

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION**  
*(in thousand of Kazakhstani Tenge, unless otherwise stated)*
**1. THE GROUP AND ITS OPERATIONS**

This condensed interim consolidated financial information has been prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board for the three months ended 31 March 2019 for Kcell JSC ("the Company") and its subsidiaries (together referred to as "the Group").

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 began its commercial operations in 1999 through direct sales and a network of distributors. Prior to 2 February 2012, the Company was owned 51 percent by Fintur Holdings B.V. ("Fintur") and 49 percent by Kazakhtelecom JSC ("Kazakhtelecom"). Fintur itself is owned jointly by Sonera Holding B.V. ("Sonera") and Turkcell Iletisim Hizmetleri A.S., with holdings of 58.55 percent and 41.45 percent, respectively.

On 2 February 2012, the 49 percent stake in the Company owned by Kazakhtelecom was sold directly to Sonera, a subsidiary of Telia Company.

On 1 July 2012, the General Meeting of the participants of GSM Kazakhstan approved a conversion of the Company from Limited Liability Partnership to Joint Stock Company ("the Conversion"), with 200,000,000 common shares to be transferred to Fintur and Sonera in proportion to their ownership percentage. The General Meeting also approved the Company's change of name to Kcell JSC.

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

On 13 December 2012, the Company successfully completed its offering of Global Depositary Receipts on the London Stock Exchange and common shares on the Kazakhstan Stock Exchange. The offering consisted of a sale by Sonera of 50 million shares, which represented 25 percent of the Company's share capital (Note 13).

On 4 May 2016, the 24 percent stake in the Company owned by Sonera was sold directly to TeliaSonera Kazakhstan Holding B.V. ("TeliaSonera Kazakhstan"), a subsidiary of Telia Company.

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

The Company owns the following subsidiaries:

	<b>Ownership interest</b>		<b>Voting power</b>	
	<b>31 March 2019</b>	<b>31 March 2018</b>	<b>31 March 2019</b>	<b>31 March 2018</b>
KazNet Media LLP (Note 3)	100%	100%	100%	100%
KT-Telecom LLP	100%	100%	100%	100%

**Operations**

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

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

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

**2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES****Basis of preparation**

This condensed interim consolidated financial information has been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB") on the historical cost basis.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the financial information is determined on such a basis, except for leasing transactions that are within the scope of International Accounting Standard ("IAS") 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into levels based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies applied in the preparation of these condensed interim consolidated financial information are set out below. This condensed interim consolidated financial information has been prepared in accordance with IFRSs and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued and effective.

The preparation of consolidated financial information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial information are disclosed in Note 4. Actual results could differ from those estimates.



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**Foreign currency translation***(i) Functional and presentation currency*

All amounts in this condensed interim consolidated financial information are presented in thousands of Kazakhstani Tenge ("Tenge"), unless otherwise stated. The functional currency of the Group entities is also Tenge, the currency of the primary economic environment in which they operate.

*(ii) Transactions and balances*

Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction established by the National Bank of the Republic of Kazakhstan. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the profit or loss for the year.

As at 31 March 2019, the principal rate of exchange used for translating foreign currency balances was US Dollar ("USD") 1 = Tenge 380.04 (31 December 2018: USD 1 = Tenge 384.2). Exchange restrictions and currency controls exist relating to converting Tenge into other currencies. At present, the Tenge is not a freely convertible currency in most countries outside of the Republic of Kazakhstan.

**Condensed interim consolidated financial information**

The condensed interim consolidated financial information incorporate the financial information of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses 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 listed above.

Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

**Property and equipment***(i) Recognition and subsequent measurement*

Property and equipment are stated at cost, less accumulated depreciation and provision for impairment. Cost comprises construction cost or purchase price, including import duties and non-refundable taxes, and any directly attributable costs of bringing the asset to working condition for its intended use. Any trade discounts and rebates are deducted in arriving at the construction cost or purchase price.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property and equipment items are capitalised and the replaced part is retired. Construction in progress is carried at cost. Upon completion, assets are transferred to machinery at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

Advances for property and equipment are presented within property and equipment financial statement line.

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**(ii) Depreciation**

Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Property	10 to 50
Machinery	3 to 10
Equipment tools and installations	2 to 8

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset, less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in the profit or loss for the year when the asset is retired.

**(iii) Impairment**

At each reporting date, management assesses whether there is any indication of impairment of property and equipment. If any such indication exists, management estimates the recoverable amount of the asset to determine the extent, if any, of the impairment loss. The recoverable amount is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

**Intangible assets**

The Group's operating licenses (GSM-900, GSM-1800 and 3G), as disclosed in Notes 1 and 11, are recorded at cost and are amortised on a straight-line basis over the estimated economic useful life of the license/right. The economic useful life of the original GSM license and 3G license is estimated by management at 15 years based on their terms. The useful life of the initial license term is in line with management's assessment of the development of communication technology. The economic useful life of the right for the radiofrequencies (GSM-1800) was estimated by management to expire in line with the GSM-900 license. On 1 March 2016, the Group launched LTE in its network on the previously granted frequencies. The economic useful life of the 4G license is also estimated by management at 15 years based on its terms. The useful life of the initial license term is in line with management's assessment of the development of communication technology. The economic useful life of the right for the radiofrequencies (GSM-1700/1800) was estimated by management to expire in line with the GSM-700/800 license.

Other intangible assets are amortised over their estimated useful lives as follows:

	Useful lives in years
Computer software and software license rights	3 to 8
Other telecom licenses	10
Other	8 to 10

If impaired, the carrying amount of intangible assets is written down to the higher of value in use or fair value less costs to sell.

