

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**For nine months period ended 30 September 2020****1. GENERAL INFORMATION**

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

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

The Company is controlled by the Government of the Republic of Kazakhstan through Sovereign Wealth Fund “Samruk-Kazyna” JSC (“Samruk-Kazyna” or the “Parent”), which owns 51% of the Company’s controlling shares. Below is a list of the Company’s shareholders as at 30 September 2020:

	At 30 September 2020 (unaudited)	At 31 December 2019 (audited)
Samruk-Kazyna	51.0%	51.0%
SKYLINE INVESTMENT COMPANY S.A.	24.5%	24.5%
ADR (The Bank of New York – depositor)	9.6%	9.6%
Alatau Capital Invest LLP	3.7%	3.7%
United Accumulative Pension Fund JSC	3.4%	3.4%
Other	7.8%	7.8%
	100%	100%

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

The Company and its subsidiaries listed in *Note 2* (hereinafter collectively referred to as the “Group”) have a significant share of the fixed line communication market, including local, long-distance intercity and international telecommunication services including CIS and non-CIS countries; and also leases out lines and provides data transfer services, as well as wireless communication.

The interim condensed consolidated financial statements of the Group were authorised for issue by the Chief financial officer and the Chief accountant on behalf of the Management of the Company on 27 November 2020.

2. BASIS FOR PREPARATION

The interim condensed consolidated financial statements for the nine month period ended 30 September 2020 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 2019 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, realization of assets and settlement of liabilities in the normal course of business.

Foreign currency translation

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. BASIS FOR PREPARATION (continued)

Foreign currency translation (continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

Foreign exchange rates are presented in the following table:

	30 September 2020	31 December 2019
US dollar	431.82	382.59
Euro	505.57	429.00
Russian rouble	5.52	6.16

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

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

	Country of incorporation	Percentage ownership	
		30 September 2020 (unaudited)	31 December 2019 (audited)
Khan Tengri Holding B.V.	Netherlands	100.00%	100.00%
KT-IX LLC	Russia	100.00%	100.00%
KT Cloud Lab LLP	Kazakhstan	100.00%	100.00%
VostokTelecom LLP	Kazakhstan	100.00%	100.00%
Digital Economy Development Center LLP (previously Info-Net Wireless LLP)	Kazakhstan	100.00%	100.00%
Nursat+ LLP	Kazakhstan	100.00%	100.00%
Kcell JSC	Kazakhstan	75.00%	75.00%

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

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 2019, except for the adoption of new standards effective as at 1 January 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Several other amendments and interpretations apply for the first time in 2020, but do not have an impact on the interim condensed consolidated financial statements of the Group.

IFRS 3 Definition of a Business

The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the interim condensed consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 *Financial Instruments: Recognition and Measurement* provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no impact on the interim condensed consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the interim condensed consolidated financial statements of, nor is there expected to be any future impact to the Group.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The *Conceptual Framework* is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the *Conceptual Framework* is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised *Conceptual Framework* includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

These amendments had no impact on the interim condensed consolidated financial statements of the Group.

4. RESTATEMENT OF COMPARATIVE INFORMATION

Change in accounting policies [1]

Certain amounts in the consolidated statements of financial position as at 31 December 2019, interim condensed consolidated statements of comprehensive income, interim condensed consolidated statements of cash flows for the three and nine months ended 30 September 2019, were restated to reflect the effect of changes in the accounting policy as a result of adoption of the IFRIC agenda decision, as described below.

IFRS Interpretations Committee’s agenda decision on cancellable or renewable leases, and related non-removable leasehold improvements

In November 2019, the IFRS Interpretations Committee published an agenda decision on cancellable or renewable leases, and related non-removable leasehold improvements. The conclusions are summarized below:

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

4. RESTATEMENT OF COMPARATIVE INFORMATION (continued)**Change in accounting policies [1] (continued)*****IFRS Interpretations Committee's agenda decision on cancellable or renewable leases, and related non-removable leasehold improvements (continued)****Lease term*

The IFRS Interpretations Committee noted that, in determining the enforceable period of the lease, an entity considers:

- The broader economics and not only the contractual termination payments. For example, if either party has an economic incentive not to terminate the lease such that it would incur a penalty on termination that is more than insignificant, the contract is enforceable beyond the date on which the contract can be terminated;
- Whether each of the parties has the right to terminate the lease without permission of the other party with no more than an insignificant penalty. A lease is no longer enforceable only when both parties have such a right. Consequently, if only one party has the right to terminate the lease without permission from the other party with no more than an insignificant penalty, the contract is enforceable beyond the date on which the contract can be terminated by that party.

If an entity concludes that the contract is enforceable beyond the notice period of a cancellable lease, it should assess whether the lessee is reasonably certain not to exercise the option to terminate the lease.

IFRS Interpretations Committee's agenda decision on cancellable or renewable leases, and related non-removable leasehold improvements (continued)*Useful life of non-removable leasehold improvements*

An entity applies IAS 16 in determining the useful life of non-removable leasehold improvements. If the lease term of the related lease is shorter than the economic life of those leasehold improvements, the entity considers whether it expects to use the leasehold improvements beyond that lease term. If the entity does not expect to do so, then, applying IAS 16, it concludes that the useful life of the non-removable leasehold improvements is the same as the lease term. Since the Group's current practice is in line with this clarification, it will not impact on the interim condensed consolidated financial statements of the Group.

This IFRIC agenda decision should be applied retrospectively and are effective immediately from date of its publication in November 2019.

Effect of agenda decision on the Group accounting policy

The Group re-assessed its accounting for the lease contracts of technical sites with the governmental entities which were previously recognized as short-term leases as the Group applied recognition exemptions for short-term leases as in accordance with paragraph 5 of IFRS 16.

As the Group applies the agenda decision it considers all relevant facts and circumstances that create an economic incentive for the lessee but not only contractual termination penalties, in assessing whether the Group is reasonably certain to extend (or not to terminate) a lease. The Group determined the lease term for technical sites lease contracts with the governmental entities equaled to average useful lives of cellular network stations.

