	Construc-tion in progress	Total
Cost						
At 1 January 2018	691,098	49,047,691	517,931,603	13,835,617	17,391,796	598,897,805
Additions	451	101,547	9,502,685	533,433	36,955,437	47,093,553
Acquisition of subsidiary *(Note 5)*	2,249,378	4,628,774	92,836,754	2,544,564	18,181,223	120,440,693
Transfers	–	1,947,461	17,652,886	16,638	(19,616,985)	–
Disposals	(13,317)	(978,467)	(5,418,161)	(215,536)	(258,846)	(6,884,327)
At 31 December 2018	2,927,610	54,747,006	632,505,767	16,714,716	52,652,625	759,547,724
At 1 January 2019	2,927,610	54,747,006	632,505,767	16,714,716	52,652,625	759,547,724
Change in accounting policy due to application of IFRS 16 *(Note 3)*	–	–	(87,599,840)	–	–	(87,599,840)
At 1 January 2019 (restated)	2,927,610	54,747,006	544,905,927	16,714,716	52,652,625	671,947,884
Additions	**23**	**404,498**	**20,516,975**	**794,880**	**36,868,969**	**58,585,345**
Acquisition of subsidiary *(Note 5)*	**130,814**	**12,424,003**	**67,354,510**	**1,498,750**	**18,363,521**	**99,771,598**
Change in estimate of asset retirement obligations *(Note 28)*	**–**	**–**	**577,768**	**–**	**–**	**577,768**
Transfers	**–**	**1,375,068**	**22,942,450**	**133,075**	**(24,450,593)**	**–**
Disposals	**(13,973)**	**(325,011)**	**(4,094,966)**	**(372,918)**	**(87,885)**	**(4,894,753)**
Assets held for sale *(Note 44)*	**–**	**(405,118)**	**(1,021,623)**	**(74,182)**	**–**	**(1,500,923)**
At 31 December 2019	**3,044,474**	**68,220,446**	**651,181,041**	**18,694,321**	**83,346,637**	**824,486,919**
Accumulated depreciation and impairment						
At 1 January 2018	589	18,346,827	309,326,682	10,942,557	1,259,538	339,876,193
Depreciation charge	–	1,976,120	32,722,740	745,830	–	35,444,690
Disposals	(589)	(284,707)	(5,052,424)	(209,739)	(155,813)	(5,703,272)
At 31 December 2018	–	20,038,240	336,996,998	11,478,648	1,103,725	369,617,611
At 1 January 2019	–	20,038,240	336,996,998	11,478,648	1,103,725	369,617,611
Change in accounting policy due to application of IFRS 16 *(Note 3)*	–	–	(45,370,778)	–	–	(45,370,778)
At 1 January 2019 (restated)	–	20,038,240	291,626,220	11,478,648	1,103,725	324,246,833
Depreciation charge	**–**	**2,540,063**	**58,978,020**	**1,500,610**	**–**	**63,018,693**
Impairment	**–**	**–**	**2,136,947**	**–**	**3,077,728**	**5,214,675**
Disposals	**–**	**(136,918)**	**(3,837,861)**	**(358,882)**	**4,565**	**(4,329,096)**
Assets held for sale *(Note 44)*	**–**	**(43,346)**	**(886,731)**	**(50,043)**	**–**	**(980,120)**
At 31 December 2019	**–**	**22,398,039**	**348,016,595**	**12,570,333**	**4,186,018**	**387,170,985**
Net book value						
At 31 December 2018	2,927,610	34,708,766	295,508,769	5,236,068	51,548,900	389,930,113
At 31 December 2019	**3,044,474**	**45,822,407**	**303,164,446**	**6,123,988**	**79,160,619**	**437,315,934**

During 2019, the Group recognized an impairment loss of KZT 4,921,832 thousand, related to write-down of certain property and equipment to the recoverable amount as a result of technological obsolescence and damage (2018: nil KZT). Impairment was recognized in the consolidated statement of comprehensive income as an operating expense. Additionally, the Group recognized an impairment loss of KZT 292,843 thousand to reduce the carrying amount of the assets in the disposal group to their fair value less costs to sell *(Note 44).*

As at 31 December 2019 and 2018, assets under construction 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 KZT 347,558,082 thousand (as at 31 December 2018: KZT 166,079,984 thousand).

9. PROPERTY AND EQUIPMENT (continued)

As at 31 December 2019, advances paid for non-current assets in the amount of KZT 8,998,288 thousand mainly represented by advances paid for «Broadband access to rural settlements of the Republic of Kazakhstan on the technology of fiber-optic communication lines» project and for installation of base stations, construction and delivery of fixed assets (as at 31 December 2018: KZT 765,088 thousand). During 2019, the Group has recognized impairment loss on its advances paid for non-current assets for KZT 423,395 thousand.

10. INTANGIBLE ASSETS

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

In thousands of tenge	Licenses and trademarks	Software	Other	Construction in progress	Total
Cost					
At 1 January 2018	15,729,998	20,949,661	4,368,577	–	41,048,236
Additions	596,243	375,271	13	2,018,496	2,990,023
Acquisition of subsidiary *(Note 5)*	99,965,947	1,365,031	7,609,096	1,190,442	110,130,516
Transfers	55,461	(55,335)	(126)	–	–
Disposals	(3,870,985)	(144,726)	(1,243,671)	–	(5,259,382)
Transfers from construction-in-progress	152,071	1,866,425	–	(2,018,496)	–
At 31 December 2018	112,628,735	24,356,327	10,733,889	1,190,442	148,909,393
Additions	**3,604,581**	**5,503,654**	**186,964**	**2,271,536**	**11,566,735**
Acquisition of subsidiary *(Note 5)*	**108,505,524**	**1,889,628**	**1,876,880**	**–**	**112,272,032**
Disposals	**(1,185,574)**	**(1,489,826)**	**–**	**–**	**(2,675,400)**
Assets held for sale *(Note 44)*	**–**	**(729,247)**	**–**	**–**	**(729,247)**
Transfers from construction-in-progress	**90,406**	**2,181,130**	**–**	**(2,271,536)**	**–**
At 31 December 2019	**223,643,672**	**31,711,666**	**12,797,733**	**1,190,442**	**269,343,513**
Accumulated amortisation and impairment					
At 1 January 2018	8,581,883	16,524,377	3,055,767	–	28,162,027
Amortisation charges	1,507,815	1,138,848	682,348	–	3,329,011
Impairment	1,169,713	–	–	–	1,169,713
Disposals	(3,869,426)	(123,726)	(1,234,671)	–	(5,227,823)
At 31 December 2018	7,389,985	17,539,499	2,503,444	–	27,432,928
Amortisation charges	**14,323,291**	**5,973,030**	**1,174,206**	**–**	**21,470,527**
Disposals	**(1,165,320)**	**(1,489,771)**	**–**	**–**	**(2,655,091)**
Assets held for sale *(Note 44)*	**–**	**(245,313)**	**–**	**–**	**(245,313)**
At 31 December 2019	**20,547,956**	**21,777,445**	**3,677,650**	**–**	**46,003,051**
Net book value					
At 31 December 2018	105,238,750	6,816,828	8,230,445	1,190,442	121,476,465
At 31 December 2019	**203,095,716**	**9,934,221**	**9,120,083**	**1,190,442**	**223,340,462**

Licenses and trademarks, software and other include intangible assets acquired as a result of business combinations *(Note 5)*.

During 2018, the Group recognized an impairment loss in the amount of KZT 1,169,713 thousand, which was a write-off of certain licenses in the fixed telecommunications segment to the recoverable amount due to changes in the activities of subsidiaries (KT Cloud Lab LLP, Vostoktelekom LLP). The loss was recorded in the consolidated statement of comprehensive income as part of impairment losses on non-financial assets. The recoverable amount as of 31 December 2018 in the amount of nil tenge was determined based on the calculation of the value of use of assets at the level of individual assets.

As at 31 December 2019 the gross carrying value of intangible assets, which have been fully amortized and still in use was KZT 52,411,724 thousand (as at 31 December 2018: KZT 10,408,974 thousand).

11. INVESTMENTS IN ASSOCIATES

The following associates have been included in these consolidated financial statements:

			31 December 2019		31 December 2018	
In thousands of tenge	**Primary activities**	**Country of incorporation**	**Carrying amount**	**Ownership share**	Carrying amount	Ownership share
QazCloud LLP	IT services	Kazakhstan	**2,218,889**	**49%**	1,598,639	49%
Khan Tengri Holding B.V.	Telecommunication services	Netherlands	**–**	**51%**	76,070,585	51%
			2,218,889		77,669,224	

Movements in investments in associates for the years 2019 and 2018 are as follows:

In thousands of tenge	**Khan Tengri Holding B.V.**	**QazCloud LLP**	**Total**
At 31 December 2017	68,327,015	919,125	69,246,140
Additional contribution to the charter capital of an associate	–	563,000	563,000
Share in profit of associates	7,743,570	116,514	7,860,084
Share in other comprehensive income of associates	–	–	–
Dividends declared	–	–	–
At 31 December 2018	76,070,585	1,598,639	77,669,224
Additional contribution to the charter capital of an associate	**–**	**423,980**	**423,980**
Share in profits of associates	**5,830,925**	**196,270**	**6,027,195**
Share in other comprehensive income of associates	**–**	**–**	**–**
Dividends declared	**–**	**–**	**–**
Derecognition of investment in associate *(Note 5)*	**(81,901,510)**	**–**	**(81,901,510)**
At 31 December 2019	**–**	**2,218,889**	**2,218,889**

Investments in Khan Tengri Holding B.V.

As described in *Note 5* the Group obtained control over in Khan Tengri Holding B.V. and since the date of control Khan Tengri Holding B.V. is consolidated. In the consolidated financial statements, the Group's interest in Khan Tengri Holding B.V. was accounted using the equity method till the date of obtaining control.

The table below provides a summarized financial information on the Group's investment in Khan Tengri Holding B.V. on the basis of an assessment of the fair value:

In thousands of tenge	**31 December 2019**	31 December 2018
Non-current assets	**–**	155,086,820
Current assets, including	**–**	23,058,916
Cash and cash equivalents	**–**	*2,210,329*
Non-current liabilities, including	**–**	(104,123,963)
Non-current financial liabilities	**–**	*(96,705,693)*
Current liabilities, including	**–**	(38,288,604)
Current financial liabilities	**–**	*(1,732,635)*
Equity	**–**	35,733,169
Share of the ownership – 51%	**–**	18,223,916
Goodwill	**–**	57,846,669
Carrying amount of investment of the Group	**–**	76,070,585

11. INVESTMENTS IN ASSOCIATES (continued)

Investments in Khan Tengri Holding B.V. (continued)

In thousands of tenge	**From 1 January 2019 till 28 June 2019**	2018
Revenue from contracts with customers	**67,183,065**	120,803,222
Depreciation and amortization	**(9,540,681)**	(13,221,235)
Finance income	**134,131**	313,473
Finance costs	**(6,428,117)**	(10,440,744)
Income tax (expense)/benefit	**(1,991,712)**	4,792,155
Profit for the year	**11,433,187**	15,183,470
Other comprehensive income	**–**	–
Total comprehensive income	**11,433,187**	15,183,470
Share of the Group in profit for the year	**5,830,925**	7,743,570

Investments in QazCloud LLP

Based on the decision of the Board of Directors of Kazakhtelecom JSC, on 17 of August 2016, Kazakhtelecom JSC and Samruk-Kazyna Business Service LLP signed the agreement of purchase and sale of 51% interest of Kazakhtelecom JSC in the charter capital of Kazakhtelecom Industrial Enterprises Services LLP.

On 4 October 2017, Kazakhtelecom Industrial Enterprises Services LLP was re-registered with name being changed to QazCloud LLP.

On 25 July 2017, the Board of Directors of Kazakhtelecom JSC approved a decision to make an additional investment contribution to the charter capital of QazCloud LLP in the amount of KZT 1,973,960 thousand.

On 15 November 2017, 27 April 2018, 29 April 2019 and 30 December 2019, the Group made contributions to the charter capital of QazCloud LLP, in the amount of KZT 986,980 thousand, KZT 563,000 thousand, KZT 200,000 thousand and KZT 223,980 thousand, respectively. The additional contributions to the charter capital of QazCloud LLP did not lead to the change in share of interest of the Group as the second participant, Samruk-Kazyna Business Service LLP, also made the contributions to the charter capital of QazCloud LLP according to its share.