Advances for intangible assets are presented within intangible assets financial statement line.



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**Operating leases**

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

**Inventories**

Inventories primarily include handsets and other goods for resale. Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

**Trade and other receivables**

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

An allowance for impairment of receivables is established based on an expected credit loss model. The Group accounts expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. The primary factors that the Group considers whether a receivable is impaired is its overdue status, collection history and forward looking macro-economic factors.

Prepaid taxes, deferred expenses and advances to suppliers are stated at actual amounts paid less allowance for impairment.

**Prepayments**

Prepayments are carried at cost less any allowance for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

**Cash and cash equivalents**

Cash and cash equivalents include cash on hand and deposits held at call with banks with original maturities of three months or less and are subject to insignificant risk of change in value. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date are included in restricted cash.

**Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are expensed to the consolidated statement of comprehensive income. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

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**Dividends**

Dividends are recorded as a liability and deducted from equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the consolidated financial information are authorised for issue are disclosed in the subsequent events note.

**Value added tax**

Value added tax ("VAT") related to sales is payable to the government when goods are shipped or services are rendered. Input VAT is reclaimable against output VAT upon receipt of a tax invoice from a supplier. The tax legislation permits the settlement of VAT on a net basis. Accordingly, VAT related to sales and purchases unsettled at the reporting date is stated in the information of financial position on a net basis.

**Trade and other payables**

Trade and other payables are accrued when the counterparty performed its obligations under the contract. The Group recognises trade payables initially at fair value. Subsequently, trade payables are carried at amortised cost using the effective interest method.

**Provisions for liabilities and charges**

Provisions for liabilities and charges are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. In such circumstances, a provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

**Revenue recognition**

Revenue recognized when the goods or services are transferred to the customer, at the transaction price, being the sales value, net of discounts granted and VAT.

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

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

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

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

The Group may bundle services and products into one customer offering. Offerings may involve the delivery or performance of multiple products, services, or rights to use assets (multiple deliverables). In some cases, the arrangements include initial installation, initiation, or activation services and involve consideration in the form of a fixed fee or a fixed fee coupled with a continuing payment stream. Telecom equipment is accounted for separately from service where a market for each deliverable exist and if title to the equipment passes to the end-customer. Costs associated with the equipment are recognised at the time that revenue is recognised. The revenue is allocated to equipment and services on a relative stand-alone selling price basis.

The stand-alone selling prices are determined based on the list prices at which the Group sells the mobile devices and telecommunication services. Services invoiced based on usage are not included in the allocation. 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.



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In revenue arrangements where more than one good or service is provided to the customer, customer consideration is allocated between the goods and services using relative fair value principles. Determining the fair value of each deliverable can require complex estimates. The Group generally determines the fair value of individual elements based on prices at which the deliverable is regularly sold on a stand-alone basis after considering volume discounts where appropriate.

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

*(i) Call out revenue*

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

*(ii) Interconnect revenues and costs*

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

*(iii) Data revenue*

The data service is recognised when a service is used by a subscriber based on actual data volume traffic or over the contract term, as applicable.

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

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

*(v) Roaming fees charged to other wireless operators*

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

*(vi) Value added services*

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

*(vii) Deferred revenue*

Prepayments received for communication services are recorded as deferred revenue. The Group recognises revenue when the related service has been provided to the subscriber.

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**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 in order to determine the appropriate presentation of the amounts receivable from and payable to its roaming partners in its consolidated information of financial position.

**Sales commission to dealers**

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

**Payroll expenses and related contributions**

Wages, salaries, contributions to pension funds, paid annual leave and sick leave, bonuses, and other benefits are accrued in the period in which the associated services are rendered by the employees of the Group.

**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.

**Income taxes**

Income taxes have been provided for in these consolidated financial information in accordance with Kazakhstani legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the period.

Current tax is the amount expected to be paid to or recovered in respect of taxable profits or losses for the current and prior periods. Taxable income or losses are based on estimates where the consolidated financial information are authorised prior to the filling of the relevant tax return. Taxes, other than on income, are recorded within operating expenses.



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Deferred income tax is provided using the balance sheet liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences are recorded only to the extent that it is probable that future taxable profit, including deferred tax liabilities, will be available against which the deductions can be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

**Earnings per share**

Earnings per share are determined by dividing the profit or loss attributable to owners of the Group by the weighted average number of participating shares outstanding during the reporting year. The Group has no dilutive or potentially dilutive securities outstanding.

**Segment reporting**

Segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately. The Group's Chief Executive Officer has been identified as the chief operating decision-maker. The Group determined the Group's operations as a single reporting segment.

**Financial instruments*****Financial assets***

All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as fair value through profit or loss (FVTPL). Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognized immediately in profit or loss.

All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortized cost;
- Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income (FVTOCI);

All other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

**Debt instruments at amortized cost or at FVTOCI**

The Group assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Group's business model for managing the asset.

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For an asset to be classified and measured at amortized cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

**Financial assets at FVTPL**

Financial assets at FVTPL are:

- Assets with contractual cash flows that are not SPPI; or/and
- Assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- Assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognized in profit or loss.

**Financial liabilities**

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

**Financial liabilities at FVTPL**

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire hybrid (combined) contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains/losses arising on remeasurement recognized in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'net income from other financial instruments at FVTPL' line item in the profit or loss account.



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However, for non-derivative financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

For issued loan commitments and financial guarantee contracts that are designated as at FVTPL all gains and losses are recognized in profit or loss.