The Group adopted the agenda decision and retrospectively recalculated lease contracts with governmental entities effective as at 1 January 2018, the Group's date of adoption IFRS 16. The right-of-use assets for the leases were recognised based on the carrying amount as if the agenda decision had always been applied, apart from the use of incremental borrowing rate at the date of initial application. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The effect of changes in the accounting policy is disclosed below.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. RESTATEMENT OF COMPARATIVE INFORMATION (continued)

Reclassification of interest paid on lease liabilities [2]

Interest paid on lease liabilities in interim condensed consolidated statements of cash flows for the three and six months ended 30 September 2019 was reclassified to conform with the presentation adopted in the interim condensed consolidated statements for three and nine months ended 30 September 2020. 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	Change in accounting policy	Note	As restated
Consolidated statement of financial position as at 31 December 2019				
Assets				
Non-current assets				
Property and equipment	437,315,934	806,360	[3]	438,122,294
Right-of-use assets	89,670,048	2,427,388	[1]	92,097,436
Intangible assets	223,340,462	7,773,652	[3]	231,114,114
Goodwill	158,684,705	(4,192,210)	[3]	154,492,495
Deferred tax assets	1,766,127	52,274	[3]	1,818,401
Total non-current assets	930,514,219	6,867,464		937,381,683
Total assets	1,079,050,050	6,867,464		1,085,917,514
Equity				
Retained earnings	420,469,917	(99,082)	[1], [3]	420,370,835
	35,507,909	(65,327)	[1]	35,442,582
Total equity	462,865,928	(164,409)		462,701,519
Non-current liabilities				
Long-term lease liabilities	55,236,254	2,545,195	[1]	57,781,449
Other non-current financial liabilities	1,318	1,861,290	[3]	1,862,608
Deferred tax liabilities	42,448,856	1,159,553	[1]	43,608,409
Total non-current liabilities	467,709,077	5,566,038		473,275,115
Current liabilities				
Short term lease liabilities	15,291,266	143,874	[1]	15,435,140
Other current financial liabilities	20,151,913	2,087,140	[3]	22,239,053
Trade payables	59,397,839	(765,179)		58,632,660
Total current liabilities	148,475,045	1,465,835		149,940,880
Total liabilities	616,184,122	7,031,873		623,215,995
Total equity and liabilities	1,079,050,050	6,867,464		1,085,917,514

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. RESTATEMENT OF COMPARATIVE INFORMATION (continued)

<i>In thousands of tenge</i>	As originally presented	Change in accounting policy	Note	As restated
Interim condensed consolidated statement of comprehensive income for the nine months ended 30 September 2019				
Cost of sales	(204,384,570)	9,765	[1], [3]	(204,374,805)
Gross profit	94,190,007	9,765		94,199,772
Selling expenses	(6,591,378)	645,985		(5,945,393)
Operating profit	64,431,538	655,750		65,087,288
Finance cost	(29,938,414)	(268,846)	[1], [3]	(30,207,260)
Net foreign exchange income/(loss)	(452,799)	(258,306)	[3]	(711,105)
Income from re-measurement of previously held interest in the associate	17,310,113	(267,623)	[3]	17,042,490
Profit before income tax	62,846,813	(139,025)		62,707,788
Income tax expense	(11,671,092)	15,271	[1], [3]	(11,655,821)
Total comprehensive income for the period, net of tax	50,583,274	(123,754)		50,459,520
Equity holders of the Parent	48,267,320	(90,500)		48,176,820
Non-controlling interests	2,315,954	(33,254)		48,176,820
Total comprehensive income for the period, net of tax	50,583,274	(123,754)		50,459,520

<i>In thousands of tenge</i>	As originally presented	Change in accounting policy	Note	As restated
Interim condensed consolidated statement of comprehensive income for the three months ended 30 September 2019				
Cost of sales	(73,721,812)	9,765	[1], [3]	(73,712,047)
Gross profit	44,853,633	9,765		44,863,398
Selling expenses	(3,644,451)	645,985		(2,998,466)
Operating profit	31,836,605	655,750		32,492,355
Finance cost	(13,701,973)	(268,846)	[1], [3]	(13,970,819)
Net foreign exchange income/(loss)	266,732	(258,306)	[3]	8,426
Profit before income tax	19,021,263	128,598		19,149,861
Income tax expense	(4,666,458)	15,271	[1], [3]	(4,651,187)
Total comprehensive income for the period, net of tax	14,358,471	(123,754)		14,502,340
Equity holders of the Parent	13,420,151	177,123		13,597,274
Non-controlling interests	938,320	(33,254)		905,066
Total comprehensive income for the period, net of tax	14,358,471	143,869		14,502,340

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. RESTATEMENT OF COMPARATIVE INFORMATION (continued)

<i>In thousands of tenge</i>	As originally presented	Change in accounting policy and adjustment	Note	As restated
Interim condensed consolidated statement of cash flows for the nine months ended 30 September 2019				
Profit before tax	62,846,813	(139,025)	[1], [3]	62,707,788
Finance costs	29,938,414	268,846	[1], [3]	30,207,260
Depreciation of property and equipment and right of use assets	51,845,925	362,786	[1], [3]	52,208,711
Amortisation of intangible assets	15,577,074	196,421	[3]	15,773,495
Income from re-measurement of previously held interest in the associate	(17,310,113)	267,623	[3]	(17,042,490)
Changes in other current liabilities	2,645,639	9,184,256	[1]	11,829,895
Interest paid	(20,703,277)	(3,694,685)	[2]	(24,397,962)
Net cash flows from operating activities	82,427,839	6,446,222		88,874,061
Payment for acquisition of subsidiary, net of cash acquired	(176,173,791)	30,479	[3]	(176,143,312)
Indemnification assets	10,171,475	(10,171,475)		-
Repayment of loans from employees	316,530	89		316,619
Net cash flows used in investing activities	(214,340,830)	(10,140,907)		(224,481,737)
Repayment of principal portion of lease liabilities	(11,711,535)	3,694,685	[2]	(8,016,850)
Net cash flows used in financing activities	137,179,850	3,694,685		140,874,535
Net increase in cash and cash equivalent	4,970,738	-		4,970,738

- [1] The Group has adopted IFRS Interpretations Committee's agenda decision on cancellable or renewable leases, and related non-removable leasehold improvements and restated comparative financial statement.
- [2] The Group reclassified interest paid on lease liabilities in the amount of 3,694,685 thousand tenge from repayment of principal amount of lease liabilities in financing cash flow to interest paid in operating cash flows.
- [3] The Group made adjustments to completion of initial accounting, for details refer to Notes 4
- All the disclosure amounts within the comparative information were changed respectively.

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

5. BUSINESS COMBINATIONS**Acquisition in 2019***Acquisition of Khan Tengri Holding B.V.*

On 29 February 2016, the Group acquired 51% share capital and 49.48% of voting shares in Khan Tengri Holding B.V., the company rendering GSM and LTE mobile telecommunication services in the Republic of Kazakhstan. Khan Tengri Holding B.V. is a private entity and not listed on the stock exchange. Khan Tengri Holding B.V. was an equity accounted associate for the Group till 28 June 2019 (*Note 9*).