The table below provides a summarized financial information on the Group's investment in QazCloud LLP on the basis of an assessment of the fair value:

In thousands of tenge	**31 December 2019**	31 December 2018
Non-current assets	**2,982,071**	2,547,778
Current assets, including	**3,356,967**	1,683,356
Cash and cash equivalents	***2,621,936***	*979,863*
Non-current liabilities, including	**(395,465)**	(393,421)
Non-current financial liabilities	**–**	–
Current liabilities, including	**(1,415,229)**	(575,184)
Current financial liabilities	***(855,425)***	*(180,537)*
Equity	**4,528,344**	3,262,529
Share of the ownership – 49%	**2,218,889**	1,598,639
Carrying amount of the investment of the Group	**2,218,889**	1,598,639

11. INVESTMENTS IN ASSOCIATES (continued)

Investments in QazCloud LLP (continued)

In thousands of tenge	**2019**	2018
Revenue from contracts with customers	**3,489,009**	3,767,779
Depreciation and amortization	**(603,879)**	(290,644)
Finance income	**27,085**	75,454
Finance costs	**(57,264)**	(30,798)
Income tax expense	**(100,137)**	(52,915)
Profit for the year	**400,550**	237,784
Other comprehensive income	**–**	–
Total comprehensive income	**400,550**	237,784
Share of the Group in profit for the year	**196,270**	116,514

12. IMPAIRMENT TESTING

Goodwill

For impairment testing, goodwill acquired through business combinations was allocated to three cash-generating units ("CGUs") ("IP TV", "Kcell JSC" and "Khan Tengri Holding B.V."). IP TV CGU is part of the fixed telecommunications segment, while Kcell JSC and Khan Tengri Holding B.V. are the part of the mobile telecommunications segment.

The carrying amount of goodwill allocated to each of CGUs was as follows:

In thousands of tenge	**2019**	2018
Khan Tengri Holding B.V. *(Note 5)*	**100,398,177**	–
Kcell JSC *(Note 5)*	**55,580,193**	55,580,193
IP TV	**2,706,335**	2,706,335
	158,684,705	58,286,528

The Group performed its annual impairment test in December 2019 and 2018.

Khan Tengri Holding B.V.

The recoverable amount of the Khan Tengri Holding B.V. CGU has been determined based on the calculation of fair value less costs of disposal as it was deemed to produce a more reliable result. This valuation method was based on unobservable inputs (discounted cash flows), which represent Level 3 of the fair value hierarchy.

The pre-tax discount rate applied to projected cash flows was 16.96% (2018: 12%), and cash flows beyond the five-year period were extrapolated taking into account a growth rate of 1.5% (2018: 1.5%).

As a result of this analysis, management has not identified an impairment for this CGU as at 31 December 2019.

Kcell JSC

The recoverable amount of Kcell JSC CGU was has been determined based on the calculation of fair value less costs of disposal as it was deemed to produce a more reliable result. This valuation method was based on unobservable inputs (discounted cash flows), which represent Level 3 of the fair value hierarchy.

The pre-tax discount rate applied to projected cash flows was 16.71%, and cash flows beyond the five-year period were extrapolated taking into account a growth rate of 1.5%.

As a result of this analysis, management have not identified an impairment for this CGU as at 31 December 2019.

IP TV

The recoverable amount of IP TV CGU has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period.

The pre-tax discount rate applied to the cash flow projections is 15.14% (2018: 13.10%), and cash flows beyond the five-year period are extrapolated using a 1.5% growth rate (2018: 0%).

As a result of this analysis, the management have not identified an impairment for this CGU as at 31 December 2019.

12. IMPAIRMENT TESTING (continued)

Key assumptions used in value in use calculations

The calculation of value-in-use for IPTV and fair value less costs of disposal for Mobile telecommunications CGUs is most sensitive to the following assumptions:

- Customer base over the forecast period and average revenue per customer with direct impact on revenue growth rates;
- The level of capital investments included in the financial plan;
- EBITDA margin included in the financial plan;
- Growth rate for cash flow extrapolation beyond the forecast period;
- Discount rate.

Customer base and average revenue per customer

The customer base and average revenue per customer is important because management of the Group estimates how the unit's position may change over the forecast period against its competitors.

The Group expects to increase IPTV customer base over the forecast period, as the Group plans to use the advantage of Kazakhtelecom JSC infrastructure to increase the market share of Kazakhtelecom JSC.

The Group's management expects an increase in the customer base of mobile segment over the forecast period based on forecasted increase in population. As a result, the Group expects modest increase in revenue of the unit over the entire forecast period.

Level of capital investments

The level of capital investments is important in Mobile telecommunications CGUs because it defines the ability of the unit to technically maintain its customer base and meet the changing market requirements. The level of investments is determined by the needs of the units in completing the technical integration of the two networks in a timely manner, as well as the need to secure and strengthen the advantages of covering the public demand for communication services and improve network quality.

EBITDA margin

EBITDA margin reflects the rate of return included by the unit Mobile telecommunications CGUs into its financial plan with consideration of market conditions, competition and other factors. The growing dynamics of this index corresponds to operational growth of the unit and related cost savings.

Growth rates

Rates are based on published industry research.

Discount rate

Discount rates represent the current market assessment of the risks specific to CGU, taking into consideration the time value of money and individual risks of the CGU underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the group's investors. The cost of debt is based on the interest-bearing borrowings the group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

Sensitivity to changes in assumptions – IP TV

The effect of changes in key assumptions on the recoverable amount is discussed below:

Customer base, average revenue per customer and revenue growth rates

Although the management expects that the market share owned by the Group would not grow over the forecast period, according to the financial plan, slowing growth of customer base or decrease in the average revenue per customer, leading to a decrease in revenue from current business plan by more than 16.80%, would result in a loss from impairment in IP TV GCU for KZT 1,247 thousand.

12. IMPAIRMENT TESTING (continued)

Sensitivity to changes in assumptions – IP TV (continued)

Level of capital investments

Increase in capital investments by more than 366.50% would result in loss from impairment in IP TV CGU for KZT 2,127 thousand.

Growth rates

Management recognises that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions. A reduction in the long-term growth rate in IP TV CGU would not result in impairment loss.

Discount rate

An increase in pre-tax discount rate to 34.00% would result in impairment loss in IP TV CGU for KZT 2,620 thousand.

Sensitivity to changes in assumptions – Khan Tengri Holding B.V.

The effect of changes in key assumptions on the recoverable amount is discussed below:

Customer base, average revenue per customer and revenue growth rates

Although the management expects that the market share owned by the Group would not grow over the forecast period, according to the financial plan, slowing growth of customer base or decrease in the average revenue per customer, leading to a decrease in revenue from current business plan by more than 9.54%, would result in a loss from impairment in Khan Tengri Holding B.V. CGU for KZT 4,531,171 thousand.

Level of capital investments

Increase in capital investments by more than 72.39% would result in loss from impairment in Khan Tengri Holding B.V. CGU for KZT 4,513,932 thousand.

EBITDA margin

Decrease in EBITDA margin by more than 12.23% would result in loss from impairment in Khan Tengri Holding B.V. CGU for KZT 4,466,584 thousand.

Growth rates

Management recognises that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions. A reduction to more than 21.39% per annum in the long-term growth rate in Khan Tengri Holding B.V CGU would result in impairment loss for KZT 4,502,738 thousand.

Discount rate

An increase in pre-tax discount rate to 28.59% would result in impairment loss in Khan Tengri Holding B.V. CGU for KZT 4,538,160 thousand.

Sensitivity to changes in assumptions – Kcell JSC

The effect of changes in key assumptions on the recoverable amount is discussed below:

Customer base and average revenue per customer

Although the management expects that the market share of mobile telecommunications owned by the Group would not grow over the forecast period, according to the financial plan, slowing growth of customer base or decrease in the average revenue per customer, leading to a decrease in revenue from current business plan by more than 12.48%, would result in a loss from impairment in Kcell CGU for KZT 237,528 thousand.

12. IMPAIRMENT TESTING (continued)

Sensitivity to changes in assumptions – Kcell JSC (continued)

Level of capital investments

Increase in capital investments by more than 53.24% would result in loss from impairment in Kcell CGU for KZT 230,913 thousand.

EBITDA margin

Decrease in EBITDA margin by more than 7.99% would result in loss from impairment in Kcell CGU for KZT 285,645 thousand.

Growth rates

Management recognises that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions. A reduction by 13.57% per annum and more in the long-term growth rate in Kcell CGU would result in impairment loss for KZT 242,484 thousand.

Discount rate

An increase in pre-tax discount rate to 25.05% would result in loss from impairment in Kcell CGU for KZT 231,239 thousand.

13. INVESTMENT PROPERTY

Movements in investment property for the years ended 31 December 2019 and 2018 were as follows:

In thousands of tenge	**2019**	2018
Cost		
At 1 January	**1,264,668**	1,264,668
At 31 December	**1,264,668**	1,264,668
Accumulated depreciation and impairment		
At 1 January	**(1,264,668)**	(1,264,668)
At 31 December	**(1,264,668)**	(1,264,668)
Carrying amount		
At 1 January	**–**	–
At 31 December	**–**	–

Investment property is represented by an office building constructed in order to lease it out to the Government related entities.

The impairment of KZT 1,264,668 thousand represents the write down of the carrying amount of the investment property to its recoverable amount. The recoverable amount was based on analysis of value in use and fair value less costs to sell and estimated to be nil as at 31 December 2019 and 2018, as it is unlikely that the Group will receive reimbursement for its construction costs either through sale of the office building or rental payments. However, these assumptions may change in the future. The fair value of investment property is determined by reference to significant unobservable in-puts (Level 3).

14. OTHER NON-CURRENT FINANCIAL ASSETS

As at 31 December 2019 and 2018 other non-current financial assets comprised:

In thousands of tenge	**2019**	2018
Loans to employees	**2,767,965**	2,760,145
Long-term accounts receivable	**1,118,077**	6,669,328
Cash restricted in use	**2,653**	–
Other	**281,464**	220,396
	4,170,159	9,649,869
Less: allowance for expected credit losses	–	(135)
	4,170,159	9,649,734

14. OTHER NON-CURRENT FINANCIAL ASSETS (continued)

As at 31 December 2019 and 2018, all Group's other non-current financial assets were denominated in tenge.

Loans to employees are interest free loans provided for the period from 1 to 15 years. These loans were discounted as at the issue date using market interest rates of 12.2% per annum to 19.1% (2018: from 12.2 to 22% per annum). Repayment of long-term loans to employees is made through withholding of amounts due from employees' salaries. Loans are secured by employees' real estate properties.

As at 31 December 2018, the long-term receivables represent amounts due from Mobile Telecom Service LLP in the amount of KZT 3,659,333 thousand. On 29 February 2016 the Group and Mobile Telecom Service LLP agreed to extend the maturity of the Company's receivables from Mobile Telecom Service LLP until 2031. These receivables were discounted at the date of restructuring using 10% rate. However, as the Group obtained control over Khan Tengri Holding B.V. as described in *Note 5*, as at 31 December 2019 the related outstanding amount was fully eliminated.

As at 31 December 2019, the long-term receivables represented by special agreements with customers for the purchase of contract phones for KZT 1,118,077 thousand (as at 31 December 2018: KZT 3,009,995 thousand).

15. OTHER NON-CURRENT NON-FINANCIAL ASSETS

As at 31 December 2019 and 2018 other non-current assets comprised:

In thousands of tenge	**2019**	2018
Deferred connection cost of operators	**1,679,290**	671,168
Long-term VAT receivable	**1,041,255**	1,711,640
Deferred connection cost of subscribers	**–**	692,795
Other	**77,771**	119,079
	2,798,316	3,194,682

As at 31 December 2019 and 2018, the Group's other non-current non-financial assets were denominated in the following currencies:

In thousands of tenge	**2019**	2018
US dollars	**1,216,292**	190,440
Tenge	**1,119,026**	2,523,514
Other currencies	**462,998**	480,728
	2,798,316	3,194,682

16. INVENTORIES

As at 31 December 2019 and 2018, inventories comprised:

In thousands of tenge	**2019**	2018
Goods for resale at net realisable value	**7,261,070**	4,580,048
Cable materials at cost	**1,506,324**	1,657,088
Raw and other materials at cost	**926,043**	1,076,600
Spare parts at cost	**541,525**	636,318
Fuel at cost	**330,112**	452,382
	10,565,074	8,402,436

During 2019, an amount of KZT 57,343 thousand (2018: KZT 30,673 thousand) was recognized as expenses in respect of inventories recorded at net realizable value *(Note 37)*. This amount was recorded within the item "General and administrative expenses".