In making the determination of whether recognizing changes in the liability's credit risk in OCI will create or enlarge an accounting mismatch in profit or loss, the Group assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL. This determination is made at initial recognition.

Other financial liabilities

Other financial liabilities, including payables and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

### **3. BUSINESS COMBINATION UNDER COMMON CONTROL**

On 26 August 2012, Sonera and the Company entered into a memorandum of understanding ("the MoU"), under which the Company had the right to require Sonera to sell to it, and Sonera had the right to require the Company to acquire from it:

- all participatory interests owned by Sonera in KazNet Media LLP ("KazNet") together with all rights and obligations of Sonera under a framework agreement to buy all the participatory interests in the charter capital of KazNet; and
- and all the participatory interests owned by Sonera in Rodnik Inc LLP ("Rodnik") together with all rights and obligations of Sonera under the agreements to buy participatory interests in the charter capital of Rodnik (refer to "Investment in Rodnik by Sonera" in Note 20).

On 20 October 2015, the Company and KT-Telecom (100 percent subsidiary of the Company) signed an agreement ("the Agreement") for the purchase of 100 percent of the participatory interest in KazNet where Sonera is the seller. KazNet holds 100 percent of the participatory interest in Kcell Solutions (formerly Aksoran LLP) and 100 percent of the participatory interest in Instaphone – companies holding frequencies that are capable of being deployed for 4G/LTE. On 31 March 2017, Aksoran LLP was re-registered as Kcell Solutions LLP (further – "Kcell Solutions").

In accordance with the Agreement, the amount of the transaction is divided into two tranches. The first tranche comprises a nominal price of 5 million US Dollars; the second tranche is equal to the fair market value of the frequencies. If the parties of the Agreement cannot agree on the fair value of the frequencies, then the fair value shall be determined by independent appraiser appointed by the parties. The total amount of the transaction shall not exceed 70 million US Dollars.



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In accordance with the Agreement, the second tranche shall be paid by the Company within 60 calendar days from the date at which the frequencies are permitted to be used by the Company for 4G/LTE services in Kazakhstan. The Company shall receive the relevant authorisation for the use of the frequencies by 31 December 2025. The second tranche shall not be due and payable if the Company is not authorised to provide 4G/LTE services in Kazakhstan by 31 December 2025. As at 31 March 2019, the Company did not apply for permission to use the frequencies.

In accordance with the Agreement, the completion of the deal is subject to the satisfaction of a list of conditions, including but not limited to, signing of waiver-letters and execution of an amendment to the MoU.

On 15 January 2016, all parties of the Agreement signed waiver-letters according to which all parties confirmed no need for execution of the amendment to the MoU and corresponding satisfaction of all the conditions precedent set forth in the Agreement.

On 4 May 2016, the Company and KT-Telecom signed an amendment to the Agreement for the purchase of a 100 percent participatory interest in KazNet from Telia Company for 1 US Dollar (the revised first tranche following the amendment). The parties agreed that the control over KazNet is transferred to the Group and thereafter the Group would consolidate KazNet, including its subsidiaries Kcell Solutions and Instaphone, starting from the month after Kcell Solutions repays the 5 million US Dollars of loan principal plus 369 thousand US Dollars of accrued interest on that loan to Sonera.

On 5 May 2016, KazNet repaid a loan due to Sonera in full, thus the Group obtained control over the activity of KazNet, including Kcell Solutions and Instaphone, and consolidated its financial information since June 2016. Since the transfer of ownership in KazNet represents a business combination under common control, the assets and liabilities of the transferred subsidiary were recognised at their historical carrying values per the predecessor owner's financial information. The financial information of these companies are not significant for understanding of the consolidated financial information; as such, the Group consolidated them from the date of control transfer.

#### **4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial period. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in these consolidated financial information and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial period include:

##### **Useful lives of property and equipment and intangible assets**

Management determines the estimated useful lives and related depreciation and amortisation charges for its property and equipment and intangible assets. This estimate is based on projected period over which the Group expects to consume economic benefits from the asset. It could change significantly as a result of technical innovations and competitor actions in a high-tech and competitive mobile industry. Management will increase the depreciation charge where useful lives are less than previously assessed estimated lives, or it will write down technically obsolete assets that have been abandoned.

Management assesses the useful life of telecommunication licenses based on technological development and the legal terms of the license agreements. The useful life of each of GSM, the 3G license and the 4G license is assessed as estimated by the management as 15 years. The useful lives are reviewed at least at each reporting date.



**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION  
(CONTINUED)**

*(in thousand of Kazakhstani Tenge, unless otherwise stated)*

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**Provisions and contingencies**

For each event management makes separate assessment of probable outcome and its effect on the Group's operations. Provisions are recognised when negative outcome is anticipated to be probable. For those events, with possible negative outcome on the Group's operations related contingency is disclosed in the financial statements.

**Deferred tax assets and liabilities**

As at each reporting date, management determines the amount of deferred income tax by comparing the carrying amounts of assets and liabilities and the corresponding tax bases. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the date of the corresponding consolidated information of financial position. Management makes certain assumptions in determining future taxable income sufficient for compensation of deferred tax assets reflected in the consolidated statement of financial position. The carrying amount of net deferred tax liability as at 31 March 2019 amounted to 328,447 thousand Tenge (as at 31 December 2018: 1,503,915 thousand Tenge).

**Going concern**

These consolidated financial information have been prepared in accordance with IFRSs on a going concern basis, which assumes the realisation of assets and discharge of liabilities in the normal course of business within the foreseeable future.

