

Kcell JSC

The logo for Kcell, featuring the word "Kcell" in a bold, purple, sans-serif font. The letter "K" is significantly larger than the other letters, and the "i" in "cell" has a dot. The logo is set against a light purple rectangular background.

Interim condensed consolidated
financial statements (unaudited)

30 September 2019



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Report on review of interim condensed consolidated financial statements

To the Shareholders of Kcell JSC

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Kcell JSC and its subsidiaries (together the "Group"), which comprise the interim condensed consolidated statement of financial position as at 30 September 2019, the related interim condensed consolidated statements of comprehensive income for the three and nine-month periods then ended, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the nine-month period then ended and selected explanatory notes ("interim financial information"). Management is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

Conclusion

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

Other matter

The interim condensed consolidated financial statements of Kcell JSC and its subsidiaries for the nine-month period ended 30 September 2018 were reviewed by another auditor who issued a report on review of those statements with an unmodified conclusion on 6 November 2018.

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

Ernst & Young LLP

Paul Cohn
Audit Partner



Rustamzhan Sattarov
Auditor

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

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

5 November 2019



Gulmira Turmagambetova
General Director
Ernst & Young LLP

State Audit License for audit activities on
the territory of the Republic of Kazakhstan:
series MFYU-2 No. 0000003 issued by the
Ministry of finance of the Republic of
Kazakhstan dated 15 July 2005

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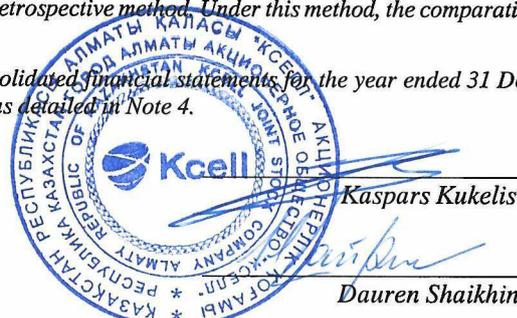
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>In thousands of tenge</i>	Notes	30 September 2019 (unaudited)	31 December 2018 (audited)**
Assets			
Non-current assets			
Property and equipment	7	76,816,434	88,437,346
Intangible assets	8	35,396,362	40,114,996
Advances paid for non-current assets		713,872	729,048
Right-of-use assets	3	23,324,639	–
Other non-current assets		2,653	36,533
Long-term trade receivables	9	839,947	3,009,995
Cost to obtain contracts		281,303	388,802
Deferred tax assets		300,144	–
Total non-current assets		137,675,354	132,716,720
Current assets			
Inventories		4,186,072	4,728,092
Trade receivables	9	16,917,173	13,787,025
Other current non-financial assets	10	6,619,376	8,801,068
Other current financial assets		2,168,203	1,010,707
Prepaid income tax		30,319	–
Financial assets at fair value through other comprehensive income	11	5,047,745	–
Cash and cash equivalents	12	8,777,762	6,029,042
Total current assets		43,746,650	34,355,934
Total assets		181,422,004	167,072,654
Equity and liabilities			
Share capital	6	33,800,000	33,800,000
Retained earnings		32,679,772	34,275,289
Total equity		66,479,772	68,075,289
Non-current liabilities			
Borrowings: non-current portion	13	60,497,131	14,935,969
Long-term lease liabilities	3	21,709,167	–
Deferred tax liabilities		–	1,503,915
Asset retirement obligation		1,176,671	1,285,482
Other non-current liabilities		69,113	76,560
Total non-current liabilities		83,452,082	17,801,926
Current liabilities			
Borrowings: current portion	13	5,881,291	51,782,817
Trade payables	14	10,056,179	14,047,602
Contracts liabilities	16	6,930,333	7,297,746
Other current non-financial liabilities	21	935,012	2,910,727
Other current financial liabilities	15	2,589,565	1,716,864
Short-term lease liabilities	3	3,174,030	–
Income tax payable		1,438,205	1,853,827
Taxes payable other than income tax		485,535	1,585,856
Total current liabilities		31,490,150	81,195,439
Total liabilities		114,942,232	98,997,365
Total equity and liabilities		181,422,004	167,072,654

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

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

Chairman of the Management Board



Kaspars Kukelis

Acting Chief Financial Officer

Dauren Shaikhin

The accounting policies and notes on pages 6 to 25 are an integral part of these interim condensed consolidated financial statements (unaudited).

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>In thousands of tenge</i>	Notes	For three months ended 30 September		For nine months ended 30 September	
		2019 (unaudited)	2018 (unaudited)**	2019 (unaudited)	2018 (unaudited)**
Revenue from contracts with customers	16	41,120,319	38,757,500	114,169,525	111,446,854
Cost of sales	17	(27,474,137)	(28,774,201)	(80,257,553)	(82,359,253)
Gross profit		13,646,182	9,983,299	33,911,972	29,087,601
Penalty expenses	15	–	–	(14,551,865)	–
General and administrative expenses		(2,210,467)	(3,143,627)	(6,094,513)	(10,593,567)
Impairment of financial assets	9	(469,553)	(344,922)	(1,350,055)	(2,038,653)
Impairment of property and equipment	7	–	–	(1,844,104)	–
Selling expenses		(499,563)	(837,365)	(1,688,316)	(2,326,738)
Reversal of tax and related fines and penalties provision	21	–	–	5,068,826	–
Operating profit		10,466,599	5,657,385	13,451,945	14,128,643
Finance costs		(2,886,403)	(2,458,658)	(8,949,018)	(7,033,270)
Finance income		128,487	235,008	1,353,512	586,177
Net foreign exchange gain/(loss)		53,803	(258,942)	68,684	(207,977)
Other income		32,313	52,210	190,680	376,867
Other expenses		(86,620)	(9,528)	(164,074)	(117,471)
Profit before tax		7,708,179	3,217,475	5,951,729	7,732,969
Income tax expense	18	(1,869,921)	(1,825,069)	(925,846)	(2,863,339)
Profit for the period		5,838,258	1,392,406	5,025,883	4,869,630
Other comprehensive income		–	–	–	–
Total comprehensive income for the period, net of tax		5,838,258	1,392,406	5,025,883	4,869,630
Earnings per share					
Basic and diluted, tenge	6	29.19	6.96	25.13	24.35

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

** Certain amounts shown here do not correspond to the interim condensed consolidated financial statements for the three and nine months ended 30 September 2018 as they reflect the reclassifications and adjustments made, as detailed in Note 4.