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

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

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

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

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

On 25 February 2016, the Group provided a guarantee to associate organization Khan Tengri Holding B.V. under the credit facility from Development Bank of Kazakhstan JSC with a credit limit of up to KZT 10,008,780 thousand for the period until 19 December 2024.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. BUSINESS COMBINATIONS (continued)

Acquisition in 2019 (continued)

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

Guarantee issued in the amount of KZT 937,145 thousand was included into the consideration of business combination due to the acquisition of residual shares in associate of Khan Tengri Holding B.V.

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

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

<i>In thousands of tenge</i>	Previously reported provisional fair values	Finalization of assessment of provisional fair values	Note	Fair values recognized on acquisition
Assets				
Property and equipment	99,771,598	787,921	[A]	100,559,519
Right-of-use assets	26,457,939	-		26,457,939
Intangible assets	112,272,032	8,166,494	[B]	120,438,526
Advances paid for non-current assets	2,061,017	-		2,061,017
Cash and cash equivalents	5,391,581	-		5,391,581
Other non-current financial assets	77,640	-		77,640
Trade receivables	14,921,849	-		14,921,849
Inventories	909,245	-		909,245
Advances paid	2,439,609	-		2,439,609
Corporate income tax prepaid	614,125	-		614,125
Other current non-financial assets	2,023,828	-		2,023,828
Other current financial assets	887,739	-		887,739
Total assets	267,828,202	8,954,415		276,782,617
Liabilities				
Trade payables	(27,070,515)	-		(27,070,515)
Borrowings	(8,799,548)	-		(8,799,548)
Lease liabilities	(26,913,327)	-		(26,913,327)
Contract liabilities	(8,094,854)	-		(8,094,854)
Deferred tax liabilities	(9,058,099)	(1,081,398)	[D]	(10,139,497)
Asset retirement obligations	(4,826,230)	-		(4,826,230)
Other non-current financial liabilities	-	(1,861,290)	[C]	(1,861,290)
Other current financial liabilities	(2,460,538)	(2,087,140)	[C]	(4,547,678)
Other current non-financial liabilities	(1,193,897)	-		(1,193,897)
Total liabilities	(88,417,008)	(5,029,828)		(93,446,836)
Net identifiable assets at fair value	179,411,194	3,924,587		183,335,781
Consideration transferred for 49% interest acquired on 28 June 2019*	181,534,893	-		181,534,893
Acquisition-date fair value of initial 51% interest	99,211,623	(267,623)		98,944,000
	280,746,516	(267,623)		280,478,893
Acquisition-date fair values of identifiable net assets acquired	179,411,194	3,924,587		183,335,781
Guarantee issued to Mobile Telecom Service LLP	937,145	-		937,145
Goodwill	100,398,177	(4,192,210)		96,205,967
Analysis of cash flows on acquisition				
Net cash acquired with the subsidiary	5,391,581	-		5,391,581
Consideration transferred*	(181,534,893)	-		(181,534,893)
Net cash outflow	(176,143,312)	-		(176,143,312)

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

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

5. BUSINESS COMBINATIONS (continued)**Acquisition in 2019 (continued)***Acquisition of Khan Tengri Holding B.V. (continued)*

Net assets recognized in the consolidated financial statements as at 31 December 2019 were based on a provisional assessment of their fair value, while the Group sought an independent valuation for the assets owned by Khan Tengri Holding B.V. The valuation had not been completed by the date the 2019 consolidated financial statements were approved for issue by the Chairman of the Management Board.

In June 2020, the valuation was completed, and the acquisition date fair value of the following accounts has been changed:

- [A] Property and equipment were KZT 100,559,519 thousand, increase of KZT 787,921 thousand over the provisional value as a result of increase in the fair value of buildings and constructions and equipment;
- [B] Intangible assets were KZT 120,438,526 thousand, increase of KZT 8,166,494 thousand over the provisional value as a result of increase in the fair value of Tele2 and Altel trademarks and subscribers' base;
- [C] Other current financial liabilities were KZT 6,408,968 thousand, increase of KZT 3,948,430 thousand over the provisional value as a result of recognition of trademark royalty payment obligations;
- [D] Deferred tax liabilities were KZT 10,139,497 thousand, increase of KZT 1,081,398 thousand over the provisional value.

The 2019 comparative information was restated to reflect the adjustment to the provisional amounts. As a result, there was a decrease in goodwill of KZT 4,192,210 thousand, resulting in KZT 96,205,967 thousand of total goodwill arising on the acquisition. There was a decrease in income from re-measurement of previously held interest in the associate of KZT 267,623 thousand, resulting in KZT 17,042,490 thousand of income from re-measurement of previously held interest in the associate. The increased depreciation charge on the property and equipment and intangible assets and decreased deferred tax expenses from the acquisition date to 31 December 2019 was corrected by KZT 374,403 thousand and KZT 74,881 thousand, respectively. The Group has reversed royalty expenses recognized during the second half of 2019 for KZT 765,179 thousand with related deferred tax effect for KZT 153,036 thousand due to recognition of trademark payment obligations on the acquisition date.

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

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

As at date of the acquisition, the fair value of trademark payment obligation was KZT 3,948,430 thousand that represented by the liability of the Group to pay royalty for the usage of Tele2 trademark. During the nine months period ended 30 September 2020, the Group made first payment under the agreement for KZT 2,168,154 thousand (*Note 20*).

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

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

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

The goodwill amounts to KZT 96,205,967 thousand and includes the cost of the expected synergetic effect from the acquisition. The entire amount of goodwill is allocated to the mobile telecommunications segment. It is expected that recognized goodwill will not be deductible for the purposes of the taxation either in full or in part.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. BUSINESS COMBINATIONS (continued)

Acquisition in 2019 (continued)

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

During the nine months ended 30 September 2019, the Group recognized income from re-measurement of previously held interest in the equity-accounted associate in the amount of KZT 17,042,490 thousand as a result of remeasuring its existing interest in the equity-accounted associate amount of KZT 81,901,510 thousand at the date of obtaining control to its acquisition-date fair value of KZT 98,944,000 thousand.

If the combination had taken place at the beginning of 2019, the Group's revenues for the nine months ended 30 September 2019 would have been KZT 339,260,072 thousand, and the profit before tax would have been KZT 78,743,093 thousand.