As at 31 March 2019, the Group's net current liabilities are 14,349,052 thousand Tenge. On 14 December 2017, the Group announced a programme to place bonds in the amount of 30,000,000 thousand Tenge on the Kazakhstan Stock Exchange. The Group undertook a bond placement on the Kazakhstan Stock Exchange, in which bonds to the value of 21,754,000 thousand Tenge were placed. Management has considered the Group's future plans, and in light of these plans and the current and expected profitability of the Group, positive cash flows from operations, available financing, management believes that the Group will continue to operate as a going concern for the foreseeable future.

**5. IMPACT OF APPLICATION OF IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS**

The Group applied IFRS 15 in accordance with the full retrospective transitional approach by restating all comparative periods presented. The Group's accounting policies for its revenue streams are disclosed in detail in Note 2 above.

The most significant changes to the Group's accounting policies and the effect of transition to IFRS 15 for each financial information line affected is illustrated below.

Bundled offerings: prior to transition to IFRS 15 the Group's accounting for and recognition of revenue for bundled offerings and allocation of the consideration between equipment and services did not contradict the principles outlined in IFRS 15, except for the basis of allocation of transaction price to performance obligations under the contracts, in particular to mobile devices and telecommunication services which previously was proportion of fair value of individual items. Following the adoption of IFRS 15, transaction prices were allocated based on standalone selling price basis. A detailed analysis of performance obligations and revenue recognition for each type of customer contract was performed and the model used in the previous financial year was revised for certain types of customer contracts, the effect was not material.



**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION  
(CONTINUED)**

*(in thousand of Kazakhstani Tenge, unless otherwise stated)*

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Incremental costs for obtaining a contract: Sales commissions and equipment subsidies granted to dealers for obtaining a specific contract are capitalised and deferred over the period over which the Group expects to provide services to the customer, according to IFRS 15 requirements. The Group did not capitalize such costs in the periods prior to IFRS 15 adoption. The main effect of transition to IFRS 15 for the Group relates to capitalisation of costs to obtain the contract and their subsequent amortization through the statement of comprehensive income.

**6. AMENDMENTS TO IFRS AND THE NEW INTERPRETATION THAT ARE MANDATORILY EFFECTIVE FOR THE CURRENT YEAR**

In the previous year, the following new and revised Standards and Interpretations have been adopted in these consolidated financial information:

- IFRS 15 Revenue from Contracts with Customers;
- IFRS 9 Financial Instruments;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration;
- Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions;
- Amendments to IAS 40 – Transfers of Investment Property;
- Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts;
- Annual Improvements to IFRSs 2014-2016 Cycle.

The adoption of the above mentioned Standards and Interpretations has not led to any changes in the Group's accounting policies and did not materially affect the consolidated financial information of the Group, with the exception of IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments as follows.

In the previous year, the Group has applied IFRS 9 Financial Instruments that is mandatorily effective for an accounting period that begins on or after 1 January 2018. In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised. In the current year, the Group changed incurred credit loss model to expected credit loss model, although the effect was not material.

In relation to a modification of terms of a financial liability, the Group needs to consider whether that modification is substantial. The treatment of non-substantial modification is different under IAS 39 and IFRS 9. Under IAS 39, the Group did not recognize any gain or loss at the time of non-substantial modification. At the point of modification the carrying amount of the financial liability is revised for directly attributable transaction costs and any consideration paid to or received from the counterparty. The effective interest rate is then adjusted to amortise the difference between the revised carrying amount and the expected cash flows over the life of the modified instrument. Under IFRS 9, a gain or loss shall be recognized at the point of a non-substantial modification. The modification gain or loss is equal to the difference between the present value of the cash flows under the original and modified terms discounted at the original effective interest rate. At the point of modification the carrying amount of the financial liability is revised to reflect the new cash flows discounted by the original effective interest rate as well as directly attributable transaction costs and any cash paid to or received from the counterparty. The effective interest rate is then adjusted to amortise the difference between the revised carrying amount and the expected cash flows over the life of the modified instrument.



**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION  
(CONTINUED)**

*(in thousand of Kazakhstani Tenge, unless otherwise stated)*

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Corresponding information was not restated for the effect of IFRS 9 adoption, as the modified retrospective approach was applied on transition, which allows recognition of differences in the opening retained earnings at the beginning of the period.

The Group has applied IFRS 15 Revenue from Contracts with customers that is mandatorily effective for an accounting period that begins on or after 1 January 2018. The Group has amended accounting for bundled offerings and incremental costs for obtaining a contract (Note 5).

**IFRS 16 Leases**

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

The Group reviewed their agreements that may contain lease and evaluated the disclosure requirements of the new guidance, and will design and implement any identified necessary controls. The Group recognised the right of use asset of 23,301,415 thousand Tenge and the corresponding lease liability of 24,367,559 thousand Tenge in the current period. The impact on profit or loss for the three months ended 31 March 2019 is to decrease expenses by 1,424,825 thousand Tenge, to increase depreciation by 927,215 thousand Tenge and to increase interest expense by 762,003 thousand Tenge.

# NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

## 7. NEW AND REVISED IFRS IN ISSUE BUT NOT YET EFFECTIVE

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

	Effective for annual periods beginning on or after
<i>IFRS 17 Insurance Contracts</i>	1 January 2021*
<i>IFRIC 23 Uncertainty Over Income Tax Treatments</i>	1 January 2019*
<i>Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	a date to be determined*

\*with earlier application permitted

## 8. SEGMENT INFORMATION

The Group's operations are a single reportable segment.