Chairman of the Management Board



Kaspars Kukelis



Dauren Shaikhin

Acting Chief Financial Officer

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>In thousands of tenge</i>	Share capital	Retained earnings	Total equity
Balance at 1 January 2018 (audited)	33,800,000	37,422,257	71,222,257
Net profit for the period (unaudited) (restated)**	–	4,869,630	4,869,630
Other comprehensive income (unaudited)	–	–	–
Total comprehensive income (unaudited) (restated)**	–	4,869,630	4,869,630
Dividends declared (Note 6)	–	(11,678,000)	(11,678,000)
At 30 September 2018 (unaudited) (restated)**	33,800,000	30,613,887	64,413,887
Balance at 1 January 2019 (audited)	33,800,000	34,275,289	68,075,289
Change in accounting policy due to application of IFRS 16 (Note 3)*	–	(649,400)	(649,400)
Balance at 1 January 2019 (restated)	33,800,000	33,625,889	67,425,889
Net profit for the period (unaudited)	–	5,025,883	5,025,883
Other comprehensive income (unaudited)	–	–	–
Total comprehensive income (unaudited)	–	5,025,883	5,025,883
Dividends declared (Note 6)	–	(5,972,000)	(5,972,000)
At 30 September 2019 (unaudited)	33,800,000	32,679,772	66,479,772

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

** Certain amounts shown here do not correspond to the interim condensed consolidated financial statements for the three and nine months ended 30 September 2018 and consolidated financial statements for year ended 31 December 2018, as they reflect the reclassifications and adjustments made, as detailed in Note 4.

Chairman of the Management Board



Kaspars Kukelis

Acting Chief Financial Officer

Dauren Shaikhin

The accounting policies and notes on pages 6 to 25 are an integral part of these interim condensed consolidated financial statements (unaudited).

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

<i>In thousands of tenge</i>	Notes	For nine months ended 30 September 2019 (unaudited)	For nine months ended 30 September 2018 (unaudited)**
Cash flows from operating activities			
Profit before tax		5,951,729	7,732,969
Adjustments for:			
Impairment of financial assets	9	1,350,055	2,038,653
Impairment of property and equipment	7	1,844,104	–
Finance costs		8,949,018	7,033,270
Depreciation of property and equipment and right of use assets (for nine months ended 30 September 2018: depreciation of property and equipment)	3, 7	15,791,587	14,276,991
Amortization of intangible assets	8	7,447,699	5,287,297
Finance income		(1,353,512)	(586,177)
Reversal of tax and related fines and penalties provision	21	(5,068,826)	–
Gain on disposal of property and equipment		(9,365)	–
Net foreign exchange (gain)/loss, net		(68,684)	207,977
Operating cash flows before changes in operating assets and liabilities		34,833,805	35,990,980
Change in inventories		542,020	(405,857)
Change in trade receivables		(2,355,866)	(4,943,326)
Change in other current non-financial assets		5,198,397	3,226,703
Change in other current financial assets		(1,123,616)	(1,389,923)
Change in cost to obtain contracts		107,499	(146,218)
Change in trade payables		1,632,900	(2,540,555)
Change in other current non-financial liabilities		116,636	(1,817,645)
Change in other current financial liabilities		(535,105)	866,232
Change in contract liabilities		(367,413)	237,251
Change in taxes payable other than income tax		(1,130,640)	1,118,854
Cash flows generated from operations		36,918,617	30,196,496
Income tax paid		(3,312,728)	(4,149,039)
Interest received		378,489	586,166
Interest paid		(5,659,862)	(6,911,123)
Net cash inflows from operating activities		28,324,516	19,722,500
Cash flows from investing activities			
Purchase of property and equipment		(7,157,513)	(5,572,945)
Purchase of intangible assets		(3,228,413)	(10,046,928)
Purchase of financial assets at fair value through other comprehensive income		(5,021,171)	–
Net cash flows used in investing activities		(15,407,097)	(15,619,873)

The accounting policies and notes on pages 6 to 25 are an integral part of these interim condensed consolidated financial statements (unaudited).

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

<i>In thousands of tenge</i>	Notes	For nine months ended 30 September 2019 (unaudited)	For nine months ended 30 September 2018 (unaudited)**
Cash flows from financing activities			
Proceeds from loans		20,000,000	26,840,000
Proceeds from bonds issued		17,024,647	4,950,000
Repayment of loans		(37,000,000)	(27,000,000)
Repayment of lease liabilities		(4,338,228)	–
Dividends paid		(5,972,000)	(11,678,000)
Net cash flows used in financing activities		(10,285,581)	(6,888,000)
Net increase/(decrease) in cash and cash equivalents		2,631,838	(2,785,373)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency		116,882	100,480
Cash and cash equivalents at the beginning of the period		6,029,042	12,659,844
Cash and cash equivalents at the end of the period		8,777,762	9,974,951

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

** Certain amounts shown here do not consistent to the interim condensed consolidated financial statements for the nine months ended 30 September 2018, as they reflect the reclassifications and adjustments made, as detailed in Note 4.

NON-CASH TRANSACTIONS

For the nine months ended 30 September 2019 the Group paid 3,312,728 thousand tenge for corporate income tax of which 329,552 thousand tenge were subsequently offset against withholding tax for non-residents and other taxes (2018: 4,149,039 thousand tenge and 3,034,975 thousand tenge, respectively).