17. TRADE RECEIVABLES

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

In thousands of tenge	**2019**	2018
Trade receivables	**42,206,665**	55,348,456
	42,206,665	55,348,456
Less: allowance for expected credit losses	**(4,950,893)**	(3,175,108)
	37,255,772	52,173,348

Movements in the allowance for expected credit losses were as follows for the years ended 31 December:

In thousands of tenge	**2019**	2018
Allowance for expected credit losses at the beginning of the year	**(3,175,108)**	(3,146,484)
Charge for the year *(Note 47)*	**(2,569,696)**	(622,360)
Write-off for the year	**785,721**	593,736
Assets held for sale	**8,190**	–
Allowance for expected credit losses at the end of the year	**(4,950,893)**	(3,175,108)

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

		Days past due						
In thousands of tenge	**Current**	**1 to 30 days**	**31 to 60 days**	**61 to 90 days**	**91 to 120 days**	**121 to 360 days**	**Over 360 days**	**Total**
Estimated credit loss rate	**2.00%**	**2.44%**	**8.04%**	**7.64%**	**8.10%**	**32,59%**	**100%**	
Estimated total gross carrying amount at default	**29,549,281**	**3,480,458**	**1,152,284**	**1,244,615**	**1,041,629**	**2,576,623**	**3,161,775**	**42,206,665**
Allowance for expected credit losses	**(592,272)**	**(85,006)**	**(92,587)**	**(95,109)**	**(84,370)**	**(839,774)**	**(3,161,775)**	**(4,950,893)**

Below is information as at 31 December 2018 about the credit risk explosure on the Group's trade receivables using a matrix of reserves:

		Days past due						
In thousands of tenge	Current	1 to 30 days	31 to 60 days	61 to 90 days	91 to 120 days	121 to 360 days	Over 360 days	Total
Estimated credit loss rate	0.49%	4.52%	9.12%	9.33%	15.11%	23.98%	100%	
Estimated total gross carrying amount at default	38,033,653	4,302,479	2,970,636	2,381,772	1,772,938	5,069,507	817,471	55,348,456
Allowance for expected credit losses	(186,502)	(194,524)	(270,799)	(222,139)	(267,811)	(1,215,862)	(817,471)	(3,175,108)

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

In thousands of tenge	**2019**	2018
Tenge	**35,008,599**	48,905,384
US dollars	**1,830,387**	3,098,781
Russian rubles	**261,932**	165,322
Other currencies	**154,854**	3,861
	37,255,772	52,173,348

As at 31 December 2018 the Group's trade receivables include amounts due from Mobile Telecom Service LLP of KZT 12,400,895 thousand resulted from rendering of telecommunication services and providing access to data transfer via IP VPN network. As the Group obtained control over Khan Tengri Holding B.V. as described in *Note 5*, as at 31 December 2019 the related outstanding amount was fully eliminated.

18. ADVANCES PAID

As at 31 December 2019 and 2018, advances paid comprised:

In thousands of tenge	**2019**	2018
Advances paid	**5,741,078**	1,419,500
	5,741,078	1,419,500
Less: allowance for doubtful amounts	**(44,563)**	(3,137)
	5,696,515	1,416,363

Movements in the allowance for doubtful amounts were as follows for the years ended 31 December:

In thousands of tenge	**2019**	2018
Allowance at the beginnings of the year	**(3,137)**	(70,653)
(Charge)/reversal for the year	**(41,426)**	67,516
Allowance at the end of the year	**(44,563)**	(3,137)

As at 31 December 2019 and 2018, advances paid for short term assets were given to contractors for services and delivery of inventories for operational activities of the Group.

19. OTHER CURRENT FINANCIAL ASSETS

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

In thousands of tenge	**2019**	2018
Bank deposits	**3,399,500**	3,576,340
Loans to employees	**1,879,405**	2,132,007
Restricted cash	**929,499**	438,812
Due from employees	**283,688**	228,993
Interest receivable	**–**	108,103
Other accounts receivable	**3,555,821**	2,421,526
	10,047,913	8,905,781
Less: allowance for expected credit losses	**(4,820,587)**	(4,220,670)
	5,227,326	4,685,111

As at 31 December 2019, the Group does not have bank deposits with initial maturity of more than 3 (three) months but less than 12 (twelve) months, except deposit placed in Eximbank Kazakhstan JSC (2018: 1.25% to 10.5% per annum).

As at 31 December 2019, the allowance for expected credit losses includes a provision in the amount of KZT 3,399,500 thousand accrued on a deposit placed in Eximbank Kazakhstan JSC due to the liquidation of the bank.

Cash restricted in use represents cash on the accounts with KazInvestBank JSC and Eximbank Kazakhstan JSC for KZT 430,045 thousand and KZT 499,454 thousand, respectively, which are assessed as unlikely to be recovered due to the revocation of its banking license. Allowance for expected credit loss was recorded for the whole amount of this cash.

Changes in allowance for expected credit losses were as follows for the years ended 31 December:

In thousands of tenge	**2019**	2018
Allowance for expected credit losses at the beginning of the year	**(4,220,670)**	(1,281,945)
Charge for the year *(Note 47)*	**(108,003)**	(2,860,001)
Forex effect	**–**	(106,000)
Write-off for the year	**7,540**	27,276
Transfer from cash and cash equivalents *(Note 22)*	**(499,454)**	–
Allowance for expected credit losses at the end of the year	**(4,820,587)**	(4,220,670)

19. OTHER CURRENT FINANCIAL ASSETS (continued)

Below is information as at 31 December 2019 about the credit risk explosure on the Group's loans to employees, due from employees and other receivables using the reserve matrix:

		Days past due						
In thousands of tenge	**Current**	**1 to 30 days**	**31 to 60 days**	**61 to 90 days**	**91 to 120 days**	**121 to 360 days**	**Over 360 days**	**Total**
Estimated credit loss rate	**1.36%**	**3.45%**	**8.83%**	**3.48%**	**11.64%**	**46.78%**	**100.00%**	
Estimated total gross carrying amount at default	**5,271,177**	**3,918**	**10,692**	**4,138**	**3,221**	**13,692**	**412,076**	**5,718,914**
Allowance for expected credit losses	**(71,509)**	**(135)**	**(944)**	**(144)**	**(375)**	**(6,405)**	**(412,076)**	**(491,588)**

Below is information as at 31 December 2018 about the credit risk explosure on the Group's loans to employees, due from employees and other receivables using the reserve matrix:

		Days past due						
In thousands of tenge	Current	1 to 30 days	31 to 60 days	61 to 90 days	91 to 120 days	121 to 360 days	Over 360 days	Total
Estimated credit loss rate	1.02%	5.01%	9.99%	10.00%	25.01%	70.01%	100.00%	
Estimated total gross carrying amount at default	4,419,090	12,522	5,305	3,211	5,709	13,406	431,386	4,890,629
Allowance for expected credit losses	(44,921)	(627)	(530)	(321)	(1,428)	(9,385)	(431,386)	(488,598)

As at 31 December 2019 and 2018, other current financial assets were denominated in the following currencies:

In thousands of tenge	**2019**	2018
Tenge	**5,070,053**	4,552,766
US dollars	**157,273**	124,948
Other	**–**	7,397
	5,227,326	4,685,111

20. 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 the equity shares are determined by reference to published price quotations in an active market (Level 1).

21. OTHER CURRENT NON-FINANCIAL ASSETS

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

In thousands of tenge	**2019**	2018
VAT receivable	**3,468,766**	4,046,770
Taxes prepaid other than corporate income tax	**1,734,131**	1,345,611
Deferred connection cost of operators	**237,750**	143,086
Deferred connection cost of subscribers	**–**	799,362
Other	**631,835**	532,720
	6,072,482	6,867,549

22. CASH AND CASH EQUIVALENTS

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

In thousands of tenge	**2019**	2018
Cash on current bank accounts	**67,674,762**	45,763,434
Deposits with less than 90 days' maturity from the date of opening	**3,631,562**	72,802
Cash on hand	**34,830**	20,621
	71,341,154	45,856,857
Less: allowance for expected credit losses	**(19,332)**	(506,765)
Total cash and cash equivalents	**71,321,822**	45,350,092

Cash on current bank accounts earn interest at the rates ranging from 0.2% to 8.0% per annum (2018: from 0.1% to 8.5% per annum).

As at 31 December 2019, short-term deposits for KZT 3,631,562 thousand were placed for varying periods between one day and three months, depending on the immediate cash requirements of the Group, and earned interest at the rates ranging from 7.5% to 8.40% per annum (as at 31 December 2018: KZT 72,802 thousand).

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following at 31 December:

In thousands of tenge	**2019**	2018
Cash on current bank accounts	**67,674,762**	45,763,434
Deposits with less than 90 days' maturity from the date of opening	**3,631,562**	72,802
Cash on current bank accounts attributable to disposed group *(Note 44)*	**315,556**	–
Cash on hand	**34,830**	20,621
	71,656,710	45,856,857
Less: allowance for expected credit losses	**(19,332)**	(506,765)
Total cash and cash equivalents	**71,637,378**	45,350,092

As at 31 December 2019 and 2018, cash and cash equivalents were denominated in the following currencies:

In thousands of tenge	**2019**	2018
US dollars	**43,199,243**	29,886,154
Tenge	**27,356,685**	15,314,144
Euro	**652,984**	21,541
Russian roubles	**107,521**	128,024
Other	**5,389**	229
	71,321,822	45,350,092

Movements in the allowance for expected credit losses were as follows for the years ended 31 December:

In thousands of tenge	**2019**	2018
Allowance for expected credit losses at the beginning of the year	**(506,765)**	(20,240)
Charge for the year *(Note 47)*	**(12,021)**	(486,525)
Transfer to other current financial assets *(Note 19)*	**499,454**	–
Allowance for expected credit losses at the end of the year	**(19,332)**	(506,765)

23. EQUITY

Authorised and issued shares

	Number of shares		In thousands of tenge		
	Common shares	**Preferred non-voting shares**	**Common shares**	**Preferred non-voting shares**	**Total issued shares**
At 31 December 2017	10,922,876	1,213,653	10,922,876	1,213,653	12,136,529
At 31 December 2018	10,922,876	1,213,653	10,922,876	1,213,653	12,136,529
At 31 December 2019	**10,922,876**	**1,213,653**	**10,922,876**	**1,213,653**	**12,136,529**

23. EQUITY (continued)

Treasury shares

	Number of shares		In thousands of tenge		
	Common shares	Preferred non-voting shares	Common shares	Preferred non-voting shares	Total
At 31 December 2017	215,553	893,097	2,966,250	3,498,124	6,464,374
Treasury shares reacquired	–	–	–	–	–
Sale of treasury shares	–	–	–	–	–
At 31 December 2018	215,553	893,097	2,966,250	3,498,124	6,464,374
Treasury shares reacquired	**1,299**	**21,771**	**86,367**	**514,873**	**601,240**
Sale of treasury shares	**–**	**–**	**–**	**–**	**–**
At 31 December 2019	**216,852**	**914,868**	**3,052,617**	**4,012,997**	**7,065,614**

Shares issued less reacquired shares

As at 31 December 2019, number of common and preferred shares issued net of reacquired shares was 10,706,024 and 298,785 shares, respectively (31 December 2018: 10,707,323 and 320,556 shares, respectively).

In the period from 13 December 2018 to 8 January 2019, the Group received applications from non-controlling shareholders demanding the Group to repurchase their shares in connection with their disagreement with the decision of the Board of Directors of the Group, adopted on 12 December 2018, to conclude a major transaction on acquisition of 75% of shares of Kcell JSC. In total, 34,911 common and 21,962 preference shares were presented for repurchase (taking into account the withdrawal of a number of applications). In April, May and July 2019, the Group repurchased 21,771 preferred shares and 1,299 common shares at a price of KZT 26,377 per preferred shares and of KZT 66,487 per common shares for the amount of KZT 660,616 thousand from non-controlling shareholders.

Preferred shares

Holders of preferred shares are entitled to receive annual cumulative dividends of 300 tenge per share, and not less than the amount of the dividends per share paid to holders of common shares. Payment of preferred shares dividends does not require a resolution of Kazakhtelecom JSC shareholders meeting. The discounted value of future cash flows of annual cumulative dividends is recorded as a financial liability as at 31 December 2019 in the amount of KZT 814,868 thousand (31 December 2018: KZT 874,244 thousand). This liability has been included in non-current liabilities as a debt component of preferred shares. As at 31 December 2019 the debt component of preferred shares decreased by KZT 59,376 thousand as a result of repurchased 21,771 preferred shares during 2019. Preferred shareholders receive the right to vote if the general meeting of shareholders considers decisions restricting rights of preferred shareholders, decisions on reorganization or liquidation of the Company and if dividends on preferred shares are not paid within 3 (three) months after a specified payment date.

Dividends

The preferred shares earn a non-discretionary dividend of 300 tenge per share in accordance with the Company's charter documents. Preferred shares are considered to be compound financial instruments, and accordingly the liability and equity components are presented separately in the consolidated statement of financial position. Dividends in the amount of KZT 89,635 thousand were accrued as at 31 December 2019 (at 31 December 2018: KZT 96,167 thousand) and are recorded as interest expenses in the consolidated statement of comprehensive income *(Note 40)*.