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

The Group's Chief Executive Officer has been determined as the chief operating decision-maker ("CODM"). The CODM reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined a single operating segment being mobile communication services based on these internal reports.

## 9. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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. For the majority of the year Telia Company was the ultimate parent company of the Group. Telia Company group includes entities under common control and associates of Telia Company. On 21 December 2018, the 75 percent stake in the Company owned by Telia Company was sold directly to Kazakhtelecom JSC. Kazakhtelecom JSC is controlled by the Government of the Republic of Kazakhstan through Sovereign Wealth Fund "Samruk-Kazyna" JSC ("Samruk-Kazyna") which owns 51% of Kazakhtelecom's controlling shares (Note 1). Governmental entities include entities under common control and associates of the Government of the Republic of Kazakhstan.



**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION  
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The Group's primary transactions with related parties are consulting services, technical assistance and operational support, roaming and interconnect. The Group's transactions with its related parties during the years ended 31 March and related amounts due as of the period end were as follows:

		<b>31 March 2019</b>	<b>31 December 2018</b>
Due from related parties	Entities of Telia Company group	-	359,090
Due to related parties	Entities of Telia Company group	-	71,963
Due to related parties	Fintur Holdings B.V.	-	474,596
<b>Three months ended</b>			
		<b>31 March 2019</b>	<b>31 March 2018</b>
Revenue	Entities of Telia Company group	-	538,393
Expense	Entities of Telia Company group	-	1,274,050
Expense	Fintur Holdings B.V.	-	474,735
<b>Three months ended</b>			
		<b>31 March 2019</b>	<b>31 December 2018</b>
Due from related parties	Entities of NWF "Samruk-Kazyna" group	197,101	452,534
Due from related parties	Entities of Kazakhtelecom JSC group	501,368	199,106
Due from related parties	Governmental entities	15,722	8,273
Due to related parties	Entities of NWF "Samruk-Kazyna" group	37,738	14,823
Due to related parties	Entities of Kazakhtelecom JSC group	2,196,282	112,063
Due to related parties	Governmental entities	1,277	1,273
<b>Three months ended</b>			
		<b>31 March 2019</b>	<b>31 March 2018</b>
Revenue	Entities of NWF "Samruk-Kazyna" group	51,181	-
Revenue	Entities of Kazakhtelecom JSC group	2,692,751	-
Revenue	Governmental entities	11,739	-
Expense	Entities of NWF "Samruk-Kazyna" group	179,296	-
Expense	Entities of Kazakhtelecom JSC group	4,605,203	-
Expense	Governmental entities	4,862	-

Amounts due from related parties are neither past due nor impaired. These entities do not have credit ratings assigned but their reliability is determined by the Group on the basis of long-term cooperation and which have a good credit history. The Group's management believes that amounts due from related parties will be fully repaid within one year.

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION  
(CONTINUED)**
*(in thousand of Kazakhstani Tenge, unless otherwise stated)*
**10. TRADE AND OTHER RECEIVABLES**

	<b>31 March 2019</b>	<b>31 December 2018</b>
Trade receivables from subscribers	19,684,168	20,579,975
Trade and other receivables from dealers and distributors	4,307	629,826
Trade receivables from roaming operators	281,500	456,470
Trade receivables for interconnect services	910,212	330,859
Less: allowance for impairment of trade receivables	(7,129,894)	(6,680,113)
<b>Total financial assets</b>	<b>13,750,293</b>	<b>15,317,017</b>
Less: long-term trade receivables from subscribers	(2,079,719)	(3,009,995)
<b>Total current financial assets</b>	<b>11,670,574</b>	<b>12,307,022</b>
VAT recoverable	6,106,843	6,674,090
Prepaid other taxes	3,143,473	1,201,942
Advances to suppliers	584,004	975,529
Deferred expenses	265,270	411,507
Other receivables	959,803	1,010,707
<b>Total trade and other receivables</b>	<b>22,729,967</b>	<b>22,580,797</b>

**11. SHARE CAPITAL AND EARNINGS PER SHARE**

Share capital of the Group at 31 December is as follows:

	<b>31 March 2019</b>		<b>31 December 2018</b>	
	<b>Share</b>	<b>Number of shares</b>	<b>Share</b>	<b>Number of shares</b>
Kazakhstelecom JSC	75.00 percent	150,000,000	75.00 percent	150,000,000
Raiffeisenbank JSC	11.17 percent	22,333,057	11.14 percent	22,282,367
Freedom Finance JSC	5.30 percent	10,609,141	5.68 percent	11,353,659
Single Accumulative Pension Fund	1.72 percent	3,431,950	1.72 percent	3,431,950
Other	6.81 percent	13,625,852	6.46 percent	12,932,024

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



**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION  
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*(in thousand of Kazakhstani Tenge, unless otherwise stated)*

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

	<b>Three months ended</b>	
	<b>31 March 2019</b>	<b>31 March 2018</b>
Profit for the period attributable to equity shareholders	(8,751,407)	2,359,351
Weighted average number of common shares	200,000,000	200,000,000
<b>Earnings per share (Kazakhstani Tenge), basic and diluted</b>	<b>(43.76)</b>	<b>11.80</b>

The Group has no dilutive or potentially dilutive securities outstanding.