Chairman of the Management Board



Kaspars Kukelis

Acting Chief Financial Officer

Dauren Shaikhin

The accounting policies and notes on pages 6 to 25 are an integral part of these interim condensed consolidated financial statements (unaudited).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**For the nine months period ended 30 September 2019****1. GENERAL INFORMATION**

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

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

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

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

On 21 December 2018, the 75 percent stake in the Company owned by Telia Company was sold directly to Kazakhtelecom JSC (the “Parent”). As of 30 September 2019 the Company is controlled by Kazakhtelecom JSC. Kazakhtelecom JSC is controlled by the Government of the Republic of Kazakhstan through Sovereign Wealth Fund “Samruk-Kazyna” JSC (“Samruk-Kazyna”) which owns 51% of Kazakhtelecom’s controlling shares.

As of 30 September 2019 and 31 December 2018, the shareholders of the Company are presented as follow:

	30 September 2019 (unaudited)	31 December 2018
Kazakhtelecom JSC	75.00%	75.00%
Raiffeisenbank JSC	12.25%	11.14%
Freedom Finance JSC	–	5.68%
Other	12.75%	8.18%
	100.00%	100.00%

As of 30 September 2019 and 31 December 2018, the Company has the following principal subsidiaries:

	30 September 2019 (unaudited)	31 December 2018
KazNet Media LLP	100%	100%
KT-Telecom LLP	100%	100%

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

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

In January 2016, the Group paid 14,000,000 thousand tenge as the first tranche for LTE radio frequencies. In accordance with the decision made by Kazakhstan’s Ministry of Investments and Development (“the MID”) in January 2016, the Group had to pay a one-time fee of 4,000,000 thousand tenge by 1 February 2016 for 10/10 MHz radio frequency within the 1700/1800 MHz band, and the first tranche of 10,000,000 thousand tenge by 1 March 2016 to gain access to 10/10 MHz radio frequency within the 700/800 MHz band. The second tranche for 10/10 MHz radio frequencies within the 700/800 MHz band in the amount of 12,000,000 thousand tenge was to be paid by 1 December 2016. The Group paid the second tranche on 30 November 2016. On 1 March 2016, the Group launched LTE in its network on the previously granted frequencies.

The interim condensed consolidated financial statements were authorised for issue on 5 November 2019 by the Chairman of the Management Board.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the nine months ended 30 September 2019 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2018 and for the year then ended. The interim condensed consolidated financial statements are presented in Kazakhstan tenge, and all amounts are rounded to nearest thousands, except otherwise indicated.

Going concern

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

Foreign currency translation

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

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

	30 September 2019	31 December 2018
US dollar	387.99	384.20
Euro	423.72	439.37
Russian rouble	5.98	5.52

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New and amended standards and interpretations

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

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

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

IFRS 16 Leases

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 16 Leases (continued)

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

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

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

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

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

Leases previously accounted for as operating leases

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 16 Leases (continued)

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

Leases previously accounted for as operating leases (continued)

The Group also applied the available practical expedients wherein it:

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

Based on the foregoing, as at 1 January 2019:

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

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

In thousands of tenge

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

(b) Summary of new accounting policies

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

Right-of-use assets

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 16 Leases (continued)

(b) Summary of new accounting policies (continued)

Lease liabilities

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

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

Short-term leases

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

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

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

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

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

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

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

<i>In thousands of tenge</i>	Right-of-use assets	
	Buildings and construction	Lease liabilities
As at 1 January 2019	24,070,061	24,881,810
Depreciation expenses	(2,805,642)	–
Interest expenses	–	2,288,759
Payments	–	(4,338,228)
Additions	1,604,048	1,604,048
Disposals	(17,831)	(27,195)
Modifications	474,003	474,003
As at 30 September 2019	23,324,639	24,883,197

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed. The interpretation did not have an impact on the interim condensed consolidated financial statements of the Group.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the interim condensed consolidated financial statements of the Group.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the interim condensed consolidated financial statements of the Group.

Amendments to IAS 19 Plan Amendment, Curtailment or Settlement

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

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

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

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

IFRS 3 Business Combinations

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

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

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are not applicable to the Group.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

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

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. RESTATEMENT OF COMPARATIVE INFORMATION

Certain amounts in the interim condensed consolidated statement of financial position, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flow for the nine months ended 30 September 2018 were adjusted to correct the newly identified errors and reclassified to conform with the presentation adopted in the interim condensed consolidated statements for nine months ended 30 September 2019. The Group changed the presentation of its consolidated financial statements as new presentation provides information that is more relevant to users of the consolidated financial statements.

<i>In thousands of tenge</i>	As originally presented	Adjustments	Reclassifications	Note	As adjusted
Consolidated statement of financial position as at 31 December 2018					
Non-current assets					
Property and equipment	88,675,636	–	(238,290)	[1]	88,437,346
Intangible assets	40,605,754	–	(490,758)	[1]	40,114,996
Advances paid for non-current assets	–	–	729,048	[1]	729,048
Total non-current assets	132,716,720	–	–		132,716,720
Current assets					
Trade and other receivables	22,580,797	–	(22,580,797)	[2], [3]	–
Trade receivables	–	–	13,787,025	[2]	13,787,025
Other current non-financial assets	–	–	8,801,068	[3]	8,801,068
Other current financial assets	–	–	1,010,707	[3]	1,010,707
Due from related parties	1,018,003	–	(1,018,003)	[2]	–
Total current assets	34,355,934	–	–		34,355,934
Current liabilities					
Trade and other payables	18,000,475	–	(18,000,475)	[4], [5]	–
Trade payables	–	–	14,047,602	[4]	14,047,602
Other current non-financial liabilities	–	–	2,910,727	[5]	2,910,727
Other current financial liabilities	–	–	1,716,864	[5]	1,716,864
Due to related parties	674,718	–	(674,718)	[4]	–
Total current liabilities	81,195,439	–	–		81,195,439
Interim condensed consolidated statement of comprehensive income for the nine months ended 30 September 2018					
Revenue	111,659,265	(212,411)	–	[12]	111,446,854
Cost of sales	(72,128,367)	(2,654,603)	(7,576,283)	[6], [9]	(82,359,253)
Gross profit	39,530,898	(2,867,014)	(7,576,283)		29,087,601
General and administrative expenses	(13,590,280)	(1,399,561)	4,396,274	[6], [8]	(10,593,567)
Impairment of financial assets	–	–	(2,038,653)	[6]	(2,038,653)
Selling and marketing expenses	(7,545,400)	–	5,218,662	[6]	(2,326,738)
Other income	770,612	–	(770,612)	[7]	–
Other expenses	(819,673)	–	819,673	[7]	–
Operating profit	18,346,157	(4,266,575)	49,061		14,128,643
Finance income	826,146	–	(239,969)	[7]	586,177
Finance costs	(7,172,759)	–	139,489	[7]	(7,033,270)
Net foreign exchange loss	–	–	(207,977)	[7]	(207,977)
Other income	–	–	376,867	[7]	376,867
Other expenses	–	–	(117,471)	[7]	(117,471)
Profit before income tax	11,999,544	(4,266,575)	–		7,732,969
Income tax expense	(2,619,585)	(243,754)	–	[8]	(2,863,339)
Profit and total comprehensive income for the period	9,379,959	(4,510,329)	–		4,869,630