6. SEGMENT INFORMATION

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

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

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

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

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

The following tables disclose revenue and profit information for the Group's operating segments for the three and nine months ended 30 September 2020 and 2019:

For the three months ended 30 September 2020 (unaudited):

<i>In thousands of tenge</i>	Fixed line	Mobile tele- communication services in GSM and LTE standards	Other	Eliminations and adjustments	Group
Revenue from contracts with customer					
Sales to external customers	56,452,524	82,185,245	197,074	-	138,834,843
Inter-segment	8,864,447	3,372,271	89,378	(12,326,096)	-
Total revenue from contracts with customers	65,316,971	85,557,516	286,452	(12,326,096)	138,834,843
Financial results					
Depreciation and amortisation	(9,232,406)	(17,762,583)	(7,429)	331,149	(26,671,269)
Finance costs	(7,113,659)	(6,550,256)	(230)	303,026	(13,361,119)
Finance income	471,419	845,664	-	24,547	1,341,630
Dividends income	-	-	-	-	-
Share in loss of associates	-	-	230,802	-	230,802
Impairment losses on non-financial assets	(125,973)	(799,239)	-	-	(925,212)
Impairment losses on financial assets	92,458	(768,072)	1,792	-	(673,822)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. SEGMENT INFORMATION (continued)

For the three months ended 30 September 2019 (unaudited):

<i>In thousands of tenge</i>	Fixed line	Mobile tele- communication services in GSM and LTE standards	Other	Eliminations and adjustments	Group
Revenue from contracts with customer					
Sales to external customers	48,514,464	69,950,737	110,244	–	118,575,445
Inter-segment	8,356,890	3,774,445	79,997	(12,211,332)	–
Total revenue from contracts with customer	56,871,354	73,725,182	190,241	(12,211,332)	118,575,445
Financial results					
Depreciation and amortisation	(10,301,274)	(17,384,487)	(20,699)	–	(27,706,460)
Finance costs	(8,803,238)	5,167,581	–	–	(13,970,819)
Finance income	330,402	234,095	–	–	564,497
Share in profit of associates	–	–	48,129	–	48,129
Impairment of fixed assets	–	–	–	–	–
Impairment losses on financial assets	524,901	(948,526)	(692)	–	(424,317)

For the nine months ended 30 September 2020 (unaudited):

<i>In thousands of tenge</i>	Fixed line	Mobile tele- communication services in GSM and LTE standards	Other	Eliminations and adjustments	Group
Revenue from contracts with customer					
Sales to external customers	157,362,578	225,944,956	431,509	–	383,739,043
Inter-segment	26,912,946	9,195,213	213,955	(36,322,114)	–
Total revenue from contracts with customers	184,275,524	235,140,169	645,464	(36,322,114)	383,739,043
Financial results					
Depreciation and amortisation	(27,844,429)	(54,690,606)	(22,222)	1,123,909	(81,433,348)
Finance costs	(20,965,076)	(19,025,287)	(475)	1,249,814	(38,741,024)
Finance income	1,945,392	1,776,854	3	(452,169)	3,270,080
Dividends income	7,011,582	–	–	(7,011,582)	–
Share in profits of associates	–	–	379,552	–	379,552
Impairment losses on non-financial assets	(16,568)	(1,770,150)	–	–	(1,786,718)
Impairment losses on financial assets	(575,153)	(1,648,111)	(1,920)	–	(2,225,184)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. SEGMENT INFORMATION (continued)

For the nine months ended 30 September 2019 (unaudited):

<i>In thousands of tenge</i>	Fixed line	Mobile tele- communication services in GSM and LTE standards	Other	Eliminations and adjustments	Group
Revenue from contracts with customer					
Sales to external customers	155,884,208	142,339,020	351,349	–	298,574,577
Inter-segment	12,993,797	4,435,368	215,528	(17,644,693)	–
Total revenue from contracts with customer	168,878,005	146,774,388	566,877	(17,644,693)	298,574,577
Financial results					
Depreciation and amortisation	(28,489,907)	(39,430,456)	(61,843)	–	(67,982,206)
Finance costs	(19,165,722)	(11,041,538)	–	–	(30,207,260)
Finance income	2,254,178	1,459,120	433	–	3,713,731
Share in profit of associates	–	5,830,925	175,743	–	6,006,668
Impairment of fixed assets	–	1,844,104	–	–	1,844,104
Impairment losses on financial assets	(959,868)	(1,829,028)	(567)	–	(2,789,463)

The following table presents assets and liabilities information for the Group's operating segments as at 30 September 2020 and 31 December 2019, respectively:

<i>In thousands of tenge</i>	Fixed line	Mobile tele- communication services in GSM and LTE standards	Other	Eliminations and adjustments	Group
Operating assets					
As at 30 September 2020 (unaudited)	776,976,596	563,405,292	3,324,346	(218,447,577)	1,125,258,657
As at 31 December 2019	750,602,979	710,994,589	2,677,106	(378,357,160)	1,085,917,514
Operating liabilities					
As at 30 September 2020 (unaudited)	350,895,018	287,083,963	488,063	(28,607,981)	609,859,063
As at 31 December 2019	348,535,150	308,053,227	317,483	(33,689,865)	623,215,995

7. PROPERTY AND EQUIPMENT

During the three and nine months period ended 30 September 2020, the Group acquired property and equipment for KZT 18,136,804 thousand and KZT 37,545,294 thousand, respectively (during the three and nine months period ended 30 September 2019: KZT 12,873,250 thousand and KZT 21,493,168 thousand, respectively).

During the three and nine months period ended 30 September 2020, the Group disposed property and equipment with net book value of KZT 86,614 thousand and KZT 354,443 thousand, respectively (during the three and nine months period ended 30 September 2019: KZT 99,482 thousand and KZT 263,490 thousand, respectively).

During the three and nine months period ended 30 September 2020, the Group recognised increase in changes in estimates in assets retirement obligation for KZT 1,959,406 thousand and for KZT 300,882 thousand, respectively (during the three and nine months period ended 30 September 2019: nil).

During the three and nine months period ended 30 September 2020, the Group recognized depreciation expense amounting to KZT 16,357,681 thousand and KZT 50,943,730 thousand, respectively (during the three and nine months period ended 30 September 2019: KZT 20,166,651 thousand and KZT 47,319,594 thousand, respectively).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. PROPERTY AND EQUIPMENT (continued)

During the three and nine months period ended 30 September 2020, the Group recognized an impairment loss for KZT 353,661 thousand and KZT 1,074,021 thousand, related to write-down of certain property and equipment to the recoverable amount as a result of technological obsolescence and damage (during the three and nine months period ended 30 September 2019: nil and KZT 1,844,104 thousand). Impairment was recognized in the interim condensed consolidated statement of comprehensive income as an operating expense.

As at 30 September 2020 and 2019, assets under construction represented by equipment for installation for base transmission stations, mobile switch servers and other telecommunication equipment and services works.

As at 30 September 2020, the gross carrying value of property and equipment which has been fully depreciated and still in use was KZT 389,627,347 thousand (as at 31 December 2019: KZT 347,558,082 thousand).