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

	<b>31 March 2019</b>	<b>31 December 2018</b>
Net assets, excluding intangible assets	19,612,560	27,469,535
Number of common shares in issue	200,000,000	200,000,000
<b>Book value per share (Kazakhstani Tenge)</b>	<b>98.06</b>	<b>137.35</b>

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

**12. TRADE AND OTHER PAYABLES**

	<b>31 March 2018</b>	<b>31 December 2018</b>
Trade payables	22,319,433	13,372,884
<b>Total financial liabilities</b>	<b>22,319,433</b>	<b>13,372,884</b>
Accrued salaries and bonuses to employees	2,502,269	1,716,864
Other payables	3,550,235	2,910,727
<b>Total trade and other payables</b>	<b>28,371,937</b>	<b>18,000,475</b>

The Group received a written notification from Kar-Tel LLP on termination of cooperation under the Network Sharing Agreement in Kazakhstan dated 29 August 2016.

This notice, related to the acquisition of 75 percent of shares of Kcell JSC by Kazakhtelecom JSC, terminates the Agreement and imposes on the Group the obligation to pay a fine in the amount of 14,551,865 thousand Tenge.

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION  
(CONTINUED)**
*(in thousand of Kazakhstani Tenge, unless otherwise stated)*
**13. BORROWINGS**

	<b>31 March 2019</b>	<b>31 December 2018</b>
Eurasian Development Bank	28,881,348	29,749,590
Halyk Bank of Kazakhstan JSC	4,127,876	21,688,817
SB Alfabank JSC	-	10,086,666
VTB Bank JSC	5,086,602	-
Bonds	22,164,072	5,193,713
<b>Total borrowings</b>	<b>60,259,898</b>	<b>66,718,786</b>
<i>Including</i>		
Long-term loans – principal amount	55,416,117	10,000,000
Short-term loans – principal amount	5,000,000	51,630,000
Loans discount	(865,184)	(366,125)
Long-term bonds	21,670,117	4,935,969
Loans– accrued interest	708,965	261,198
Accrued coupon payable on bonds	493,955	257,744
	<b>31 March 2019</b>	<b>31 December 2018</b>
Short-term borrowings	5,510,340	51,782,817
Long-term borrowings	54,749,558	14,935,969
<b>Total borrowings</b>	<b>60,259,898</b>	<b>66,718,786</b>

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

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

The details of the Group's borrowings as at 31 March 2019 are as follows:

<b>Bank name</b>	<b>Date of issue</b>	<b>Maturity date</b>	<b>Nominal interest rate</b>	<b>Principal amount</b>	<b>Outstanding balance</b>
Eurasian Development Bank	10.02.2017	20.05.2024	11,50%	29,630,000	28,766,285
Halyk Bank of Kazakhstan JSC	19.07.2018	16.07.2021	11,50%	4,116,000	4,114,531
VTB Bank JSC	01.02.2019	01.02.2020	10,90%	5,000,000	5,000,000
<b>Total</b>				<b>38,746,000</b>	<b>37,880,816</b>

On 21 February 2019, the Group undertook a bond placement on the Kazakhstan Stock Exchange, in which bonds to the value of 16.8 billion Tenge and on 16 January 2018 to the value of 4.95 billion Tenge were placed with investors at a yield of 11.5 percent. This programme aimed at expanding and diversifying the Group's funding sources, increasing the average term of Kcell's financial liabilities and decreasing its funding costs. The programme details are as follows:

Type of bonds:	Unsecured coupon bonds
Amount of bonds:	30,000,000 (thirty million) bonds
Nominal price of a bond:	1,000 (one thousand) Tenge
Total volume of the bond issue:	30,000,000,000 (thirty billion) Tenge



**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION  
(CONTINUED)**
*(in thousand of Kazakhstani Tenge, unless otherwise stated)*

	<b>Maturity</b>	<b>Coupon rate, %</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
Unsecured Tenge denominated bonds	16 January 2021	11.50%	21,754,000	4,950,000
Including/(excluding): Discount on bonds issued, net			(83,883)	(14,301)
Accrued coupon payable			493,955	257,744
<b>Total</b>			<b>22,164,072</b>	<b>5,193,713</b>

As at 31 March 2019 and 31 December 2018, no assets were pledged under borrowing agreements.

As at 31 March 2019 and 31 December 2018, the Group was in compliance with its financial covenants.

The table below details changes in the Group's liabilities arising from financing activities. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	<b>1 January 2019</b>	<b>Financing cash flows*</b>	<b>31 March 2019</b>
Borrowings, principal amount	61,630,000	(22,884,000)	38,746,000
Bonds	4,950,000	16,804,000	21,754,000

\*The cash flows from borrowings make up the net amount of proceeds from borrowings and repayments of borrowings in the statement of cash flows;

**14. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS**
**Political and economic conditions in the Republic of Kazakhstan**

Emerging markets such as the Republic of Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in the Republic of Kazakhstan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of the Republic of Kazakhstan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because the Republic of Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014-2016, the oil price decreased significantly, which led to a significant decrease in the national export revenue. On 20 August 2015, the Government and the National Bank of the Republic of Kazakhstan announced a transition to a new monetary policy based on a free floating Tenge exchange rate, and cancelled the currency corridor. In 2015 and in the first quarter of 2016, the Tenge depreciated significantly against major foreign currencies.

Management of the Group is monitoring developments in the current environment and taking measures it considered necessary in order to support the sustainability and development of the Group's business in the foreseeable future. However, the impact of further economic developments on future operations and financial position of the Group might be significant.

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION  
(CONTINUED)***(in thousand of Kazakhstani Tenge, unless otherwise stated)*

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**Taxation**

Kazakhstani tax legislation and practice is in a state of continuous development and therefore is subject to varying interpretations and frequent changes, which may be retroactive. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Group may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Group may be assessed additional taxes, penalties and interest. Tax periods remain open to retroactive review by the tax authorities for five years.