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. RESTATEMENT OF COMPARATIVE INFORMATION (continued)

<i>In thousands of tenge</i>	As originally presented	Adjustments	Reclassifications	Note	As adjusted
Interim condensed consolidated statement of comprehensive income for the three months ended 30 September 2018					
Revenue	38,969,911	(212,411)	–	[12]	38,757,500
Cost of sales	(25,272,317)	(854,563)	(2,647,321)	[6], [9]	(28,774,201)
Gross profit	13,697,594	(1,066,974)	(2,647,321)		9,983,299
General and administrative expenses	(3,949,064)	(466,520)	1,271,957	[6], [8]	(3,143,627)
Impairment of financial assets	–	–	(344,922)	[6]	(344,922)
Selling and marketing expenses	(2,557,651)	–	1,720,286	[6]	(837,365)
Other income	122,492	–	(122,492)	[7]	–
Other expenses	(380,825)	–	380,825	[7]	–
Operating profit	6,932,546	(1,533,494)	258,333		5,657,385
Finance income	320,416	–	(85,408)	[7]	235,008
Finance costs	(2,501,993)	–	43,335	[7]	(2,458,658)
Net foreign exchange loss	–	–	(258,942)	[7]	(258,942)
Other income	–	–	52,210	[7]	52,210
Other expenses	–	–	(9,528)	[7]	(9,528)
Profit before income tax	4,750,969	(1,533,494)	–		3,217,475
Income tax expense	(1,743,818)	(81,251)	–	[8]	(1,825,069)
Profit and total comprehensive income for the period	3,007,151	(1,614,745)	–		1,392,406
Interim condensed consolidated statement of changes in equity for the nine months ended 30 September 2018					
Retained earnings	35,124,216*	(4,510,329)	–	[8], [9], [12]	30,613,887
Interim condensed consolidated statement of cash flows for the nine months ended 30 September 2018					
Profit for the year	9,379,959	(4,510,329)	(4,869,630)	[10]	–
Profit before tax	–	2,863,339	4,869,630	[10]	7,732,969
<i>Adjustment for:</i>					
Change in income tax	1,505,001	(1,505,001)	–	[8], [10]	–
<i>Changes in working capital</i>					
Change in trade and other receivables	(5,295,889)	–	5,295,889	[11]	–
Long-term receivable	(1,513,897)	–	1,513,897	[11]	–
Change in trade receivables	–	–	(4,943,326)	[11]	(4,943,326)
Change in other current non-financial assets	–	3,034,455	192,248	[11]	3,226,703
Change in other current financial assets	–	–	(1,389,923)	[11]	(1,389,923)
Change in taxes payable other than income tax	41,333	1,399,561	(322,040)	[8], [10], [11]	1,118,854
Change in trade and other payables	(6,496,460)	2,654,603	3,841,857	[9], [11]	–
Change in trade payable	–	–	(2,540,555)	[11]	(2,540,555)
Change in other current non-financial liabilities	–	–	(1,817,645)	[11]	(1,817,645)
Change in other current financial liabilities	–	–	866,232	[11]	866,232
Change in contract liability	24,840	212,411	–	[11]	237,251
Due from related parties	668,785	–	(668,785)	[11]	–
Due to related parties	27,849	–	(27,849)	[11]	–
Income tax paid	–	(4,149,039)	–	[10]	(4,149,039)
Net cash flows from operating activities	19,722,500	–	–		19,722,500

* Including effect of change in accounting policy due to application of IFRS 9 in the amount of 682,866 thousand tenge and correction of errors as of 31 December 2017 in the amount of 5,092,332 thousand tenge.