As at 30 September 2020, advances paid for non-current assets in the amount of KZT 24,885,138 thousand mainly represented by advances paid for construction and installation of Specialized Data Center, «Broadband access to rural settlements of the Republic of Kazakhstan on the technology of fiber-optic communication lines» project and for construction and delivery of fixed assets (as at 31 December 2019: KZT 8,998,288 thousand). Significant increase in advances paid for non-current assets was due to advanced paid to Logicom JSC in the amount of KZT 12,043,761 thousand for the construction of Specialized Data Center in the first half of 2020. During the three and nine months period ended 30 September 2020, the Group recovered previously recognized impairment loss on its advances paid for non-current assets for KZT 325,397 thousand and KZT 321,391 thousand.

8. INTANGIBLE ASSETS

During the three and nine months period ended 30 September 2020, the Group acquired intangible assets in the amount of KZT 2,574,141 thousand and KZT 4,516,842 thousand, respectively (during the three and nine months period ended 30 September 2019: KZT 1,715,084 thousand and KZT 4,061,335 thousand, respectively).

During the three and nine months period ended 30 September 2020, the Group recognized amortization expense in the amount of KZT 7,105,394 thousand and KZT 20,935,375 thousand, respectively (during the three and nine months period ended 30 September 2019: KZT 6,606,379 thousand and KZT 15,577,589 thousand, respectively).

As at 30 September 2020 the gross carrying value of intangible assets, which have been fully amortized and still in use was KZT 55,122,883 thousand (as at 31 December 2019: KZT 52,411,724 thousand).

Licenses and trademarks, software and other include intangible assets acquired as a result of business combination.

9. INVESTMENTS IN ASSOCIATES

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

<i>In thousands of tenge</i>	Primary activities	Country of incorporation	30 September 2020 (unaudited)		31 December 2019	
			Carrying amount	Ownership share	Carrying amount	Ownership share
QazCloud LLP	IT services	Kazakhstan	2,598,441	49%	2,218,889	49%
			2,598,441		2,218,889	

Movements in investments in associates for the nine months ended 30 September are as follows:

<i>In thousands of tenge</i>	Khan Tengri Holding B.V.	QazCloud LLP	Total
At 31 December 2018	76,070,585	1,598,639	77,669,224
Additional contribution to the charter capital of an associate	-	200,000	200,000
Share in profit of associates	5,830,925	175,743	6,006,668
Derecognition of investment in associate (Note 5)	(81,901,510)	-	(81,901,510)
At 30 September 2019 (unaudited)	-	1,974,382	1,974,382
At 31 December 2019	-	2,218,889	2,218,889
Share in profits of associates	-	379,552	379,552
At 30 September 2020 (unaudited)	-	2,598,441	2,598,441

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. INVESTMENTS IN ASSOCIATES (continued)

Investments in Khan Tengri Holding B.V.

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

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

<i>In thousands of tenge</i>	For nine months ended 30 September	
	2020 (unaudited)	2019 (unaudited)
Revenue from contracts with customers	-	67,183,065
Depreciation and amortization	-	(9,540,681)
Finance income	-	134,131
Finance costs	-	(6,428,117)
Income tax expense	-	(1,991,712)
Profit for the period	-	11,433,187
Total comprehensive income for the period	-	11,433,187
Share of the Group in profit for the period	-	5,830,925

Investments in QazCloud LLP

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. INVESTMENTS IN ASSOCIATES (continued)

Investments in QazCloud LLP (continued)

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

<i>In thousands of tenge</i>	30 September 2020 (unaudited)	31 December 2019
Non-current assets	3,923,082	2,982,071
Current assets, including	4,209,339	3,356,967
<i>Cash and cash equivalents</i>	2,951,090	2,621,936
Non-current liabilities, including	(1,108,833)	(395,465)
<i>Non-current financial liabilities</i>	(629,348)	-
Current liabilities, including	(1,123,085)	(1,415,229)
<i>Current financial liabilities</i>	(584,089)	(855,425)
Equity	4,831,916	4,528,344
Share of the ownership – 49%	2,598,441	2,218,889
Carrying amount of the investment of the Group	2,598,441	2,218,889

<i>In thousands of tenge</i>	For three months ended 30 September	
	2020 (unaudited)	2019 (unaudited)
Revenue from contracts with customers	1,746,078	910,521
Depreciation and amortization	(266,416)	(148,063)
Finance income	1,586	6,364
Finance costs	(44,310)	(12,900)
Income tax expense	(117,756)	(24,560)
(Loss)/profit for the period	471,024	98,222
Total comprehensive income for the period	471,024	98,222
Share of the Group in profit for the period	230,802	48,129

<i>In thousands of tenge</i>	For nine months ended 30 September	
	2020 (unaudited)	2019 (unaudited)
Revenue from contracts with customers	3,737,780	2,378,370
Depreciation and amortization	(730,469)	(423,319)
Finance income	24,799	16,663
Finance costs	(127,737)	(40,908)
Income tax expense	(193,649)	(89,669)
Profit for the period	774,595	358,659
Total comprehensive income for the period	774,595	358,659
Share of the Group in profit for the period	379,552	175,743

10. IMPAIRMENT TESTING

Goodwill is tested by the Group for impairment annually as at 31 December and when circumstances indicate the carrying value may be impaired. The Group's impairment test for goodwill is based on value-in-use calculations. The key assumptions used to determine the recoverable amount for the different cash generating units were disclosed in the annual consolidated financial statements for the year ended 31 December 2019.

The Group considers the relationship between its market capitalisation and its book value, among other factors, when reviewing for indicators of impairment.

As at 30 September 2020 there were no indicators for impairment of all CGUs, including those CGUs to which goodwill was allocated, therefore, management has not updated any of impairment calculations.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. OTHER NON-CURRENT FINANCIAL ASSETS

As at 30 September 2020 and 31 December 2019 other non-current financial assets comprised:

<i>In thousands of tenge</i>	30 September 2020 (unaudited)	31 December 2019
Long-term accounts receivable	2,332,748	1,118,077
Loans to employees	2,213,246	2,767,965
Cash restricted in use	–	2,653
Other	266,433	281,464
	4,812,427	4,170,159

As at 30 September 2020 and 31 December 2019, all Group's other non-current financial assets were denominated in tenge.

Loans to employees are interest free loans provided for the period from 1 to 15 years. These loans were discounted as at the issue date using market interest rates of 9.9% to 19.1% per annum (2019: from 12.2% to 19.1% per annum). Repayment of long-term loans to employees is made through withholding of amounts due from employees' salaries. Loans are secured by employees' real estate properties.

As at 30 September 2020, the long-term receivables represented by special agreements with customers for the purchase of contract phones for KZT 2,332,748 thousand (as at 31 December 2019: KZT 1,118,077 thousand).