In July 2017, the Kazakhstan tax authority completed its comprehensive tax audit for the period between 2012 and 2015. Following the audit, the tax authority made a total claim of 9 billion Tenge, of which 5.8 billion Tenge is for unpaid taxes and 3.2 billion Tenge represents fines and penalties for the late payment. In January 2018, the Company disputed the Notification of the tax authority in the First Instance Court and the Company's appeal was dismissed. Whilst the Company further appealed this decision, in June 2018, the Court of Appeal reviewed the appeal claim and left the unfavorable ruling of the First Instance Court in force. Although the decision is binding, the Company reserves the right to further appeal it in the Supreme Court. In the fourth quarter of 2016 and in the second quarter 2017, the Company made tax provisions of 4 billion Tenge and 2.8 billion Tenge, respectively. The Company made another tax provision of 1.4 billion Tenge, which was reported in the second quarter of 2018. During the third quarter of 2018, the Company has additionally accrued tax provisions in the amount of 0.8 billion Tenge, meaning the full amount at risk of 9 billion Tenge is provided for. On 5 November 2018 the Company filed a petition to the cassation instance of the Supreme Court of the Republic of Kazakhstan. On 5 December 2018, the petition was dismissed by Resolution of a judge of the Supreme Court of the Republic of Kazakhstan. The Company intends to appeal to the Supreme Court of the Republic of Kazakhstan again. The goal of the Company is to cancel the decisions of the Almaty City Specialized Inter-district Economic Court and the court of Almaty.

**The standby letter of credit**

The standby letter of credit for 10 million US Dollars, within the framework of the general agreement between the Group and Citibank Kazakhstan JSC, was issued on 23 September 2015. As at 31 December 2018, the credit limit has been decreased to 5.5 million US Dollars. This instrument has been issued in favour of Apple Distribution International (Ireland) to allow the Group to extend the term of payment for goods purchased from the company, and will have a positive impact on the Group's working capital. As at 31 March 2019, the instrument has been used, the outstanding balance is 36,626 thousand Tenge.

**The "Daytime Unlimited" and failure to disconnect calls on Kcell network**

During 2013, an investigation was initiated by the Agency for Competition Protection of the Republic of Kazakhstan ("the ACP"), in relation to the "Daytime Unlimited" service under the Activ brand and non-interruption of services when a customer's balance reaches zero under the Kcell brand. On conclusion of the initial investigations, the Antimonopoly Inspectorate issued an administrative offence report with a potential fine on the Company of 16 billion Tenge. During the following court process the Company was able to reduce the penalty to 325 million Tenge and subsequently made payment in full in May 2014.

The ACP ordered that the Company should comply with the following on or before 21 April 2014:

1. to stop collection of the subscription fees under the tariff plan "Daytime Unlimited" in case of insufficiency of funds on a subscriber's account;
2. to ensure interruption of connection (voice or Internet access) when a subscriber's balance reaches zero; and
3. to ensure a refund to subscribers, any fees received as a result of failure to interrupt the connection when a subscriber's balance reaches zero ("the Order").

The Company complied with point 1, however, due to technical limitations of the billing system, the Company is currently unable to implement point 2. The Company is in the process of introducing a new billing system that will enable the interruption of the connection.



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The Company has challenged the ACP findings and decision through the courts system in the Republic of Kazakhstan, culminating in an appeal to the Supreme Court. On 30 June 2015, the Supreme Court of the Republic of Kazakhstan dismissed the Company's supervisory appeal. On 15 June 2015, the ACP filed a claim in court seeking for enforcement of the order. On 9 July 2015, the court issued a resolution on satisfying the ACP claim to enforce the order, and as a result the Company must now enforce points 2 and 3 in the above ACP order.

As at 31 March 2019, the total amount returned to subscribers is 2,618,045 thousand Tenge. As at 31 March 2019, the Company accrued a provision in the amount of 116,640 thousand Tenge (31 December 2018: 116,640 thousand Tenge). The Company expects further refunding the subscription of fees until point 2 above is enforced.

**New Technical Regulations**

Order No. 91 of the Committee of the National Security dated 20 December 2016 on approval of 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). Management is currently implementing an action plan in order to comply with the requirements of Technical Regulations.

**Amendments and addendums to the "Rules of communication service provision"**

Order No. 403 of the Minister of Information and Communications of the Republic of Kazakhstan dated 21 November 2017 on Amendments and Additions to the Order No. 171 of the Acting Minister for Investment and Development of the Republic of Kazakhstan dated 24 February 2015 "On Approval of the Rules for the Provision of Communication Services" was officially published on 16 January 2018, and came into force on 26 January 2018. The rules state that mobile operators will be obliged:

- (i) to inform subscribers when bonus allowances are fully consumed and charge from the main balance only after receiving respective consent from subscriber. In case subscriber did not give the consent, operator should postpone services (item 26); and
- (ii) potentially it will not be allowed to operators to allow debt of subscribers in roaming (which contradicts to the Rules).

The violations of new rules can be recognized an abuse of dominant position that entails a penalty of 5% of the total income of the company or 10% in case if repeated within a year with monopoly revenue confiscation.

Management is currently assessing the risks associated with the introduction of new rules in order to comply with the amendments and additions to the "Rules for the Provision of Communication services".

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

On 19 October 2018, the Committee on Regulation of Natural Monopolies, Protection of Competition and Consumer Rights of the Ministry of National Economy of the Republic of Kazakhstan ("Committee") initiated administrative proceedings against the Company for an alleged administrative violation related to the abuse of its dominant position in 2017.