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

4. RESTATEMENT OF COMPARATIVE INFORMATION (continued)

- [1] Advances paid for non-current assets in the amount of 729,048 thousand tenge were presented as separate line in the interim condensed consolidated statement of financial position.
- [2] Trade receivables in the amount of 12,769,022 thousand tenge were reclassified from trade and other receivables and presented as separate line in the interim condensed consolidated statement of financial position. Additionally, trade receivables from related parties in the amount of 1,018,003 thousand tenge were reclassified from due from related parties to trade receivables.
- [3] Other current non-financial assets, including VAT recoverable, prepaid other taxes, advances to suppliers, prepaid expenses in the amount of 6,674,090 thousand tenge, 1,201,942 thousand tenge, 513,529 thousand tenge and 411,507 thousand tenge, respectively, were reclassified from trade and other receivables and presented as a separate line in the interim condensed consolidated statement of financial position. Additionally, other receivables in the amount of 1,010,707 thousand tenge were reclassified from trade and other receivables to other current financial assets.
- [4] Trade payables in the amount of 13,372,884 thousand tenge were reclassified from trade and other payables and presented as separate line in the interim condensed consolidated statement of financial position. Additionally, trade payables to related parties in the amount of 674,718 thousand tenge were reclassified from due to related parties to trade payables.
- [5] Accrued salaries and bonuses to employees in the amount of 1,716,864 thousand tenge were reclassified from trade and other payables to other current financial liabilities. Additionally, other payables in the amount of 2,910,727 thousand tenge were reclassified from trade and other payables to other current non-financial liabilities.
- [6] For the nine months ended 30 September 2018 expenses related to operating activities of the Group, including mainly salary of personnel, rent expenses of Kcell stores and mobile service tax, in the total amount of 7,576,283 thousand tenge from general and administrative expenses and selling and marketing expenses were reclassified to cost of sales (three months ended 30 September 2018: 2,647,321 thousand tenge). Impairment of financial assets in the amount of 2,038,653 thousand tenge was reclassified from general and administrative expenses and presented as a separate line in the consolidated statement of comprehensive income (three months ended 30 September 2018: 344,922 thousand tenge).
- [7] For the nine months ended 30 September 2018 foreign exchange gain and losses were reclassified from other income and expenses in the amount of 393,745 thousand tenge and 702,202 thousand tenge, respectively, and from finance income and costs in the amount of 239,969 thousand tenge and 139,489 thousand tenge, respectively, and were presented as separate line 'net foreign exchange gain' in the interim condensed statements of comprehensive income (three months ended 30 September 2018: foreign exchange gain and losses were reclassified from other income and expenses in the amount of 70,282 thousand tenge and 371,297 thousand tenge, respectively, and from finance income and cost in the amount of 85,408 thousand tenge and 43,335 thousand tenge, respectively). Additionally, other income and expenses in the amount of 376,867 thousand tenge and 117,471 thousand tenge, respectively, were presented separately (three months ended 30 September 2018: 52,210 thousand tenge and 9,528 thousand tenge, respectively).
- [8] In nine months of 2018 the management of the Group identified certain errors related to the accrual of current income tax and personal income tax. The Group accrued additional current income tax and personal income tax in the total amount of 243,754 thousand tenge and 1,399,561 thousand tenge, respectively (three months ended 30 September 2018: 81,251 thousand tenge and 466,520 thousand tenge, respectively).
- [9] In nine months of 2018 the management of the Group identified, that the Group erroneously did not recognize expenses related to interconnect fees due to certain third party suppliers. The Group accrued interconnect fees expenses in the total amount of 2,654,603 thousand tenge for the nine months ended 30 September 2018 (three months ended 30 September 2018: 854,563 thousand tenge).
- [10] In consolidated statement of cash flows the Group changed the starting point for determination of cash flows from operating activity from profit for the year to profit before tax. Additionally, the Group presented the income tax paid in the amount of 4,149,039 thousand tenge in accordance with the requirements of IAS 7 *Statements of Cash Flows*.
- [11] In accordance with corrections and reclassifications made in the interim condensed consolidated statement of comprehensive income, and in the interim condensed consolidated statement of financial position, the Group made respective corrections and reclassification in the interim condensed consolidated statement of cash flow.
- [12] For the nine months ended 30 September 2018 revenue was adjusted in the amount 212,411 thousand tenge due to technically incorrectly counted units and bytes.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SEGMENT INFORMATION

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

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

6. SHARE CAPITAL AND EARNINGS PER SHARE

Share capital of the Group is as follows:

	30 September 2019		31 December 2018	
	Share	Number of shares	Share	Number of shares
Kazakhtelecom JSC	75.00%	150,000,000	75.00%	150,000,000
Raiffeisenbank JSC	12.25%	24,494,606	11.14%	22,282,367
Freedom Finance JSC	—	—	5.68%	11,353,659
Other	12.75%	25,505,394	8.18%	16,363,974

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

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

	For the three months ended 30 September		For the nine months ended 30 September	
	2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (unaudited)
<i>In thousands of tenge</i>				
Profit for the period attributable to equity shareholders	5,838,258	1,392,406	5,025,883	4,869,630
Weighted average number of ordinary shares	200,000,000	200,000,000	200,000,000	200,000,000
Earnings per share (Kazakhstani tenge), basic and diluted	29.19	6.96	25.13	24.35

The Group has no dilutive or potentially dilutive securities outstanding.

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

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

According to the requirements of the Kazakhstan Stock Exchange ("KASE"), the Group has calculated its cost per ordinary share, which was calculated based on the number of ordinary shares outstanding at the reporting date. The cost per ordinary share as at 30 September 2019 and 31 December 2018 is presented below.

	30 September 2019	31 December 2018
<i>In thousands of tenge</i>		
Net assets, excluding intangible assets	31,083,410	27,960,293
Number of ordinary shares in issue	200,000,000	200,000,000
Cost of ordinary share, calculated in accordance with listing requirements of KASE (Kazakhstani tenge)	155.42	139.80

During the nine months ended 30 September 2019 and 2018, the Group declared and paid dividends in the amount of 5,972,000 thousand tenge and 11,678,000 thousand tenge, respectively.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. PROPERTY AND EQUIPMENT

During the nine months period ended 30 September 2019, additions to property and equipment totaled to 3,427,577 thousand tenge (during nine months period ended 30 September 2018: 10,375,057 thousand tenge).

During the nine months period ended 30 September 2019, the Group sold property and equipment with gross book value of 100,351 thousand tenge, net book value nil (during nine months period ended 30 September 2018: nil thousand tenge).

During the nine months period ended 30 September 2019, transfer from construction-in-progress to property and equipment amounted to 6,285,284 thousand tenge (during nine months period ended 30 September 2018: 5,861,626 thousand tenge).

During the nine months period ended 30 September 2019, the Group recognized depreciation expense in the amount of 12,985,945 thousand tenge (during nine months ended 30 September 2018: 14,276,991 thousand tenge).