On the basis of the decision made at the annual shareholders general meeting of Kazakhtelecom JSC on 30 April 2019, the Company declared dividends on preferred shares based on 2018 results in the amount of KZT 154,202 thousand and dividends on common shares in the amount of KZT 9,855,107 thousand (2018: KZT 415,373 thousand and KZT 17,086,639 thousand, respectively). The dividends accrued on common shares during 2019. Dividends per share (common and preferred) as at 31 December 2019 were equal to KZT 781.06 (as at 31 December 2018: KZT 1,595.79 per common share).

23. EQUITY (continued)

Dividends (continued)

Movements in dividends payable for the years ended 31 December were as follow:

In thousands of tenge	**2019**	2018
Dividends payable at the beginning of the year	**2,033,495**	1,628,625
Dividends declared on common shares to equity holders of the parent	**8,362,107**	17,086,639
Dividends declared on common shares to non-controlling interests	**1,493,000**	–
Dividends declared on preferred shares in excess of the obligatory amount	**154,202**	415,373
Interest on debt component of preferred shares *(Note 40)*	**89,635**	96,167
Dividends paid to equity holders of the parent	**(9,041,085)**	(17,193,309)
Dividends paid to non-controlling interests	**(1,493,000)**	–
Dividends payable at the end of the year *(Note 30)*	**1,598,354**	2,033,495

For the period ended 31 December 2019 the Group paid withholding tax on dividends in the amount of KZT 156,411 thousand (2018: KZT 197,074 thousand).

Other reserves

According to the Company's Charter, the Company created a reserve capital equal to 15% of the authorized share capital. This reserve capital was created through appropriation of the retained earnings. There were no movements in the reserve capital in 2019 and 2018.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of financial statements of the subsidiaries, whose functional currency is not tenge and whose financial statements are included in these consolidated financial statements in accordance with the accounting policy disclosed in *Note 3*.

Earnings per share

Basic earnings per share are calculated by dividing net profit for the year attributable to common equity holders of the Parent (after adjusting for the after-tax amount of dividends on preferred shares) by the weighted average number of common and preferred shares outstanding during the year.

Diluted earnings per share are equal to basic earnings per share, as the Group does not have any dilutive potential common shares.

The following tables reflects profit and share data used in the basic and diluted earnings per share computations:

In thousands of tenge	**2019**	2018
Net profit	**57,086,449**	43,067,365
Interest on preferred shares *(Note 40)*	**89,635**	96,167
Net profit for calculating of basic and diluted earnings per share	**57,176,084**	43,163,532
Weighted average number of common and preferred shares for calculation of basic and diluted earnings per share	**11,010,577**	11,027,879
Basic and diluted earnings per share, tenge	**5,192.83**	3,914.04

There have been no other transactions involving common shares or potential common shares between the reporting date and the date of preparation of these consolidated financial statements.

23. EQUITY (continued)

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

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

Below is the cost of one ordinary share, calculated in accordance with the requirements of the KASE:

In thousands of tenge	**2019**	2018
Total assets	**1,079,050,050**	791,968,285
Less: intangible assets, including goodwill	**382,025,167**	179,762,993
Less: total liabilities	**616,184,122**	377,187,670
Less: preferred shares issued net of reacquired shares	**298,785**	320,556
Net assets for calculation of cost of ordinary share in accordance with listing requirements of KASE	**80,541,976**	234,697,066
Number of ordinary shares	**10,706,024**	10,707,323
Cost of ordinary share, calculated in accordance with listing requirements of KASE (in tenge)	**7,523**	21,919

Another requirement for disclosure is the amount of the dividends payable to owners of preferred non-voting shares, preferred non-voting shares in the equity and debt component of preferred non-voting shares, divided by number of preferred non-voting shares. At the same time, according to the methodology of KASE, the dividend payable on preferred shares, which are not paid due to the lack of up-to-date information about the shareholders, their payment details, are not taken into account. As at 31 December 2019, this indicator amounted to 3,727 tenge (as at 31 December 2018: 3,727 tenge).

24. BORROWINGS

As at 31 December 2019 and 2018, borrowings comprised:

In thousands of tenge	**Weighted average interest rate**	**2019**	Weighted average interest rate	2018
Bonds with a fixed interest rate of 7.78% to 12.18% per annum	**12.14%**	**206,857,207**	12.16%	106,661,234
Borrowings with a fixed interest rate of 7.25% to 12.86% per annum	**11.18%**	**160,758,517**	11.01%	86,791,306
		367,615,724		193,452,540

On 6 November and 12 December 2018, the Group made a listing of coupon bonds on the stock exchange of the International Financial Center Astana (AIX) for amount of KZT 100,000,000 thousand at an effective interest rate of 12.18% and maturity in November 2024. The nominal value of one bond is one thousand tenge. Bonds on these issues were purchased by the Parent company.

In accordance with the terms of the bonds sale agreements concluded with the Parent, the Group is obliged to provide collateral represented by shares of Kcell JSC sufficient to cover the total amount of the agreements before 31 December 2019 or the primary/secondary public offering of shares of Kazakhtelecom JSC on the stock market, depending on what comes last.

The Board of Directors of Kazakhtelecom JSC resolved to pledge shares of Kcell JSC as collateral for these coupon bonds within the time limit specified above. On 31 December 2019, shares were not pledged.

On 21 February 2019, the Group undertook a bond placement at the Kazakhstan Stock Exchange, in which bonds to the value of KZT 17,024,648 thousand were placed with an effective interest rate of 11.84% and on 16 January 2018 a bond placement with the value of KZT 4,950,000 thousand. This was the first placement in the 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.

On 22 May 2019, the Group and Halyk Bank JSC entered into credit facility agreement with the credit line limit in the amount of KZT 90,000,000 thousand and effective interest rate equal to 12.2%. The maturity of the loan is 21 May 2027.

24. BORROWINGS (continued)

On 19 June 2019, the Group placed bonds on the Kazakhstan Stock Exchange JSC for amount of KZT 80,000,000 thousand at an effective interest rate of 12.18% and maturity in June 2026. The nominal value of one bond is one thousand tenge.

On 18 October 2019, the Group and Development bank of Kazakhstan JSC entered into credit facility agreement with the credit line limit in the amount of KZT 26,666,667 thousand. The loan is secured by property – the right to claim future cash proceeds under a public-private partnership agreement on the project "Broadband Access to Rural Communities of the Republic of Kazakhstan by the Technology of Fiber Optic Communication Lines".

Borrowings are repayable as follows:

In thousands of tenge	**2019**	2018
Current portion of borrowings	**28,477,663**	57,614,129
Maturity between 1 and 2 years	**38,648,363**	7,392,518
Maturity between 2 and 5 years	**196,418,649**	23,780,192
Maturity over 5 years	**104,071,049**	104,665,701
Total non-current portion of borrowings	**339,138,061**	135,838,411
Total borrowings	**367,615,724**	193,452,540

As of 31 December 2019 and December 2018, debt securities issued and loans represented by the following:

Bonds	**Maturity date**	**Currency**	**Effective interest rate**	**2019**	2018
Local bonds of Kazakhtelecom JSC (KTCB.1024 and KTCB2.1024)	1 November 2024	Tenge	12.18%	**103,833,333**	101,461,458
Local bonds of Kazakhtelecom JSC (KZTKb3)	19 June 2026	Tenge	12.18%	**80,189,473**	–
Local bonds of Kcell JSC (KCELb1)	16 January 2021	Tenge	11.84%	**22,828,111**	5,193,713
Local bonds of Kazakhtelecom JSC (KZTKb3)	10 January 2020	Tenge	7.78%	**6,290**	6,063
				206,857,207	106,661,234

Borrowings	**Maturity date**	**Currency**	**Effective interest rate**	**2019**	2018
Halyk Bank of Kazakhstan JSC	21 May 2027	Tenge	12.20%	**79,135,027**	–
Development Bank of Kazakhstan JSC	19 December 2024	Tenge	7.25%-9.41%	**29,226,311**	25,266,233
Eurasian Development Bank JSC	20 May 2024	Tenge	12.54%	**28,956,330**	29,749,590
Development Bank of Kazakhstan JSC	30 June 2032	Tenge	8.10%	**13,293,317**	–
VTB Bank JSC	1 February 2020	Tenge	11.90%	**5,087,740**	–
Bank of China Kazakhstan JSC	20 August 2022	Tenge	11.08%	**5,059,792**	–
Alfa Bank JSC	7 June 2019	Tenge	12.86%	**–**	10,086,666
Halyk Bank Kazakhstan JSC	16 July 2021	Tenge	11.62%	**–**	9,976,714
Halyk Bank Kazakhstan JSC	2 December 2019	Tenge	11.62%	**–**	7,818,525
Halyk Bank Kazakhstan JSC	20 September 2019	Tenge	11.62%	**–**	3,893,578
Total				**160,758,517**	86,791,306

As at 31 December 2019, the Parent is a guarantor of the two out of three credit facilities received by the Group from Development Bank of Kazakhstan JSC in the amount of KZT 20,902,442 thousand (as at 31 December 2018: KZT 24,961,627 thousand).

Covenants

The Group is required to ensure execution of the financial and non-financial covenants under the terms of the loan agreements. Failure to comply with financial covenants gives the lenders the right to demand early repayment of loans. As at 31 December 2019 and 2018, the Group complied with all financial and non-financial covenants.

25. EMPLOYEE BENEFIT OBLIGATIONS

State contribution plan

The Group pays social tax according to the current statutory requirements of the Republic of Kazakhstan. The social tax and salary accruals are recorded in expenses as incurred.

In addition, the Group withholds 10% of the salary of employees paid as contributions of employees to the accumulating pension funds. These expenses are recorded in the period when they were incurred.

Employee benefit obligations

As at 31 December 2019 and 2018, the total employee benefit obligations of the Group comprised the following:

In thousands of tenge	**2019**	2018
Present value of defined benefit pension plan obligation	**16,823,296**	15,225,384
Present value of obligations for other long-term payments	**640,344**	580,386
	17,463,640	15,805,770

A defined benefit pension plan provides for the fulfilment of obligations under the state pension provision in accordance with the Collective Agreement concluded between the Company and employees. Other long-term payments include anniversaries, funeral payments, and others.

The Group did not create a fund for such obligations.

A reconciliation of the present value of the defined benefit plan obligation with specified payments was as follows for the years ended 31 December 2019 and 2018:

In thousands of tenge	**2019**	2018
Total liability at the beginning of the year	**15,225,384**	12,474,055
Current service cost	**431,740**	366,783
Interest expenses	**1,277,409**	923,080
Benefits paid during the year	**(1,502,655)**	(1,285,569)
Actuarial losses recognized during the year within other comprehensive income	**1,391,418**	2,747,035
Total liability at the end of the year	**16,823,296**	15,225,384
Liability payable within one year	**(1,061,940)**	(1,255,222)
Liability payable after one year	**15,761,356**	13,970,162

A reconciliation of the present value of obligations for other long-term payments with specified payments was as follows for the years ended 31 December 2019 and 2018:

In thousands of tenge	**2019**	2018
Total liability at the beginning of the year	**580,386**	458,129
Current service cost	**53,440**	46,548
Past service cost	**–**	212,923
Interest expenses	**48,695**	33,902
Benefits paid during the year	**(68,464)**	(73,532)
Actuarial losses recognized during the period within expenses	**26,287**	(97,584)
Total liability at the end of the year	**640,344**	580,386
Liability payable within one year	**(85,872)**	(79,195)
Liability payable after one year	**554,472**	501,191

Actuarial losses recognised in 2019 have resulted primarily from changes in the assumptions relating to the discount rate and from historical adjustments.

Cost of current service, interest expenses and actuarial losses in the total amount of KZT 1,837,571 thousand were recorded in cost of sales and general and administrative expenses within personnel costs (2018: KZT 1,485,652 thousand) *(Note 39)*.

25. EMPLOYEE BENEFIT OBLIGATIONS (continued)

Employee benefit obligations (continued)

Actuarial losses recognized in 2019 within other comprehensive income, net of income tax, were equal to KZT 1,156,810 thousand (2018: KZT 2,512,956 thousand).

There were no unrecognised actuarial losses or past service costs.