12. TRADE RECEIVABLES

As at 30 September 2020 and 31 December 2019, trade receivables comprised:

<i>In thousands of tenge</i>	30 September 2020 (unaudited)	31 December 2019
Trade receivables	47,319,531	42,206,665
	47,319,531	42,206,665
Less: allowance for expected credit losses	(6,593,370)	(4,950,893)
	40,726,161	37,255,772

Movements in the allowance for expected credit losses were as follows for the three and nine months ended 30 September:

<i>In thousands of tenge</i>	For three months ended 30 September		For nine months ended 30 September	
	2020 (unaudited)	2019 (unaudited)	2020 (unaudited)	2019 (unaudited)
Allowance for expected credit losses at the beginning of the period	–	–	(4,950,893)	(3,175,108)
Charge for the period (<i>Note 31</i>)	(661,539)	170,396	(2,152,341)	(2,168,395)
Write-off for the period	254,050	56,580	502,561	537,134
Assets held for sale	(12,085)	–	7,303	–
Allowance for expected credit losses at the end of the period	(419,574)	226,976	(6,593,370)	(4,806,369)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. OTHER CURRENT FINANCIAL ASSETS

As at 30 September 2020 and 31 December 2019 other current financial assets comprised:

<i>In thousands of tenge</i>	30 September 2020 (unaudited)	31 December 2019
Bank deposits	3,399,500	3,399,500
Loans to employees	1,645,098	1,879,405
Restricted cash	923,060	929,499
Due from employees	232,983	283,688
Other accounts receivable	3,099,475	3,555,821
	9,300,116	10,047,913
Less: allowance for expected credit losses	(4,895,450)	(4,820,587)
	4,404,666	5,227,326

As at 30 September 2020 and 31 December 2019, bank deposits are represented by the short-term deposits with initial maturity of more than 3 (three) months but less than 12 (twelve) months, placed in Eximbank Kazakhstan JSC .

As at 30 September 2020 and 31 December 2019, the allowance for expected credit losses includes a provision in the amount of KZT 3,399,500 thousand accrued on a deposit placed in Eximbank Kazakhstan JSC due to the liquidation of the bank.

Cash restricted in use represents cash on the accounts with KazInvestBank JSC and Eximbank Kazakhstan JSC for KZT 423,606 thousand and KZT 499,454 thousand, respectively, which are assessed as unlikely to be recovered due to the revocation of its banking license. In 2019 allowance for expected credit loss was recorded for the whole amount of this cash.

Changes in allowance for expected credit losses were as follows for the three and nine months ended 30 September:

<i>In thousands of tenge</i>	For three months ended 30 September		For nine months ended 30 September	
	2020 (unaudited)	2019 (unaudited)	2020 (unaudited)	2019 (unaudited)
Allowance for expected credit losses at the beginning of the period	–	–	(4,820,587)	(4,220,670)
Charge for the period (<i>Note 31</i>)	(11,407)	28,932	(80,440)	(1,423)
Write-off for the period	4,560	72	5,577	1,417
Allowance for expected credit losses at the end of the period	(6,847)	29,004	(4,895,450)	(4,220,676)

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As at 30 September 2020 financial assets at fair value through other comprehensive incomerepresented by investments in US treasury bills acquired in August 2019, were fully repaid (31 December 2019: 4,964,633 thousand tenge). The Group recognized the financial assets at fair value through other comprehensive income as the contractual cash flows were solely principal and interest and the financial assets were held within a business model for collecting contractual cash flows and selling financial assets. Nominal amount was 12,880,000 USD (equivalent to 5,021,171 thousand tenge at the date of acquisition), with maturity till August 2020 and yield to maturity at 0.012%. Fair value of debt instrument was determined by reference to published price quotations in an active market (Level 1). On 18 August 2020 US treasury bills were repaid and the Group received the nominal amount and coupon income in the amount of 12,880,000 USD and 338,100 USD, respectively (equivalent to 5,385,385 thousand tenge and 141,366 thousand tenge, respectively).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. FINANCIAL ASSETS AT AMORTIZED COST

As at 30 September 2020 financial assets at amortized cost in the amount of 18,456,640 thousand tenge (31 December 2019: nil) were represented by short-term discount notes of National Bank of the Republic of Kazakhstan (“NBRK”) denominated in tenge, which were acquired at purchase price 22,913,385 thousand tenge in May-September 2020. On 21 August 2020, short-term NBRK discount note was redeemed for a total amount of 4,860,370 thousand tenge of nominal value and interest income of 139,631 thousand tenge.

The Group recognized the financial assets at amortized cost as the contractual cash flows are solely principal and interest and the financial assets are held within a business model for collecting contractual cash flows.

As at 30 September 2020 financial assets at amortised cost comprised of the following:

<i>In thousands of tenge</i>	Maturity date	Yield to maturity	Nominal value	30 September 2020 (unaudited)	31 December 2019
NBRK note	4 December 2020	10.10%	9,900,000	9,725,082	–
NBRK note	25 December 2020	10.30%	3,000,000	2,928,919	–
NBRK note	22 January 2021	9.90%	3,000,000	2,910,420	–
NBRK note	22 January 2021	8.90%	2,000,000	1,914,742	–
NBRK note	25 December 2020	9.80%	1,000,000	977,477	–
			18,900,000	18,456,640	–

16. CASH AND CASH EQUIVALENTS

As at 30 September 2020 and 31 December 2019, cash and cash equivalents comprised of the following:

<i>In thousands of tenge</i>	30 September 2020 (unaudited)	31 December 2019
Cash on current bank accounts	94,619,384	67,674,762
Deposits with less than 90 days' maturity from the date of opening	26,189,089	3,631,562
Cash on hand	57,474	34,830
	120,865,947	71,341,154
Less: allowance for expected credit losses	(11,735)	(19,332)
Total cash and cash equivalents	120,854,212	71,321,822

Cash on current bank accounts earn interest at the rates ranging from 0.2% to 8.0% per annum (2019: from 0.2% to 8.0% per annum).

As at 30 September 2020, short-term deposits for KZT 26,189,089 thousand were placed for varying periods between one day and three months, depending on the immediate cash requirements of the Group, and earned interest at the rates ranging from 6.5% to 8.5% per annum (as at 31 December 2019: KZT 3,631,562 thousand).