The potential fine, which can be imposed by the court, constitutes approximately 2 billion Tenge. According to the Committee, the violation resulted in the establishment of different prices for Kcell's mobile Internet access service with a data allowance, when the data allowance was exceeded or the monthly subscription fee was not paid in a timely manner.

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In addition, the Committee issued an order for the Company to return to Kcell brand subscribers all fees charged in 2017 when the monthly data allowance was exceeded and when the monthly subscription fee for mobile Internet access services had not been paid. Kcell has filed an appeal against this decision with the court.

The Company appealed the order issued by the Committee referring to noncompliance with the requirements of the law.

The management of the Company believes that the overall claim will be satisfied in favor of the Company, and so no provision has been made for this amount.

**Physical verification of fixed assets**

Starting from June 2017 Kcell Solutions LLP ("the Subsidiary") began the process of physical verification of the Company's fixed assets at its work sites and warehouses, visiting, counting and reconciliation procedures over fixed assets of the Company with accounting data as a general contractor. The Group is analysing shortages and surpluses identified during the physical verification of fixed assets and assessing their potential tax effect.

**15. FINANCIAL RISK MANAGEMENT****Financial risk factors**

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk), liquidity risk and credit risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not use derivative financial instruments to hedge risk exposures.

**Credit risk**

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's sales on credit terms and other transactions with counterparties giving rise to financial assets.

The Group's maximum exposure to credit risk by class of assets is as follows:

	Note	31 March 2019	31 December 2018
Cash and cash equivalents		6,758,373	6,029,042
Trade receivables	10	11,670,574	12,307,022
Long-term trade receivables	10	2,079,719	3,009,995
Due from related parties	9	714,191	1,018,003
Restricted cash		36,533	36,533
<b>Total maximum exposure to credit risk</b>		<b>21,259,390</b>	<b>22,400,595</b>

Credit risk from balances with cash and cash equivalents is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved financial institutions and within credit limits assigned to each bank or financial institution. Financial institutions' credit limits are reviewed by the Group's Treasury Department on a monthly basis. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through a financial institution's potential failure to make payments.

The Group has policies in place to ensure that sales of products and services are made to customers and distributors with an appropriate credit history. If corporate customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer taking into account its financial position, past experience and other factors. The Group's management reviews ageing analysis of outstanding trade receivables and follows up on past due balances. Customers that fail to settle their liabilities



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for mobile services provided are disconnected until the debt is paid. Management provides ageing and other information about credit risk.

The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount of trade receivables exposed to credit risk. The Group has no significant concentrations of credit risk since the customers portfolio is diversified among a large number of customers, both individuals and companies. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provisions already recorded.

**Foreign exchange risk**

The majority of the Group's purchases of property and equipment and inventories, as well as certain services such as roaming are denominated in US Dollars. Hence, the major concentration of foreign exchange risk arises from the movement of the US Dollar against the Tenge. Due to the undeveloped market for financial instruments in Kazakhstan, the management does not hedge the Group's foreign exchange risk.

**Cash flow and fair value interest rate risk**

The Group does not have floating interest bearing assets or liabilities as of 31 March 2019, and as such, management has not presented interest rate sensitivity analysis.

**Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash. Due to the dynamic nature of the underlying businesses, the Group's treasury aims to maintain flexibility in funding by keeping sufficient cash available.

The table below shows financial liabilities as at 31 March 2019 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the reporting date.

The maturity analysis of financial liabilities as at 31 March 2019 is as follows:

	<b>Demand and less than 3 months</b>	<b>From 3 to 12 months</b>	<b>More than 12 months</b>	<b>Total</b>
<b>Liabilities</b>				
Borrowings	1,742,282	10,896,488	71,507,844	84,146,614
Trade payables	22,319,433	-	-	22,319,433
Due to related parties	2,235,297	-	-	2,235,297
<b>Total future payments</b>	<b>26,297,012</b>	<b>10,896,488</b>	<b>71,507,844</b>	<b>108,701,344</b>

The comparative maturity analysis of financial liabilities as at 31 December 2018 is detailed below:

	<b>Demand and less than 3 months</b>	<b>From 3 to 12 months</b>	<b>More than 12 months</b>	<b>Total</b>
<b>Liabilities</b>				
Borrowings	5,693,931	53,098,692	16,926,723	75,719,346
Trade payables	13,372,884	-	-	13,372,884
Due to related parties	674,718	-	-	674,718
<b>Total future payments</b>	<b>19,741,533</b>	<b>53,098,692</b>	<b>16,926,723</b>	<b>89,766,948</b>

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Management believes that the payments of the borrowings and other financial liabilities will be financed by cash flows from operating activities and that the Group will be able to meet its obligations as they fall due. The Group can extend borrowings up to an additional twelve months, subject to consent of the lenders.

**Capital management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for owners and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to owners, return capital to owners, issue new capital and sell assets to reduce debt.

**16. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Republic of Kazakhstan continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments. For the purpose of fair value disclosures the Group determines below described instruments' fair value hierarchy as level 2 (significant observable inputs).

**Financial assets carried at amortised cost**

The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of cash and cash equivalents, trade receivables and due from related parties approximate fair values due to their short-term maturities. As at 31 March 2019 and 31 December 2018, the fair value of financial assets was not significantly different from their carrying value.

**Financial liabilities carried at amortised cost**

The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Carrying amounts of trade payables, dividends payable and due to related parties approximate fair values due to their short term maturities. As at 31 March 2019 and 31 December 2018, the fair value of financial liabilities was not significantly different from their carrying value.