The estimates of the liability were made on the basis of the published statistical data regarding mortality of employees and actual Company's data concerning the number, age, gender and years of employee service. Other principal assumptions used in determining benefit obligations for the Company's plan were shown below:

	2019	2018
Discount rate	**7.60%**	8.39%
The expected rate of future annual minimum salary increases	**8.00%**	8.66%

A quantitative sensitivity analysis for significant assumptions as at 31 December 2019, was as follows:

	Discount rate		**The expected rate of future annual minimum salary increases**	
Sensitivity level	**Growth by 0.5%**	**Reduction by 0.5%**	**Growth by 1%**	**Reduction by 1%**
Impact on defined benefit plan obligations, in thousands tenge	**(960,179)**	**1,342,120**	**1,380,472**	**(1,287,095)**

A quantitative sensitivity analysis for significant assumptions as at 31 December 2018, was as follows:

	Discount rate		The expected rate of future annual minimum salary increases	
Sensitivity level	Growth by 0.5%	Reduction by 0.5%	Growth by 1%	Reduction by 1%
Impact on defined benefit plan obligations, in thousands tenge	(886,813)	1,175,846	1,218,675	(1,156,773)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analyses are based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

26. OTHER NON-CURRENT FINANCIAL LIABILITIES

As at 31 December 2019 and 2018 other non-current financial liabilities comprised :

In thousands of tenge	**2019**	2018
Non-current accounts payable	**1,318**	78,147
Guarantee issued	**–**	915,558
	1,318	993,705

Guarantee issued

On 25 February 2016, the Group provided a guarantee to associate organization Khan Tengri Holding B.V. under the credit facility from Development Bank of Kazakhstan JSC with a credit limit of up to KZT 10,008,780 thousand for the period until 19 December 2024. As at 31 December 2018, guarantee issued represents an estimated reserve for expected credit losses on liabilities of Khan Tengri Holding B.V. As at 28 June 2019, guarantee issued in amount of KZT 937,145 thousand was included into the consideration of business combination due to the acquisition of residual shares in associate of Khan Tengri Holding B.V. *(Note 5).*

27. NON-CURRENT CONTRACT LIABILITIES

As at 31 December 2019 and 2018, non-current contract liabilities comprised:

In thousands of tenge	**2019**	2018
Contract liabilities from operators	**4,292,035**	3,425,567
Contract liabilities for connection of subscribers	**889,219**	1,163,051
Other contract liabilities	**1,697,055**	1,110,683
	6,878,309	5,699,301

Movements in liabilities for the years ended 31 December were as follows:

In thousands of tenge	**2019**	2018
Contract liabilities as at 1 January	**14,841,621**	9,456,950
Deferred during the year	**239,214,018**	15,801,393
Recognised as revenue during the year	**(228,205,396)**	(10,966,307)
Amortization of discount	**–**	549,585
Total contract liabilities as at 31 December	**25,850,243**	14,841,621
Current *(Note 31)*	**18,971,934**	9,142,320
Non-current	**6,878,309**	5,699,301

28. ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations

Provision for asset retirement obligations 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 asset retirement obligations.

Movements in provision for asset retirement obligations for the years ended 31 December were as follows:

In thousands of tenge	**2019**	2018
Provision for asset retirement obligations as at 1 January	**1,444,530**	145,985
Change in estimate *(Note 9*)	**577,768**	12,375
Amortization of discount *(Note 40)*	**372,555**	688
Acquisition of subsidiary *(Note 5)*	**4,826,230**	1,285,482
Provision for asset retirement obligations as at 31 December	**7,221,083**	1,444,530
Current *(Note 32)*	**345,500**	–
Non-current	**6,875,583**	1,444,530

29. TRADE PAYABLES

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

In thousands of tenge	**2019**	2018
Trade payables for supply of property and equipment	**32,009,038**	17,445,106
Trade payables for services rendered	**25,952,370**	23,512,079
Trade payables for inventory received	**1,436,431**	1,190,220
	59,397,839	42,147,405

As at 31 December 2019 and 2018, trade payables were interest-free.

29. TRADE PAYABLES (continued)

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

In thousands of tenge	2019	2018
Tenge	**50,257,574**	30,835,928
US dollars	**7,898,867**	10,879,035
Euro	**977,256**	19,525
Russian roubles	**256,091**	410,722
Other	**8,051**	2,195
	59,397,839	42,147,405

30. OTHER CURRENT FINANCIAL LIABILITIES

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

In thousands of tenge	2019	2018
Payable to employees	**16,111,648**	11,100,616
Dividends payable *(Note 23)*	**1,598,354**	2,033,495
Payable to Khan Tengri Holding B.V.	**–**	4,842,282
Guarantees issued	**–**	43,174
Other	**2,441,911**	834,387
	20,151,913	18,853,954

Payable to Khan Tengri Holding B.V.

As at 31 December 2018 payables to Khan Tengri Holding B.V. represented amount of additional contribution by the Group to Khan Tengri Holding B.V. as in accordance with the share-purchase agreement of 51% share of Khan Tengri Holding B.V. concluded between the Group and Tele2 in February 2016. On 20 May 2019, Khan Tengri Holding B.V., Kazakhtelecom JSC and Tele2 Sverige AB had concluded mutual settlement agreement. In accordance with the agreement, payables to Khan Tengri Holding B.V. were netted against trade receivables from Mobile Telecom Service LLP in the amount of KZT 4,842,282 thousand.

As at 31 December 2019 and 2018, other current financial liabilities was not interest bearing and the balances were mainly denominated in tenge.

31. CURRENT CONTRACT LIABILITIES

As at 31 December 2019 and 2018, current contract liabilities comprised:

In thousands of tenge	2019	2018
Advances received	**17,052,535**	7,208,814
Contract liabilities from operators	**1,338,555**	902,722
Contract liabilities for connection of subscribers	**409,310**	471,924
Other contract liabilities	**74,662**	14,673
Other	**96,872**	544,187
	18,971,934	9,142,320

Advances received represents the prepayment for the services of the Group like telecommunications services, internet services, IP-TV by customers. The customers can be divided to three major groups: individuals, private firms and legal firms under government sector.

32. OTHER CURRENT NON-FINANCIAL LIABILITIES

As at 31 December 2019 and 2018, other current non-financial liabilities comprised:

In thousands of tenge	2019	2018
Taxes payable other than income tax	**2,042,840**	6,305,705
Payable to pension funds	**558,931**	561,920
Asset retirement obligations	**345,500**	–
Other	**300,713**	249,025
	3,247,984	7,116,650

33. INDEMNIFICATION ASSETS AND OBLIGATION TO PAY A FINE FOR TERMINATION OF THE CONTRACT

On 12 April 2019, Kcell JSC, the subsidiary of Kazakhtelecom JSC, received from Kar-Tel LLP a notice on termination of the Network Sharing Agreement (hereinafter referred to as the "Agreement"), since there was a change in Kcell JSC's controlling shareholder in December 2018, which represents, in accordance with the Agreement, a breach of conditions of the Agreement, giving the right to the second party to terminate the Agreement and request payment of termination fine, determined in accordance with the methodology specified in the Agreement. Kcell JSC received from Kar-Tel LLP an invoice for payment of a termination fine in the amount of KZT 14,551,865 thousand. Under the terms of the sale-purchase agreement of 75% stake in Kcell JSC, Telia Company and Fintur Holding B.V. guaranteed to the Group repayment of their respective shares in 75% of the termination fine.

However, in July 2019 after the negotiations with Telia Company and Fintur Holding B.V., the amount of indemnification assets was reconsidered from KZT 10,913,899 thousand to KZT 10,171,407 thousand. On 10 June 2019, the Group repaid the termination fine in full. On 25 July 2019, Telia Company and Fintur Holding B.V. repaid KZT 6,157,326 thousand and KZT 4,014,149 thousand, respectively, to Kazakhtelecom JSC and totally reimbursed 75% share of fine paid by Kcell JSC to Kar-Tel LLP for termination of the Network Sharing Agreement.

34. REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue from contracts with customer for the years ended 31 December comprised:

	For the year ended 31 December 2019			
In thousands of tenge	**Fixed line**	**Mobile connection**	**Other**	**Total**
Data transfer services	**106,657,901**	**62,664,151**	**15,198**	**169,337,250**
Rendering of fixed line and wireless phone services	**39,830,602**	**116,592,951**	**–**	**156,423,553**
Rent of channels	**9,595,335**	**–**	**–**	**9,595,335**
Interconnect	**15,162,225**	**15,510,651**	**–**	**30,672,876**
Sale of equipment and mobile devices	**–**	**19,092,662**	**–**	**19,092,662**
Other	**32,981,489**	**2,116,753**	**439,978**	**35,538,220**
	204,227,552	**215,977,168**	**455,176**	**420,659,896**
B2C*	**105,585,105**	**174,184,160**	**–**	**279,769,265**
B2B**	**34,665,007**	**16,051,632**	**455,176**	**51,171,815**
B2O***	**28,030,146**	**25,437,915**	**–**	**53,468,061**
B2G****	**35,947,294**	**303,461**	**–**	**36,250,755**
	204,227,552	**215,977,168**	**455,176**	**420,659,896**

	For the year ended 31 December 2018			
In thousands of tenge	Fixed line	Mobile connection	Other	Total
Data transfer services	111,745,082	1,554,392	–	113,299,474
Rendering of fixed line and wireless phone services	44,991,160	1,557,710	–	46,548,870
Rent of channels	18,542,643	–	–	18,542,643
Interconnect	14,353,098	595,431	–	14,948,529
Other	21,917,114	785,609	500,551	23,203,274
	211,549,097	4,493,142	500,551	216,542,790
B2C*	104,849,713	3,132,867	–	107,982,580
B2B**	31,853,238	764,822	500,551	33,118,611
B2O***	42,539,481	595,431	–	43,134,912
B2G****	32,306,665	22	–	32,306,687
	211,549,097	4,493,142	500,551	216,542,790

* *B2C (Business-to-Consumer) – services rendered to private end consumers (individuals).*

** *B2B (Business to Business) – services rendered to the corporate sector, including large enterprises and SMEs.*

*** *B2O (Business-to-Operator) – services rendered to communication operators.*

**** *B2G (Business-to-Government) – services rendered to the state sector.*

35. COMPENSATION FOR PROVISION OF UNIVERSAL SERVICES IN RURAL AREAS

In 2017, the regulatory documents on subsidy were amended. In particular, under the Resolution of the Government of the Republic of Kazakhstan No. 238 dated 2 May 2017, new tender rules for the identification of universal services operators were approved, including the calculation of the subsidy rates and the procedure for the authorised body to assign the obligation to provide universal services to telecom operators, requirements for telecoms operators to provide universal communications services, a list of universal communications services and the recognition of certain decisions which have lost their force, of the Government of the Republic of Kazakhstan.

There are no unfulfilled conditions or contingencies attached to these subsidies. The compensation received for the year ended 31 December 2019 was equal to KZT 7,420,778 thousand (2018: KZT 6,183,581 thousand).

36. COST OF SALES

Cost of sales for the years ended 31 December comprised:

In thousands of tenge	**2019**	2018
Depreciation and amortization	**90,479,527**	38,587,880
Personnel costs *(Note 39)*	**69,737,976**	53,723,725
Interconnect	**31,145,689**	7,685,137
Repair and maintenance	**17,330,758**	7,532,292
Cost of SIM-card, scratch card and handsets	**17,288,323**	–
Rent of channels	**13,375,816**	9,346,137
Fees for radiofrequencies use	**10,066,530**	1,269,941
Electricity	**7,534,144**	2,901,765
Inventories	**7,094,023**	6,213,926
Fee to provide telecom services	**4,968,143**	2,940,937
Content	**4,809,281**	5,379,248
Security and safety	**2,822,916**	2,190,836
Fees for usage of GSM radiofrequencies of Mobile Telecom Services LLP	**2,667,239**	5,263,310
Utilities	**2,040,847**	1,881,526
Short-term lease expenses	**1,708,320**	–
Business trip expenses	**1,115,966**	780,069
Insurance	**671,954**	397,980
Fees for usage of billing system of Mobile Telecom Services LLP	**111,135**	219,305
Rent of transponders related to satelite communications	**–**	765,528
Rental of property and equipment	**–**	1,754,904
Other	**7,511,077**	5,181,166
	292,479,664	154,015,612

37. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended 31 December comprised:

In thousands of tenge	**2019**	2018
Personnel costs *(Note 39)*	**17,904,255**	13,075,235
Depreciation and amortization	**4,472,369**	287,951
Taxes other than corporate income tax	**4,070,810**	3,104,911
Consulting services	**3,528,329**	3,138,478
Social activities	**885,195**	715,633
Repair and maintenance expenses	**716,424**	216,900
Business trips	**647,782**	589,980
Collectors services	**609,581**	–
Inventories	**435,828**	234,471
Insurance	**208,651**	162,063
Trainings	**170,128**	223,382
Bank fees	**142,734**	54,262
Security and safety	**115,561**	94,278
Short-term lease expenses	**111,427**	–
Write-down of inventories to net realizable value *(Note 16)*	**57,343**	30,673
Rental of equipment	**–**	162,519
Other	**3,835,266**	1,220,930
	37,911,683	23,311,666