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

<i>In thousands of tenge</i>	30 September 2020 (unaudited)	31 December 2019
Cash on current bank accounts	94,619,384	67,674,762
Deposits with less than 90 days' maturity from the date of opening	26,189,089	3,631,562
Cash on current bank accounts attributable to disposed group (<i>Note 28</i>)	85,465	315,556
Cash on hand	57,474	34,830
	120,951,412	71,656,710
Less: allowance for expected credit losses	(11,735)	(19,332)
Total cash and cash equivalents	120,939,677	71,637,378

As at 30 September 2020 and 31 December 2019 cash and cash equivalents were denominated in the following currencies:

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. CASH AND CASH EQUIVALENTS (continued)

<i>In thousands of tenge</i>	30 September 2020 (unaudited)	31 December 2019
US dollars	98,893,499	43,199,243
Tenge	20,649,498	27,356,685
Euro	1,227,466	652,984
Russian roubles	82,894	107,521
Other	855	5,389
	120,854,212	71,321,822

Movements in the allowance for expected credit losses were as follows for the periods ended 30 September:

<i>In thousands of tenge</i>	For three months ended 30 September		For nine months ended 30 September	
	2020 (unaudited)	2019 (unaudited)	2020 (unaudited)	2019 (unaudited)
Allowance for expected credit losses at the beginning of the period	-	-	(19,332)	(506,765)
Charge for the period <i>(Note 31)</i>	(913)	-	(6,463)	-
Recovered for the period <i>(Note 31)</i>	37	(5,133)	14,060	727
Allowance for expected credit losses at the end of the period	(876)	(5,133)	(11,735)	(506,038)

17. EQUITY

Authorised and issued shares

	Number of shares		In thousands of tenge		Total issued shares
	Common shares	Preferred non- voting shares	Common shares	Preferred non- voting shares	
At 31 December 2018	10,922,876	1,213,653	10,922,876	1,213,653	12,136,529
At 31 December 2019	10,922,876	1,213,653	10,922,876	1,213,653	12,136,529
At 30 September 2020	10,922,876	1,213,653	10,922,876	1,213,653	12,136,529

Treasury shares

	Number of shares		In thousands of tenge		Total
	Common shares	Preferred non- voting shares	Common shares	Preferred non- voting shares	
At 31 December 2018	215,553	893,097	2,966,250	3,498,124	6,464,374
Treasury shares reacquired	1,299	21,771	86,367	514,873	601,240
Sale of treasury shares	-	-	-	-	-
At 31 December 2019	216,852	914,868	3,052,617	4,012,997	7,065,614
Treasury shares reacquired	-	-	-	-	-
Sale of treasury shares	-	-	-	-	-
At 30 September 2020 (unaudited)	216,852	914,868	3,052,617	4,012,997	7,065,614

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. EQUITY (continued)

Shares issued less treasury shares

As at 30 September 2020, number of common and preferred shares issued net of treasury shares was 10,706,024 and 298,785 shares, respectively (31 December 2019: 10,706,024 and 298,785 shares, respectively).

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

Preferred shares

Holders of preferred shares are entitled to receive annual cumulative dividends of 300 tenge per share, and not less than the amount of the dividends per share paid to holders of common shares. Payment of preferred shares dividends does not require a resolution of Kazakhtelecom JSC shareholders meeting. The discounted value of future cash flows of annual cumulative dividends is recorded as a financial liability as at 30 September 2020 in the amount of KZT 814,868 thousand (31 December 2019: KZT 814,868 thousand). This liability has been included in non-current liabilities as a debt component of preferred shares.

Dividends

The preferred shares earn a non-discretionary dividend of 300 tenge per share in accordance with the Company's charter documents. Preferred shares are considered to be compound financial instruments, and accordingly the liability and equity components are presented separately in the interim condensed consolidated statement of financial position. Dividends in the amount of KZT 67,227 thousand were accrued as at 30 September 2020 (at 30 September 2019: KZT 67,771 thousand) and are recorded as interest expenses in the interim condensed consolidated statement of comprehensive income (*Note 26*).

Movements in dividends payable for the periods ended 30 September were as follows:

<i>In thousands of tenge</i>	30 September 2020 (unaudited)	30 September 2019 (unaudited)
Dividends payable at the beginning of the year	1,598,354	2,033,495
Dividends declared on common shares to equity holders of the parent	8,330,464	8,362,107
Dividends declared on common shares to non-controlling interests	2,250,000	1,493,000
Dividends declared on preferred shares in excess of the obligatory amount	142,852	154,202
Interest on debt component of preferred shares (<i>Note 26</i>)	67,227	67,771
Dividends paid to equity holders of the parent	(10,054,096)	(8,903,114)
Dividends paid to non-controlling interests	(2,250,000)	(1,493,000)
Dividends payable at the end of the period (<i>Note 20</i>)	84,799	1,714,461

During the nine months period ended 30 September 2020, the Group paid withholding tax on dividends in the amount of KZT 162,819 thousand (during the nine months period ended 30 September 2019: KZT 1,649,411 thousand).

Other reserves

According to the Company's Charter, the Company created a reserve capital equal to 15% of the authorized share capital. This reserve capital was created through appropriation of the retained earnings. There were no movements in the reserve capital at 30 September 2020 and at 31 December 2019.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of financial statements of the subsidiaries, whose functional currency is not tenge and whose financial statements are included in these interim condensed consolidated financial statements in accordance with the accounting policy disclosed in *Note 2*.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. EQUITY (continued)

Earnings per share

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

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

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

<i>In thousands of tenge</i>	For three months ended 30 September		For nine months ended 30 September	
	2020 (unaudited)	2019 (unaudited)	2020 (unaudited)	2019 (unaudited)
Net profit	30,689,173	13,593,608	60,688,339	48,769,267
Interest on preferred shares (Note 26)	22,409	21,865	67,227	67,771
Net profit for calculating of basic and diluted earnings per share	30,711,582	13,615,473	60,755,566	48,837,038
Weighted average number of common and preferred shares for calculation of basic earnings per share	11,004,809	11,010,577	11,004,809	11,010,577
Basic and diluted earnings per share, tenge	2,790.74	1,236.58	5,520.82	4,435.47

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

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

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

<i>In thousands of tenge</i>	30 September 2020 (unaudited)	31 December 2019
Total assets	1,125,258,657	1,085,917,514
Less: intangible assets, including goodwill	(369,188,076)	385,606,609
Less: total liabilities	(609,859,063)	(623,215,995)
Less: preferred shares issued net of treasury shares	298,785	298,785
Net assets for calculation of cost of ordinary share in accordance with listing requirements of KASE	145,912,733	76,796,125
Number of ordinary shares	10,706,024	10,706,024
Cost of ordinary share, calculated in accordance with listing requirements of KASE (in tenge)	13,629	7,173

Another requirement for disclosure is the amount of the dividends payable to owners of preferred non-voting shares, preferred non-voting shares in the equity and debt component of preferred non-voting shares, divided by number of preferred non-voting shares. At the same time, according to the methodology of KASE, the dividend payable on preferred shares, which are not paid due to the lack of up-to-date information about the shareholders, their payment details, are not taken into account. As at 30 September 2020, this indicator amounted to 3,727 tenge (as at 31 December 2019: 3,727 tenge).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. BORROWINGS

As at 30 September 2020 and 31 December 2019, borrowings comprised:

<i>In thousands of tenge</i>	Weighted average effective interest rate	30 September 2020 (unaudited)	Weighted average effective interest rate	31 December 2019
Bonds with a fixed interest rate of 7.78% to 12.18% per annum	12.14%	205,690,387	12.14%	206,857,207
Borrowings with a fixed interest rate of 7.25% to 13.06% per annum	10.98%	186,769,143	11.18%	160,758,517
		392,459,530		367,615,724

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

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

The Board of Directors of Kazakhtelecom JSC resolved to pledge shares of Kcell JSC as collateral for these coupon bonds within the time limit specified above. On 30 September 2020, shares were not pledged.