During the nine months period ended 30 September 2019, the impairment loss in the amount of 1,844,104 thousand tenge represented the write-down of certain property and equipment to the recoverable amount as a result of technological obsolescence and damage. Loss was recognized in the consolidated statement of comprehensive income as an operating expense.

As at 30 September 2019, the gross carrying value of property and equipment which has been fully depreciated and still in use, was 143,361,000 thousand tenge (as at 31 December 2018: 125,217,497 thousand tenge).

8. INTANGIBLE ASSETS

During the nine months ended 30 September 2019, the Group acquired intangible assets in the amount of 2,729,067 thousand tenge (during nine months ended 30 September 2018: 2,838,622 thousand tenge).

During the nine months ended 30 September 2019, the Group disposed fully amortized intangible assets with the gross amount of 677,778 thousand tenge and accumulated depreciation of 677,778 thousand tenge (during nine months ended 30 September 2018: nil).

During the nine months ended 30 September 2019, the Group recognized amortization expense in the amount of 7,447,699 thousand tenge (during nine months ended 30 September 2018: 5,287,297 thousand tenge).

As at 30 September 2019, the carrying amount of 3G license was 2,083,333 thousand tenge (31 December 2018: 2,333,333 thousand tenge) and its remaining amortization period was 6 years. As at 30 September 2019, the carrying amount of the 4G license was 19,644,444 thousand tenge (31 December 2018: 20,944,444 thousand tenge) and its remaining amortization period was 11 years.

As at 30 September 2019, the gross carrying value of intangible assets, which have been fully amortised and still in use, was 29,609,707 thousand tenge (31 December 2018: 27,630,351 thousand tenge).

9. TRADE RECEIVABLES

As at 30 September 2019 and 31 December 2018, trade receivables comprised of the following:

<i>In thousands of tenge</i>	30 September 2019 (unaudited)	31 December 2018
Trade receivable from subscribers	23,637,257	21,400,065
Trade receivable from interconnect services	418,032	330,859
Trade receivables from roaming operators	221,287	456,470
Trade receivables from dealers and distributors	–	629,826
Trade receivables from related parties	1,179,806	659,913
Less: allowance for expected credit losses	(7,699,262)	(6,680,113)
	17,757,120	16,797,020
Less: long-term portion of trade receivable from subscribers	(839,947)	(3,009,995)
	16,917,173	13,787,025

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. TRADE RECEIVABLES (continued)

During the nine months ended 30 September movements in the allowance for expected credit losses were as follows:

<i>In thousands of tenge</i>	For nine months ended	
	30 September 2019 (unaudited)	30 September 2018 (unaudited)
Allowance for expected credit losses at the beginning of the period	(6,680,113)	(5,642,354)
Charge for the period	(1,350,055)	(2,038,653)
Write-offs for the period	330,906	503,272
Allowance for expected credit losses at the end of the period	(7,699,262)	(7,177,735)

10. OTHER CURRENT NON-FINANCIAL ASSETS

As at 30 September 2019 and 31 December 2018, other current non-financial assets comprised of the following:

<i>In thousands of tenge</i>	30 September 2019 (unaudited)	31 December 2018
Prepaid taxes other than income taxes	897,310	1,201,942
VAT recoverable	2,811,443	6,674,090
Advances paid	2,851,507	513,529
Prepaid expenses	59,116	411,507
	6,619,376	8,801,068

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As at 30 September 2019 financial assets at fair value through other comprehensive income in the amount of 5,047,745 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 5,026,049 thousand tenge at the date of acquisition), with maturity till August 2020 and yield to maturity at rate 1.7%. Fair values of the financial assets are determined by reference to published price quotations in an active market (Level 1).

12. CASH AND CASH EQUIVALENTS

As at 30 September 2019 and 31 December 2018, cash and cash equivalents comprised of the following:

<i>In thousands of tenge</i>	30 September 2019 (unaudited)	31 December 2018
Cash on current bank accounts	5,841,421	5,883,718
Bank deposits with original maturity of less than 90 days	2,918,079	–
Cash in transit	–	132,134
Cash on hand	18,262	13,190
	8,777,762	6,029,042

As of 30 September 2019, short-term bank deposit represents overnight deposits in tenge placed in Citibank Kazakhstan JSC at interest rate 7%.

As at 30 September 2019 and 31 December 2018, cash and cash equivalents were denominated in various currencies as follows:

<i>In thousands of tenge</i>	30 September 2019 (unaudited)	31 December 2018
Tenge	3,102,192	5,259,475
US dollars	5,658,030	746,612
Russian rubles	2,948	1,253
Other	14,592	21,702
	8,777,762	6,029,042

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. BORROWINGS

As at 30 September 2019 and 31 December 2018, borrowings comprised of the following:

	Currency	Effective interest rate	Maturity date	30 September 2019 (unaudited)	31 December 2018
Eurasian Development Bank	Tenge	12.54%	20 May 2024	28,912,735	29,749,590
Halyk Bank of Kazakhstan JSC	Tenge	11.62%	12 May 2022	5,131,389	21,688,817
Bank of China Kazakhstan JSC	Tenge	11.08%	20 August 2020	5,059,792	–
SB Alfabank JSC	Tenge	12.86%	7 June 2019	–	10,086,666
VTB Bank JSC	Tenge	11.35%	1 February 2020	5,088,877	–
Bonds	Tenge	11.84%	16 January 2021	22,185,629	5,193,713
				66,378,422	66,718,786
Less: non-current portion				(60,497,131)	(14,935,969)
				5,881,291	51,782,817

The Group's borrowings are denominated in Kazakhstani tenge and represent unsecured loans. The Group has not entered into any hedging arrangements in respect of its interest rate exposures.

As at 30 September 2019 current portion of borrowings includes principal amount and interest accrued of VTB Bank JSC loan in the amount of 5,088,877 thousand tenge, interest accrued on other loans and bonds in the amount of 792,414 thousand tenge.