38. SELLING EXPENSES

Selling expenses for the years ended 31 December comprised:

In thousands of tenge	**2019**	2018
Marketing and advertising	**6,796,043**	2,499,979
Amortization of cost to obtain a contract	**5,155,168**	1,511,909
Other	**819,377**	375,633
	12,770,588	4,387,521

39. PERSONNEL EXPENSES

Personnel expenses for the years ended 31 December comprised:

In thousands of tenge	**2019**	2018
Payroll	**78,538,576**	59,778,384
Payroll related taxes	**7,266,084**	5,534,924
Employee benefits *(Note 25)*	**1,837,571**	1,485,652
	87,642,231	66,798,960

Personnel expenses for the years ended 31 December were allocated as follows:

In thousands of tenge	**2019**	2018
Cost of sales *(Note 36)*	**69,737,976**	53,723,725
General and administrative expenses *(Note 37)*	**17,904,255**	13,075,235
	87,642,231	66,798,960

40. (FINANCE COSTS) / FINANCE INCOME

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

In thousands of tenge	**2019**	2018
Finance costs		
Interest expense on loans *(Note 47)*	**(32,246,010)**	(4,016,403)
Interest expense on lease liabilities *(Note 3)*	**(8,006,074)**	–
Discounting of long-term loans to employees	**(1,072,221)**	(1,054,793)
Unwinding of discount on long-term accounts payable	**(619,362)**	(549,789)
Unwinding of discount (provision for asset retirement obligations) *(Note 28)*	**(372,555)**	(688)
Interest on debt component of preferred shares *(Note 23)*	**(89,635)**	(96,167)
Discounting of other non-current financial assets	**(11,808)**	(66,310)
Interest expense under finance leases *(Note 47)*	**–**	(1,565,491)
Other costs	**(66,631)**	–
	(42,484,296)	(7,349,641)
Finance income		
Interest income on loans issued	**1,007,975**	–
Discounting long-term borrowings	**977,095**	–
Unwinding of discount on long-term loans to employees	**872,308**	981,797
Interest income on cash balances	**842,788**	994,635
Interest income on deposits	**293,104**	653,487
Unwinding of discount on long-term accounts receivable	**200,873**	337,264
Interest income on guarantees issued	**21,586**	82,148
Other income	**89,779**	17,698
	4,305,508	3,067,029

41. NET FOREIGN EXCHANGE (LOSS)/GAIN

On 20 August 2015, the National Bank and the Government of the Republic of Kazakhstan announced the transition to "free floating exchange rate of tenge" and cancelation of the currency corridor. As a result, Kazakhstani tenge significantly devalued against US dollar and other major currencies approximately by 90%. Subsequently, the exchange rate of tenge to US dollar significantly fluctuated in accordance with the market conditions. Net foreign exchange loss for the year ended 31 December 2019 was KZT 1,269,021 thousand (net foreign exchange gain for the year ended 31 December 2018 was KZT 10,591,474 thousand).

42. OTHER INCOME/(EXPENSES)

Other income and expenses for the years ended 31 December comprised:

In thousands of tenge	**2019**	2018
Other income		
Rental income	**1,953,194**	3,229,876
Non-core operations	**251,998**	421,558
Other	**1,237,739**	707,290
	3,442,931	4,358,724
Other expenses		
Non-core operations	**(248,153)**	(396,991)
Rental expenses	**(14,167)**	(14,292)
Other	**(47,978)**	(381,899)
	(310,298)	(793,182)

Rental income mainly represents rent of spaces used for the installation of technological equipment by third parties.

43. INCOME TAX EXPENSES

Income tax expenses for the years ended 31 December comprised:

In thousands of tenge	**2019**	2018
Current corporate income tax expenses	**18,300,742**	11,736,193
Adjustments in respect of income tax of previous year	**(75,644)**	–
Deferred income tax benefit	**(8,795,946)**	(628,613)
	9,429,152	11,107,580

The Group and its subsidiaries except for KT-IX LLC are subject to taxation in the Republic of Kazakhstan. KT-IX LLC is subject to taxation in the Russian Federation.

Tax rate for the Group and subsidiaries except for subsidiaries stated above was 20% in 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 out below:

In thousands of tenge	**2019**	2018
Profit before taxation	**69,774,450**	53,990,896
Income tax at statutory income tax rate of 20%	**13,954,890**	10,798,179
Derecognition of deferred tax assets of expected credit losses	**520,178**	–
Non-deductible expenses related to employee benefits obligations	**367,514**	210,031
Inventories write-offs	**6,594**	22,358
Changes in unrecognised deferred tax assets	**–**	7,777
Impairment losses on financial assets	**–**	778,198
Adjustments in respect of income tax of previous year	**(75,644)**	
Share in profit of associates	**(1,205,439)**	(1,572,017)
Recognition of tax loss carry forward	**(1,377,725)**	–
Gain from re-measurement of previously held interest in the associate	**(3,462,023)**	–
Non-deductible expenses	**700,807**	863,054
Total income tax expenses	**9,429,152**	11,107,580

43. INCOME TAX EXPENSES (continued)

	Consolidated statement of financial position		Consolidated statement of comprehensive income		The effect of the application of new standards		Acquisition of a subsidiary (*Note 5*)		As part of other comprehensive loss	
In thousands of tenge	**31 December 2019**	31 December 2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Deferred tax assets										
Property and equipment	**11,813,629**	–	**943,787**	–	–	–	**10,869,842**	–	–	–
Tax loss carry forward	**1,377,725**	1,377,725	–	–	–	–	–	1,377,725	–	–
Asset retirement obligations	**1,444,217**	288,906	**190,065**	31,810	–	–	**965,246**	257,096	–	–
Employee benefit obligations	**1,258,300**	1,104,258	**(80,566)**	(65,204)	–	–	–	–	**234,608**	234,079
Discount on non-current assets	**665,484**	917,356	**(251,872)**	(19,407)	–	–	–	–	–	–
Deferred income	**650,877**	28,610	**622,267**	(6,614)	–	–	–	–	–	–
Lease liabilities	**606,701**	–	**452,364**	–	**154,337**	–	–	–	–	–
Accrued provisions for unused vacations	**601,040**	338,438	**262,602**	81,370	–	–	–	–	–	–
Accrued provisions for expected credit loss	**547,369**	806,268	**(384,698)**	(39,222)	–	204,630	**125,799**	185,875	–	–
Intangible assets	**136,254**	210,672	**(74,418)**	45,322	–	–	–	–	–	–
Interest payable on borrowings	**788**	468,247	**(467,459)**	–	–	–	–	468,247	–	–
Obligation to pay a fine for termination of the contract	–	2,910,373	**(2,910,373)**	–	–	–	–	2,910,373	–	–
Other	**5,688,819**	1,550,424	**1,154,010**	252,171	–	–	**2,984,385**	363,660	–	–
Less: unrecognised tax assets	–	(1,377,725)	**1,377,725**	92,891	–	–	–	(1,377,725)	–	–
Less: deferred tax assets less deferred tax liabilities	**(23,025,076)**	(8,376,668)	**296,864**	(464,926)	–	(204,630)	**(14,945,272)**	(4,185,251)	–	–
Deferred tax assets	**1,766,127**	246,884	**1,130,298**	(91,809)	**154,337**	–	–	–	**234,608**	234,079
Deferred tax liabilities										
Property and equipment	**32,267,812**	32,864,233	**(3,630,084)**	(13,458)	–	–	**3,033,663**	10,554,444	–	–
Intangible assets	**33,256,731**	14,001,200	**(1,714,177)**	(239,464)	–	–	**20,969,708**	14,001,200	–	–
Indemnification assets	–	2,182,780	**(2,182,780)**	–	–	–	–	2,182,780	–	–
Other	**(50,611)**	384,860	**(435,471)**	(2,574)	–	261,096	–	126,338	–	–
Less: deferred tax assets less deferred tax liabilities	**(23,025,076)**	(8,376,668)	**296,864**	(464,926)	–	(204,630)	**(14,945,272)**	(4,185,251)	–	–
Deferred tax liabilities	**42,448,856**	41,056,405	**(7,665,648)**	(720,422)	–	56,466	**9,058,099**	22,679,511	–	–
The effect of the application of new standards					**154,337**	(56,466)				
Acquisition of a subsidiary (*Note 5*)							**9,058,099**	22,679,511		
Deferred income tax (expense)/benefit	–	–	**8,795,946**	628,613					**234,608**	234,079

43. INCOME TAX EXPENSES (continued)

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

In thousands of tenge	**2019**	2018
Deferred tax assets	**1,766,127**	246,884
Deferred tax liabilities	**(42,448,856)**	(41,056,405)
Net deferred tax liabilities	**(40,682,729)**	(40,809,521)

In thousands of tenge	**2019**	2018
Reconciliation of deferred tax liabilities, net		
Balance at 1 January	**(40,809,521)**	(18,936,236)
Income tax benefit for the reporting period – origination and recovery of temporary differences	**8,795,946**	628,613
Less: deferred tax recognised within other comprehensive loss	**234,608**	234,079
The effect of the application of new standards	**154,337**	(56,466)
Deferred taxes acquired in business combinations *(Note 5)*	**(9,058,099)**	(22,679,511)
Balance at 31 December	**(40,682,729)**	(40,809,521)

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 and will expire in 2019. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

As at 31 December 2019, the Group has not recognised deferred tax assets in relation to the temporary difference in the amount of KZT 30,844,785 thousand (as at 31 December 2018: KZT 13,908,799 thousand) related to investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not expect to reverse them in the foreseeable future.

44. DISPOSAL GROUP

KT Cloud Lab LLP

On 17 June 2019, the Group announced the decision of its Board of Directors to sell 100% share in the charter capital of KT Cloud Lab LLP through the open two-step tender.

On 13 November 2019, the results of the tender for realization of 100% share in the charter capital of KT Cloud Lab LLP were announced with the selling price of KZT 1,435,000 thousand. The tender winner was Soft Art LLP. In accordance with the tender terms, the conclusion of sale and purchase agreement can only be made after the approval of Samruk-Kazyna, the Parent of the Group. The Group assesses the approval as highly probable and expects to receive it from Samruk-Kazyna in April 2020.

The sale of KT Cloud Lab LLP is expected to be completed within a year from the reporting date. At 31 December 2019, KT Cloud Lab LLP was classified as a disposal group held for sale.

44. DISPOSAL GROUP (continued)

KT Cloud Lab LLP (continued)

The major classes of assets and liabilities of KT Cloud Lab LLP classified as held for sale as at 31 December are, as follows:

In thousands of tenge	**31 December 2019**
Assets	
Property and equipment	520,803
Intangible assets	483,934
Other non-current financial assets	83,841
Inventories	9,631
Trade receivables	266,252
Other current non-financial assets	37,923
Other current financial assets	129,380
Advanced paid	30,713
Cash and cash equivalents	315,556
Assets held for sale	**1,878,033**
Liabilities	
Deferred tax liabilities	17,450
Trade payables	79,144
Other current financial liabilities	179,651
Contract liabilities	126
Other current non-financial liabilities	166,662
Liabilities directly associated with assets held for sale	**443,033**
Net assets directly associated with disposal group	**1,435,000**

Impairment of property and equipment

Immediately before the classification of KT Cloud Lab LLP as a disposal group held for sale, the recoverable amount was estimated for certain items of property and equipment. Impairment loss was recognized in the consolidated statement of comprehensive income as part of impairment losses on non-financial assets for KZT 292,843 thousand to reduce the carrying amount of the assets in the disposal group to their fair value less costs to sell.

45. NON-CASH TRANSACTIONS

The following significant non-cash transactions have been excluded from the consolidated statement of cash flows:

In 2019, the Group paid an amount of KZT 17,425,331 thousand for property and equipment purchased in prior year (2018: KZT 4,635,188 thousand). Property and equipment in the amount of KZT 32,009,038 thousand was purchased in 2019 but not paid as at 31 December 2019 (2018: KZT 17,445,106 thousand).

On 20 May 2019, Khan Tengri Holding B.V., Kazakhtelecom JSC and Tele2 Sverige AB had concluded mutual settlement agreement. In accordance with the agreement, payables to Khan Tengri Holding B.V. were netted against trade receivables from Mobile Telecom Service LLP in the amount of KZT 4,842,282 thousand *(Note 30).*

In 2019 in accordance with the lease agreements, the Group received telecommunication equipment amounting to KZT 680,885 thousand (2018: KZT 14,871,625 thousand).

In 2019, the Group withhold from the salary of employees the amount of previously issued loans for KZT 2,210,760 thousand.

46. RELATED PARTY TRANSACTIONS

The category 'entities under control of the Parent' include entities controlled by the Parent Company. Transactions with such entities are mainly represented by transactions of the Group with NC Kazakhstan Temir Zholy JSC, NC KazMunayGaz JSC, KEGOC JSC, Kazpost JSC. The Group provides telecommunication services to the Parent and entities controlled by the Parent. The category of government-related entities includes different government agencies and ministries.

Related party transactions (including transactions with Khan Tengri Holdings B.V. and its subsidiary Mobile Telecom Service LLP before 28 June 2019) were made on terms, agreed to between the parties, which do not necessarily represent market terms and maybe not accessible to third parties. Outstanding balances at the end of the year are not secured, are short-term, and settlements are made in cash, except as described below.

At 31 December 2019, the Group recognized a provision for expected credit loss in the amount of KZT 67,633 thousand in respect of receivables from related parties.

Sales and purchases with related parties during the years ended 31 December 2019 and 2018 and the balances with related parties at 31 December 2019 and 2018 were as follows:

In thousands of tenge	**2019**	2018
Sales of goods and services		
Parent	**190,428**	359,794
Parent-controlled entities	**2,758,492**	2,519,743
Associate (Khan Tengri Holding B.V.) [1]	**18,516,552**	23,907,818
Associate (Qaz Cloud LLP)	**695,499**	913,141
Government-related entities	**36,252,401**	32,306,666
Purchases of goods and services		
Parent	**(559)**	779
Parent-controlled entities	**2,582,219**	3,267,303
Associate (Khan Tengri Holding B.V.) [1]	**10,185,382**	11,042,238
Associate (Qaz Cloud LLP)	**313,338**	279,525
Government-related entities	**109,485**	9,328
Interest accrued on borrowings		
Entities under state control		
(Development Bank of Kazakhstan JSC)	**2,233,153**	2,035,544
Average interest rate on borrowings	**8.24%**	8.00%
Parent	**11,500,000**	1,461,458
Average interest rate on borrowings	**11.50%**	11.50%

46. RELATED PARTY TRANSACTIONS (continued)

In thousands of tenge	**2019**	2018
Cash and cash equivalents		
Entities under state control		
(Development Bank of Kazakhstan JSC)	**64**	103
Borrowings		
Entities under state control		
(Development Bank of Kazakhstan JSC)	**42,519,628**	25,266,233
Parent	**103,833,333**	101,461,458
Trade and other accounts receivable		
Parent	**17,425**	130,725
Parent-controlled entities	**678,645**	613,921
Associate (Khan Tengri Holding B.V.)	**–**	16,248,774
Associate (Qaz Cloud LLP)	**98,055**	105,827
Government-related entities	**7,030,150**	11,431,512
Accounts payable		
Parent	**73**	39
Parent-controlled entities	**352,044**	469,260
Associate (Khan Tengri Holding B.V.)	**–**	11,014,949
Associate (Qaz Cloud LLP)	**75,991**	–
Government-related entities	**991,114**	735,815
Other non-current assets		
Long-term loans to key management personnel	**28,707**	35,914

In 2019 and 2018, the Group provided communication services for the entities controlled by the Parent, and purchased goods and services to support operating activities related to provision of telecommunication services from such entities.

[1] As stated in *Note 5*, the Group has acquired control over Khan Tengri Holding B.V. and since the date of control Khan Tengri Holding B.V. is consolidated as a subsidiary. The Group's interest in Khan Tengri Holding B.V. was accounted in the consolidated financial statements using the equity method till the date of control acquisition.

The Group has significant volumes of transactions with Mobile Telecom Services LLP ("MTS"), subsidiary of Khan Tengri B.V., including revenue from data transmission, access to internet, rental of lines, interconnect and other revenue that in total comprise 4% from total consolidated revenue of the Group for 2019. In addition, the Group purchased from MTS services related to the usage of GSM radiofrequencies, interconnect, mobile traffic for converged services and other services that in total comprise 3% from total consolidated cost of sales of the Group for 2019.

46. RELATED PARTY TRANSACTIONS (continued)

Sales and purchases with MTS during the years ended 31 December 2019 and 2018 were as follows:

In thousands of tenge	**From 1 January 2019 till 28 June 2019**	2018
Sales		
Data transmission [A]	**7,566,176**	13,911,058
Interconnect [B]	**5,646,243**	1,590,226
Rent of channels [C]	**2,778,374**	5,482,615
Rent of sites for base stations	**342,678**	624,182
Base cell stations maintenance [D]	**338,132**	659,989
Other	**1,844,949**	1,639,748
	18,516,552	23,907,818
Purchases		
Interconnect [E]	**4,473,217**	845,920
Fee for usage of GSM radiofrequencies [F]	**2,667,239**	5,263,310
Mobile traffic at wholesale tariffs [G]	**2,551,672**	3,621,460
Fee for usage of billing system [H]	**111,135**	219,305
Other	**382,119**	1,092,243
	10,185,382	11,042,238

[A] Data transmission represented revenue from provision of fixed and wireless communication channels, and access to the internet. It is calculated on the basis of provided communication channels capacity (Mb/s), as well as the number of communication channels provided.

[B] Revenue from interconnect is calculated based on the actual volumes of minutes of the connection.

[C] Rent of channels represents revenue from the provision to the temporary use of channels with the specified technical characteristics, organized based on LTE base cell stations (i.e. 4G license radiofrequencies). It is calculated based on the actual number of rented channels. In February 2016, the Group concluded an agreement with MTS for renting out 4G license radiofrequencies. Rental fees are payable on a monthly basis. Simultaneously upon concluding the agreement for renting out 4G license radiofrequencies the Group and MTS agreed to increase fees for use of GSM radiofrequencies and fee for usage of the billing system payable by the Group as described below. For the year ended 31 December 2019 revenue from rent of channels amounted to KZT 2,778,374 thousand (for the year ended 31 December 2018: KZT 5,482,615 thousand).

[D] Revenue from base cell stations maintenance represents revenue from the provision of various services to ensure the stable and uninterrupted operation of radio access networks, and is calculated based on the actual number of base stations served.

[E] Expenses on interconnect are calculated based on the actual volume of minutes of the connections.

[F] Fee for usage of GSM radiofrequencies is fixed monthly payment for the usage of the GSM radiofrequencies owned by MTS. For the year ended 31 December 2019 fee for usage of GSM radiofrequencies amounted to KZT 2,667,239 thousands (for the year ended 31 December 2018: KZT 5,263,310 thousand).

[G] Cost of mobile traffic at wholesale tariffs is the actual traffic used by Kazakhtelecom JSC customers in the mobile operator's network and is calculated based on the actual number of outgoing minutes, short messages (SMS), and megabytes of mobile traffic.

[H] Fee for usage of billing system is fixed monthly payment for the usage of the MTS billing system. For the year ended 31 December 2019 fee for usage of billing system amounted to KZT 111,135 thousands (for the year ended 31 December 2018: KZT 219,305 thousand).

The provision of these service is governed by different agreements that are not related to each other. Under each such agreement, the Group is either receiving or providing a certain type of services, for which the Group receives or pays a fee, which may differ from the terms under agreements with third parties. The difference from the terms under agreements with third parties could be explained by volume discounts and other special conditions between the Group and its associate. Volumes of services purchased from / sold to MTS exceed the volume of similar transactions with third party operators.

46. RELATED PARTY TRANSACTIONS (continued)

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 KZT 1,040,277 thousand and KZT 637,785 thousand, respectively. Compensation to key management personnel consists of wages fixed in the employment agreement, as well as remuneration based on the performace for the year.

As disclosed in *Note 35*, the Government of the Republic of Kazakhstan provides the Group with certain compensation for the provision of universal services in rural areas.

As disclosed in *Note 24*, as at 31 December 2019, the Group had a loan in the amount of KZT 20,902,442 thousand, under which the Parent acted as guarantor (as at 31 December 2018: KZT 24,961,627 thousand).

47. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES

Impairment losses on financial assets

Impairment losses on financial assets for the year ended 31 December 2019, comprise accruing reserve for trade receivables in amount of KZT 2,569,696 thousand *(Note 17)*, other current financial assets in amount of KZT 108,003 thousand *(Note 19)*, other non-current financial assets in amount of KZT (135) thousand *(Note 14*), cash and cash equivalents in amount of KZT 12,021 thousand *(Note 22)* (2018: trade receivables in amount of KZT 622,360 thousand, other current financial assets in amount of KZT 2,860,001 thousand, other non-current financial assets in amount of KZT 135 thousand, cash and cash equivalents in amount of KZT 486,525 thousand).

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

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. As at 31 December 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.

As a result of available significant loans and borrowings, accounts payable, cash and cash equivalents and accounts receivable denominated in the US dollars, the Group’s consolidated statement of financial position can be affected significantly by movement in the US dollar / tenge exchange rates.

The following table demonstrates the sensitivity to a reasonably possible changes in the exchange rates of US dollar to tenge, with all the variables held constant, of the Group’s profit before income tax (due to changes in the fair value of monetary assets and liabilities). There is no impact on the Group’s equity.

	2019		2018	
In thousands of tenge	**Increase/ (decrease) in exchange rate**	**Effect on profit before tax**	Increase/ (decrease) in exchange rate	Effect on Profit before tax
US dollars	**12%**	**5,232,568**	14%	3,141,003
	-9%	**(3,924,426)**	-10%	(2,243,573)

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.

47. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES (continued)

Trade receivables and contract assets

Financial instruments in which the Group's credit risk is concentrated are primarily trade and other receivables. The credit risk associated with these assets is limited due to the large number of the Group's customers and the continuous monitoring procedures for customers and other debtors.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in *Notes 14, 17, 19 and 20.*

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.

	Rating	Rating	**Cash balance**		**Balance on deposit accounts**	
In thousands of tenge	**2019**	2018	**2019**	2018	**2019**	2018
Halyk Bank Kazakhstan JSC	**BB/stable/B, kzA+**	BB/stable/B, kzA+	**49,982,338**	34,424,030	**–**	–
ATF Bank JSC	**B-/stable/B, kzBB**	B/negative/B, kzBB+	**11,794,238**	5,761,522	**–**	98,648
Altyn Bank JSC (SB Halyk Bank Kazakhstan JSC)	**BBB-/stable**	Ba2/stable/NP	**4,979,430**	3,293,559	**–**	–
Citibank Kazakhstan JSC	**A+/stable**	A+/stable	**3,258,408**	764,800	**–**	–
Kaspi Bank JSC	**BB-/stable/B, kzA**	BB-/stable/B, kzA	**515,813**	700,494	**–**	–
Credit Suisse (Schweiz) AG	**A+/stable**	A/stable	**465,918**	–	**–**	–
Sberbank PAO	**Baa3**	Ba2	**169,278**	123,935	**–**	–
Sberbank JSC	**BBB-/stable**	BB+/positive	**97,142**	45,695	**–**	–
Forte Bank JSC	**B+/stable/B, kzBBB**	B/positive/B kzBBB-	**21,989**	170,705	**–**	–
AO «Halyk Finance»	**BB/stable/B, kzA+**	BB/stable/B, kzA+	**1,232**	–	**–**	–
Bank of China in Kazakhstan JSC	**A/stable**	A/stable	**430**	–	**–**	–
Eurasian Bank JSC	**Baa1/stable**	B/negative/B, kzBB+	**359**	36,930	**–**	–
Bank CenterCredit JSC	**B/negative/B, kzBB+**	B/stable/B, kzBBB-	**264**	4,621	**–**	76,329
Development Bank of Kazakhstan JSC	**BB+/stable/B, kzAA+**	BB+/stable/B, kzAA+	**64**	103	**–**	–
First Heartland Jýsan Bank JSC	**B-/positive/B, kzBB**	B-/negative/B, kzBB-	**31**	2,846	**–**	–
Alfa Bank JSC	**BB-/positive/B, kzA**	BB-/stable/B, kzA	**31**	103	**–**	–
VTB Bank (Kazakhstan)	**BB+/stable/B, kzAA**	BB+/stable/B, kzAA	**27**	–	**–**	–
Committee of the Treasury of the Ministry of the RK	**–**	–	**–**	128	**–**	–
Total			**71,286,992**	45,329,471	**–**	174,977

47. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES (continued)

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances.

The Group monitors its risk of a shortage of funds using a liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivables, other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and leases. The Group's policy is that not more than 30% of loans and borrowings should mature in the next 12 month period. Approximately 10% of the Group's debt will mature in less than one year at 31 December 2019 (31 December 2018: 30%) based on the carrying amount of borrowings reflected in the consolidated financial statements.