On 21 February 2019, the Group undertook a bond placement at the Kazakhstan Stock Exchange, in which bonds to the value of 17,024,648 thousand tenge were placed with investors at a yield of 11.5% and on 16 January 2018 a bond placement with the value of 4,950,000 thousand tenge. 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.

14. TRADE PAYABLES

As at 30 September 2019 and 31 December 2018, trade payables comprised of the following:

<i>In thousands of tenge</i>	30 September 2019 (unaudited)	31 December 2018
Trade payables to third parties	8,370,053	13,372,884
Trade payables to related parties	1,686,126	674,718
	10,056,179	14,047,602

15. OTHER CURRENT FINANCIAL LIABILITIES

As at 30 September 2019 and 31 December 2018, other current financial liabilities comprised of the following:

<i>In thousands of tenge</i>	30 September 2019 (unaudited)	31 December 2018
Accrued salaries and bonuses to employees	2,572,659	1,716,864
Other payables	16,906	–
	2,589,565	1,716,864

On 12 April 2019, the Group received from Kar-Tel LLP a notice on termination of the Network Sharing Agreement (hereinafter referred to as the "Agreement"), since there was a change in the Group's controlling shareholder in December 2018, which represents, in accordance with the Agreement, a breach of conditions of the Agreement, giving the right to the second party to terminate the Agreement and request payment of termination fine, determined in accordance with the methodology specified in the Agreement. The Group received from Kar-Tel LLP an invoice for payment of a termination fine in the amount of 14,551,865 thousand tenge. The Group repaid the termination fine in full in June 2019.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. REVENUE FROM CONTRACTS WITH CUSTOMERS

<i>In thousands of tenge</i>	For three months ended 30 September		For nine months ended 30 September	
	2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (unaudited)
Voice and other services	20,687,725	20,153,080	58,552,283	57,931,530
Data service	13,471,111	11,357,094	37,736,265	33,744,026
Sale of handsets	4,909,330	5,346,521	12,115,900	13,739,870
Value added services	2,052,153	1,900,805	5,765,077	6,031,428
	41,120,319	38,757,500	114,169,525	111,446,854
Services transferred over time	36,210,989	33,410,979	102,053,625	97,706,984
Goods transferred at a point of time	4,909,330	5,346,521	12,115,900	13,739,870
	41,120,319	38,757,500	114,169,525	111,446,854

As at 30 September 2019 and 31 December 2018, the contract liabilities in the amount of 6,930,333 thousand tenge and 7,297,746 thousand tenge were represented by deferred revenue.

17. COST OF SALES

<i>In thousands of tenge</i>	For three months ended 30 September		For nine months ended 30 September	
	2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (unaudited)
Depreciation and amortization	6,704,722	5,909,514	20,680,690	16,888,028
Interconnect fees and expenses	6,622,346	6,253,973	18,697,378	18,310,515
Cost of SIM-card, scratch card, start package sales and handsets	4,317,892	4,468,927	11,033,857	11,308,219
Transmission services	2,278,184	2,379,037	6,907,223	7,178,282
Personnel costs	2,109,901	2,460,005	6,336,427	7,450,867
Repair and maintenance	1,847,043	1,794,437	5,245,544	5,282,060
Fees for use of frequency range	1,416,607	1,298,820	4,155,394	3,878,199
Electricity	785,810	904,380	2,647,055	2,707,326
Mobile service tax	461,575	477,813	1,384,725	1,433,438
Rental of base stations	116,792	1,551,943	679,035	4,525,414
Security and safety	83,773	60,713	280,331	177,731
Materials	57,115	31,555	154,622	91,636
Other	672,377	1,183,084	2,055,272	3,127,538
	27,474,137	28,774,201	80,257,553	82,359,253

18. INCOME TAX EXPENSES

<i>In thousands of tenge</i>	For three months ended 30 September		For nine months ended 30 September	
	2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (unaudited)
Current income tax expense	2,318,294	2,289,044	2,567,554	5,624,432
Deferred income tax benefit	(448,373)	(463,975)	(1,641,708)	(2,761,093)
	1,869,921	1,825,069	925,846	2,863,339

19. RELATED PARTY DISCLOSURES

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. RELATED PARTY DISCLOSURES (continued)

Each financial year the Group examines the financial position of the related parties and the markets in which the related parties operate to conclude whether accounts receivable from related parties shall be impaired. No impairment of accounts receivable from related parties was recognised based on such analysis as at 30 September 2019 and 31 December 2018.

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

Related party transactions were made on terms agreed between parties that may not necessarily be at market rate. Sales and purchases with related parties during nine months ended 30 September 2019 and 2018, and the balances with related parties as at 30 September 2019 and 31 December 2018, were as follows:

	For three months ended 30 September		For nine months ended 30 September	
	2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (unaudited)
<i>In thousands of tenge</i>				
Sales of goods and services				
Entities of Telia Company group (previous shareholder)	–	219,631	–	378,194
Entities of Samruk Kazyna group	40,712	–	147,096	–
Entities of Kazakhtelecom group	2,670,486	–	8,230,245	–
Government entities	79,133	–	155,077	–
Purchases of goods and services				
Entities of Telia Company group (previous shareholder)	–	666,014	–	1,670,675
Entities of Samruk Kazyna group	201,482	–	535,359	–
Entities of Kazakhtelecom group	4,989,836	–	14,219,627	–
Government entities	7,747	–	24,251	–
			30 September 2019 (unaudited)	31 December 2018
<i>In thousands of tenge</i>				
Trade receivables				
Entities of Samruk Kazyna group			221,448	452,534
Entities of Kazakhtelecom group			868,597	199,106
Government entities			89,761	8,273
Trade payables				
Entities of Samruk Kazyna group			128,670	14,823
Entities of Kazakhtelecom group			1,557,430	658,622
Government entities			26	1,273

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. FINANCIAL INSTRUMENTS

Fair values

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

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 30 September 2019 was as follow:

<i>In thousands of tenge</i>	Date of valuation	Price quotation on active market (Level 1)	Significant observable in-puts (Level 2)	Significant unobservable in-puts (Level 3)	Total
Assets for which fair values are disclosed					
Financial assets at fair value through other comprehensive income	30 September 2019	5,047,745	–	–	5,047,745
Short-term trade receivables	30 September 2019	–	–	16,917,173	16,917,173
Long-term trade receivables	30 September 2019	–	–	861,309	861,309
Other current financial assets	30 September 2019	–	–	2,168,203	2,168,203
Liabilities for which fair values are disclosed					
Borrowings	30 September 2019	–	–	66,154,608	66,154,608
Trade payables	30 September 2019	–	–	10,056,179	10,056,179
Other current financial liabilities	30 September 2019	–	–	2,589,565	2,589,565

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. FINANCIAL INSTRUMENTS (continued)

Fair values (continued)

As at 30 September 2019 and 31 December 2018, the carrying amounts of the Group's financial assets and liabilities presented as follows:

<i>In thousands of tenge</i>	Carrying amount 30 September 2019	Fair value 30 September 2019	Unrecog- nised gain/(loss)	Carrying amount 31 December 2018	Fair value 31 December 2018	Unrecog- nised gain/(loss)
Financial assets						
Cash and cash equivalents	8,777,762	8,777,762	–	6,029,042	6,029,042	–
Financial assets at fair value through other comprehensive income	5,047,745	5,047,745	–	–	–	–
Short-term trade receivables	16,917,173	16,917,173	–	13,787,025	13,787,025	–
Long-term trade receivables	839,947	861,309	21,362	3,009,995	3,009,995	–
Other current financial assets	2,168,203	2,168,203	–	1,010,707	1,010,707	–
Financial liabilities						
Borrowings	66,378,422	66,154,608	(223,814)	66,718,786	66,718,786	–
Trade payables	10,056,179	10,056,179	–	14,047,602	14,047,602	–
Other current financial liabilities	2,589,565	2,589,565	–	1,716,864	1,716,864	–
Total unrecognised change in unrealised fair value			(202,452)			–

21. COMMITMENTS AND CONTINGENT LIABILITIES

Operating environment

Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstan economy will largely depend on these reforms, as well as on the effectiveness of the Government's actions in the area of economy, financial and monetary policy.

Capital commitments

The Group generally enters into contracts for the completion of construction projects and purchase of equipment. As at 30 September 2019, the Group had contractual commitments totaling 6,977,311 thousand tenge, excluding VAT (unaudited) (as at 31 December 2018: 4,295,229 thousand tenge, excluding VAT).

Taxation

Tax legislation and regulatory framework of the Republic of Kazakhstan are subject to constant changes and allow for different interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 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 30 September 2019. Management believes that as at 30 September 2019 its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained, except as provided for or otherwise disclosed in these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Taxation (continued)

In July 2017, the Kazakhstan tax authority completed its comprehensive tax audit for the period of 2012-3rd quarter 2015. Based on the results of the tax audit, the tax authority made an accrual of additional taxes and fines and penalties in the total amount of 9,008,002 thousand tenge, of which 5,789,678 thousand tenge is for unpaid taxes and 3,218,324 thousand tenge represents fines and penalties. The Group did not agree with some results of tax audit and filed an appeal.

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

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

- Additional charge on withholding tax for services provided by non-resident legal entities in the amount of 2,196,555 thousand tenge;
- Additional VAT on software technical support services provided by non-resident legal entities in the amount of 779,916 thousand tenge;
- Related fines and penalties in the amount of 2,092,355 thousand tenge.

The Group recognized income from reversal of the tax and related fines and penalties provision in the total amount of 5,068,826 thousand tenge in the interim condensed consolidated statement of comprehensive income for the three and nine months ended 30 September 2019. As the Group has already paid withholding tax for services provided by non-resident legal entities in the amount of 2,196,555 thousand tenge and additional VAT and withholding tax for services charge in the amount of 779,916 thousand tenge, the Group recognised these prepaid taxes and expects to offset against future taxes accrual. Fines and penalties in the amount of 2,092,355 thousand tenge was not paid as of 30 September 2019, and the Group had recognized provision on the full amount of the fines and penalties in previous year. Thus, the Group recognized the reversal of the provision on fines and penalties for the total amount of 2,092,355 thousand tenge. As at 30 September 2019, the Group had remaining liability for fine and penalty in the amount of 935,012 thousand tenge.

New technical regulations

Order No. 91 of the Committee of the National Security dated 20 December 2016 on approval of the Technical Regulations *General Requirements to the Telecommunication Equipment in Ensuring Conducting of Operative Search Measures, Collection and Storage of Subscribers' Information* was published on 7 February 2017 and came into force on 8 February 2018. According to the new regulations, there are additional requirements to the telecommunication equipment that include expansion of technical capabilities of equipment to conduct operative search activities, collection and storage of subscribers' information (hereinafter – "ORA"). Currently, the Group is in the process of modernization of the telecommunication equipment of the Kcell's network in order to comply with the requirements of the Technical Regulations.

Cases related to the abuse of dominant position

On 19 October 2018, the Committee on Regulation of Natural Monopolies, Protection of Competition and Consumer Rights of the Ministry of National Economy of the Republic of Kazakhstan ("Committee") initiated administrative proceedings against the Group for an alleged administrative violation related to the abuse of its dominant position in 2017. The potential fine, which can be imposed by the court, constitutes approximately 2,000,000 thousand tenge.

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

The Group did not agree with the order issued by the Committee. On 3 July 2019, the Group appealed to the Court. 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.

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

22. SEASONALITY OF OPERATIONS

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

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

23. SUBSEQUENT EVENTS

On 17 October 2019 the Group has fully repaid loan in the amount of 5,131,389 thousand tenge obtained from Halyk Bank of Kazakhstan JSC.