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

In thousands of tenge	On demand	1 to 3 months	3 months to 1 year	From 1 to 5 years	More than 5 years	Total
At 31 December 2019						
Borrowings	**–**	**20,017,580**	**40,613,328**	**367,228,861**	**135,536,632**	**563,396,401**
Lease liabilities	**–**	**5,429,949**	**15,950,465**	**58,938,794**	**18,911,841**	**99,231,049**
Trade payables	**45,282,413**	**5,882,208**	**8,233,218**	**–**	**–**	**59,397,839**
Other financial liabilities	**–**	**20,151,913**	**–**	**1,318**	**–**	**20,153,231**
	45,282,413	**51,481,650**	**64,797,011**	**426,168,973**	**154,448,473**	**742,178,520**
At 31 December 2018						
Borrowings	768,936	9,264,447	63,780,975	83,391,057	118,387,210	275,592,625
Finance lease liabilities	179,634	2,319,854	6,937,923	18,889,078	–	28,326,489
Trade payables	32,134,910	4,170,384	5,842,111	–	–	42,147,405
Financial guarantees issued*	–	1,130,379	1,098,286	7,630,950	2,322,269	12,181,884
Other financial liabilities	–	18,810,780	–	78,147	–	18,888,927
	33,083,480	35,695,844	77,659,295	109,989,232	120,709,479	377,137,330

* *Based on the maximum amount that can be called for under the financial guarantees contracts (Notes 26, 30).*

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.

The Group monitors capital using a debt-to-equity ratio, which is net debt divided by total equity. The Group's policy is to keep the ratio not greater than 1.0. The Group includes within net debt interest bearing loans and borrowings and lease liabilities. Equity includes equity attributable to the equity holders of the Group.

47. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES (continued)

Capital management (continued)

The Group's debt-to-equity ratio at the period end was as follows:

In thousands of tenge	**31 December 2019**	31 December 2018
Interest-bearing loans and borrowings	**367,615,724**	193,452,540
Lease liabilities	**70,527,520**	22,729,325
Net debt	**438,143,244**	216,181,865
Total equity, including non-controlling interests	**462,865,928**	414,780,615
Debt-equity ratio	**0.95**	0.52

Fair value

For the purpose of disclosing the fair value, the Group determined classes of assets and liabilities based on characteristics and risks of assets or liabilities and fair value hierarchy level as described above.

The table below presents fair value hierarchy of assets and liabilities of the Group. Disclosure of quantitative information of fair value hierarchy of financial instruments as at 31 December 2019 was as follows:

		Fair value measurement using			
In thousands of tenge	**Date of valuation**	**Price quotations on active markets (Level 1)**	**Significant observable in-puts (Level 2)**	**Significant unobservable in-puts (Level 3)**	**Total**
Assets for which fair values are disclosed					
Other non-current financial assets	31 December 2019	–	–	**4,198,588**	**4,198,588**
Other current financial assets	31 December 2019	–	–	**5,227,326**	**5,227,326**
Financial assets at fair value through other comprehensive income	31 December 2019	**4,964,633**	–	–	**4,964,633**
Trade receivables	31 December 2019	–	–	**37,255,772**	**37,255,772**
Liabilities for which fair values are disclosed					
Borrowings	31 December 2019	–	–	**367,110,944**	**367,110,944**
Other non-current financial liabilities	31 December 2019	–	–	**1,318**	**1,318**
Other current financial liabilities	31 December 2019	–	–	**20,151,913**	**20,151,913**
Trade payables	31 December 2019	–	–	**59,397,839**	**59,397,839**

47. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES (continued)

Fair value (continued)

The table below presents fair value hierarchy of assets and liabilities of the Group. Disclosure of quantitative information of fair value hierarchy of financial instruments as at 31 December 2018 was as follows:

		Fair value measurement using			
In thousands of tenge	Date of valuation	Price quotations on active markets (Level 1)	Significant observable in-puts (Level 2)	Significant unobservable in-puts (Level 3)	Total
Assets for which fair values are disclosed					
Other non-current financial assets	31 December 2018	–	–	7,040,366	7,040,366
Other current financial assets	31 December 2018	–	–	4,685,111	4,685,111
Indemnification assets	31 December 2018	–	–	10,171,407	10,171,407
Trade receivables	31 December 2018	–	–	52,173,348	52,173,348
Liabilities for which fair values are disclosed					
Borrowings	31 December 2018	–	–	194,104,469	194,104,469
Finance lease liabilities	31 December 2018	–	–	22,729,325	22,729,325
Other non-current financial liabilities	31 December 2018	–	–	144,085	144,085
Other current financial liabilities	31 December 2018	–	–	18,878,261	18,878,261
Obligation to pay a fine for termination of the contract	31 December 2018	–	–	14,551,865	14,551,865
Trade payables	31 December 2018	–	–	42,147,405	42,147,405

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial assets and liabilities that are not carried at fair value in the consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

In thousands of tenge	**Carrying amount 2019**	**Fair value 2019**	**Unrecognised gain/(loss) 2019**	Carrying amount 2018	Fair value 2018	Unrecognised gain/(loss) 2018
Financial assets						
Cash and cash equivalents	**71,321,822**	**71,321,822**	**–**	45,350,092	45,350,092	–
Other non-current financial assets	**4,170,159**	**4,198,588**	**28,429**	9,649,734	7,040,366	(2,609,368)
Other current financial assets	**5,227,326**	**5,227,326**	**–**	4,685,111	4,685,111	–
Financial assets at fair value through other comprehensive income	**4,964,633**	**4,964,633**	**–**	–	–	–
Indemnification assets	**–**	**–**	**–**	10,171,407	10,171,407	–
Trade receivables	**37,255,772**	**37,255,772**	**–**	52,173,348	52,173,348	–
Financial liabilities						
Borrowings	**367,615,724**	**367,110,944**	**504,780**	193,452,540	194,104,469	(651,929)
Lease liabilities	**70,527,520**	**70,527,520**	**–**	22,729,325	22,729,325	–
Other non-current financial liabilities	**1,318**	**1,318**	**–**	993,705	144,085	849,620
Other current financial liabilities	**20,151,913**	**20,151,913**	**–**	18,853,954	18,878,261	(24,307)
Obligation to pay a fine for termination of the contract	**–**	**–**	**–**	14,551,865	14,551,865	–
Trade payables	**59,397,839**	**59,397,839**	**–**	42,147,405	42,147,405	–
Total unrecognised change in unrealised fair value			**533,209**			(2,435,984)

47. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES (continued)

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that their fair value approximates to the carrying amount. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Financial liabilities carried at amortised cost

The fair value of loans obtained is measured by discounting future cash flows using rates currently existing for outstanding amounts with similar terms, credit risk and maturity.

47. 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:

In thousand tenge	1 January 2019	Effect of new standard	Acquisition of subsidiary (*Note 5*)	Principal obtained	New agreements	Reclassifi-cation	Repayment of principal	Interest expense (*Note 40*)	Interest paid	Discount	Commission recognized	31 December 2019
Borrowings: long term	135,838,411	–	7,091,161	93,089,611	–	103,393,147	–	–	–	(34,403)	(239,866)	339,138,061
Borrowings: short term	57,614,129	–	1,708,387	121,113,026	–	(103,393,147)	(53,118,449)	32,246,010	(27,684,186)	(421,124)	413,017	28,477,663
Lease liabilities: long term	15,975,306	27,303,654	18,911,643	–	4,779,931	(11,734,280)	–	–	–	–	–	55,236,254
Lease liabilities: short term	6,754,019	3,168,590	4,966,921	–	–	11,734,280	(11,332,544)	8,006,074	(8,006,074)	–	–	15,291,266
Total	216,181,865	30,472,244	32,678,112	214,202,637	4,779,931	–	(64,450,993)	40,252,084	(35,690,260)	(455,527)	173,151	438,143,244

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

In thousand tenge	1 January 2018	Principal obtained	New lease agreements	Business combination	Reclassified to current	Repayment of principal in cash	Interest paid	Interest expense	31 December 2018
Borrowings: non-current portion	24,967,690	100,000,000	–	14,935,969	(4,065,248)	–	–	–	135,838,411
Borrowings: current portion	2,357,864	–	–	51,380,150	4,065,248	(2,029,593)	(2,175,943)	4,016,403	57,614,129
Non-current portion of finance lease liabilities	7,681,118	–	14,871,661	–	(6,577,473)	–	–	–	15,975,306
Current portion of finance lease liabilities	3,920,719	–	–	–	6,577,473	(3,697,239)	(1,612,425)	1,565,491	6,754,019
Total	38,927,391	100,000,000	14,871,661	66,316,119	–	(5,726,832)	(3,788,368)	5,581,894	216,181,865

48. COMMITMENTS AND CONTINGENCIES

Operating environment

In Kazakhstan, economic reforms and the development of the legal, tax and administrative infrastructure that meets the developed markets are still in process. The future stability of the Kazakhstan economy will largely depend on these reforms, as well as on the effectiveness of the Government's actions in the area of economy, financial and monetary policy.

Capital commitments

The Group generally enters into contracts for the completion of construction projects and purchase of telecommunication equipment. As at 31 December 2019, the Group had contractual obligations in the total amount of KZT 38,186,280 thousand, including VAT (31 December 2018: KZT 6,238,697 thousand, including VAT) mainly related to purchase of telecommunication equipment and construction of telecommunication network.

License commitments

Under the terms of certain licenses on the provision of wireless telecom services, the Group has certain obligations in terms of coverage area of its network. The Group is obliged to expand the cellular telecommunication coverage to the regions along the major highways and small-sized towns and urban-type communities of the Republic of Kazakhstan. The Group's management believes that the Group is in compliance with the terms of the licenses.

Taxation

Tax legislation and regulatory framework of the Republic of Kazakhstan are subject to constant changes and allow for different interpretations. In addition, management believes that international agreements, under which the Group works with non-residents residing in International Telecommunication Union, and which provide for certain tax exemptions, have a priority over national tax legislation. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50-80% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of the Republic of Kazakhstan multiplied by 1.25. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review.

Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 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 of Kcell JSC 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. Kcell JSC did not agree with some results of tax audit and filed an appeal.

In January 2018, Kcell JSC 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, Kcell JSC reserved the right to further appeal it in the Supreme Court. On 5 November 2018, Kcell JSC 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, Kcell JSC 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 Kcell JSC 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 KZT 2,196,555 thousand;
- Additional VAT on software technical support services provided by non-resident legal entities in the amount of KZT 779,916 thousand;
- Related fines and penalties in the amount of KZT 2,839,574 thousand.

48. COMMITMENTS AND CONTINGENCIES (continued)

Taxation (continued)

The Group recognized income from reversal of the tax and related fines and penalties provision in the total amount of KZT 5,816,045 thousand 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 KZT 2,196,555 thousand and additional VAT and withholding tax for services charge in the amount of KZT 779,916 thousand, the Group recognised these prepaid taxes and expects to offset against future taxes accrual. Fines and penalties in the amount of KZT 2,839,574 thousand 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 KZT 2,839,574 thousand. As at 31 December 2019, the Group had remaining liability for fine and penalty in the amount of KZT 187,793 thousand (as at 31 December 2018: KZT 2,910,727 thousand).

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 Group's network in order to comply with the requirements of the Technical Regulations.

Cases related to the abuse of dominant position

Tariffication of Kcell'smobile 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 Kcell JSC for an alleged administrative violation related to the abuse of dominant position in 2017. The potential fine, which can be imposed by the court, constitutes approximately KZT 2,000,000 thousand.

According to the Committee, the violation resulted in the establishment of different prices for Kcell JSC'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 Kcell JSC 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 Kcell JSC did not agree with the order issued by the Committee. On 3 July 2019, the Kcell JSC appealed to the Court. The management of the Kcell 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 Kcell 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, Kcell JSC 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 Company should bring its existing and legacy cell 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 Kcell JSC 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. Kcell JSC 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 of 31 December 2019, no response from MNE was received. The management of the Kcell 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.

48. COMMITMENTS AND CONTINGENCIES (continued)

5G services

In accordance with the Order of Committee of competition protection of the Ministry of national economics, the Group has an obligation to start providing 5G services not later than 31 December 2022 (not later than 31 December 2021 if 5G standard is approved in 3rd Generation Partnership Project (3GPP) and International Telecommunications Union (ITU) before 31 December 2020).

49. SUBSEQUENT EVENTS

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

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

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

On 3 March 2020, the Group paid coupon interest to bondholders in the amount of KZT 5,570,000 thousand.

On 13 March 2020, the Group has obtained tranche in the amount of KZT 5,538,233 thousand within the credit line agreement concluded with Bank of Development of Kazakhstan JSC.

The outbreak of novel coronavirus continues to spread throughout China and to countries across the world. The Group will closely monitor the evolving coronavirus situation, yet an estimate of its financial effect cannot be made at this stage.

On 9 March 2019 global crude oil prices fell almost 30 per cent with Brent crude prices falling to 32 US dollar a barrel.

At the date these financial statements have been authorized for issue, the official exchange rate of tenge to US dollar as set by the National Bank of Kazakhstan comprised 405.46 tenge.