On 21 February 2019, the Group undertook a bond placement at the Kazakhstan Stock Exchange, in which bonds to the value of KZT 17,024,648 thousand were placed with an effective interest rate of 11.84% and on 16 January 2018 a bond placement with the value of KZT 4,950,000 thousand. This was the first placement in the program, which the Group had announced on 14 December 2017, aimed at expanding and diversifying the Group's funding sources, increasing the average term of the Group's financial liabilities and decreasing its funding costs. On 22 May 2019, the Group and Halyk Bank of Kazakhstan JSC entered into credit facility agreement with the credit line limit in the amount of KZT 90,000,000 thousand and effective interest rate equal to 12.2%. The maturity of the loan is 21 May 2027.

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

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

During the six months period ended 30 June 2020, the Group obtained several loans within the credit line agreement with Development bank of Kazakhstan JSC with the maturity in June 2032 for the total amount of KZT 13,307,169 thousand.

On 3 February 2020, the Group fully repaid loan obtained from VTB Bank JSC in the amount of KZT 5,133,249 thousand, including principal and interest accrued in the amount of KZT 5,000,000 thousand and 133,249 thousand tenge, respectively.

On 16 March 2020, the Group obtained additional loan in the amount of KZT 4,500,000 thousand within credit line agreement with Bank of China Kazakhstan JSC with a repayment period of 30 months and a fixed interest rate of 10.5% per annum.

On 23 April 2020, the Group obtained loan in the amount of KZT 15,000,000 thousand within credit line agreement with Halyk Bank of Kazakhstan JSC with a maturity of 36 months and an effective interest rate of 11.5% per annum.

On 30 June 2020, the Group obtained loan in the amount of KZT 13,000,000 thousand within credit line agreement with Halyk Bank of Kazakhstan JSC with an effective interest rate of 11.83% and maturity date on 30 June 2023.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. BORROWINGS (continued)

During the nine months period ended 30 September 2020, the Group made principal repayment of loans within the credit line agreements obtained in Halyk Bank of Kazakhtsan JSC and Development bank of Kazakhstan JSC for KZT 5,214,096 thousand and KZT 2,848,829 thousand, respectively.

Borrowings are repayable as follows:

<i>In thousands of tenge</i>	30 September 2020 (unaudited)	31 December 2019
Current portion of borrowings	46,312,468	28,477,663
Maturity between 1 and 2 years	39,352,976	38,648,363
Maturity between 2 and 5 years	203,071,193	196,418,649
Maturity over 5 years	103,722,893	104,071,049
Total non-current portion of borrowings	346,147,062	339,138,061
Total borrowings	392,459,530	367,615,724

As at 30 September 2020 and 31 December 2019, debt securities issued and loans represented by the following:

Bonds	Maturity date	Currency	Effective interest rate	30 September 2020 (unaudited)	31 December 2019
Local bonds of Kazakhtelecom JSC (KTCB.1024 and KTCB2.1024)	1 November 2024	Tenge	12.18%	100,958,333	103,833,333
Local bonds of Kazakhtelecom JSC (KZTKb3)	19 June 2026	Tenge	12.18%	82,503,065	80,189,473
Local bonds of Kcell JSC (KCELb1)	16 January 2021	Tenge	11.84%	22,228,989	22,828,111
Local bonds of Kazakhtelecom JSC (KZTKb3)	10 January 2020	Tenge	7.78%	-	6,290
				205,690,387	206,857,207

Borrowings	Maturity date	Currency	Effective interest rate	30 September 2020 (unaudited)	31 December 2019
Halyk Bank of Kazakhstan JSC	21 May 2027	Tenge	12.20%	71,248,091	79,135,027
Eurasian Development Bank JSC	20 May 2024	Tenge	13.06%	25,394,717	28,956,330
Development Bank of Kazakhstan JSC	30 June 2032	Tenge	8.10%	27,296,180	13,293,317
Development Bank of Kazakhstan JSC	19 December 2024	Tenge	7.25%-9.41%	25,034,671	29,226,311
Halyk Bank of Kazakhstan JSC	23 April 2023	Tenge	11.20%	15,213,272	-
Halyk Bank of Kazakhstan JSC	30 June 2023	Tenge	11.83%	13,004,045	-
Bank of China Kazakhstan JSC	20 August 2022	Tenge	10.07%	9,578,167	5,059,792
VTB Bank JSC	1 February 2020	Tenge	11.90%	-	5,087,740
				186,769,143	160,758,517

As at 30 September 2020, the Parent is a guarantor of the two out of four credit facilities received by the Group from Development Bank of Kazakhstan JSC in the amount of KZT 18,266,333 thousand (as at 31 December 2019: KZT 20,902,442 thousand).

Covenants

The Group is required to ensure execution of the financial and non-financial covenants under the terms of the loan agreements. Failure to comply with financial covenants gives the lenders the right to demand early repayment of loans. As at 30 September 2020 and 31 December 2019, the Group complied with all financial and non-financial covenants.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

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

<i>In thousands of tenge</i>	Buildings and constructions	Equipment	Total
Net book value			
At 31 December 2019	53,147,654	38,949,782	92,097,436
At 30 September 2020 (unaudited)	46,732,472	36,023,370	82,755,842

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

<i>In thousands of tenge</i>	30 September 2020 (unaudited)
At the beginning of the period	73,216,589
Additions and modifications	139,006
Acquisition of subsidiary	-
Interest expenses (Note 26)	6,347,249
Payments	(17,217,688)
At the end of the period	62,485,156

Set out below are the carrying amounts of short-term and long-term lease liabilities:

	30 September 2020 (unaudited)	31 December 2019
Non-current portion of liabilities	45,522,897	57,781,449
Current portion of lease liabilities	16,962,259	15,435,140

The following are the amounts recognised in profit or loss:

<i>In thousands of tenge</i>	For three months ended 30 September		For nine months ended 30 September	
	2020 (unaudited)	2019 (unaudited)	2020 (unaudited)	2019 (unaudited)
Depreciation expense of right-of-use assets	3,493,327	1,235,119	9,554,243	5,395,820
Interest expense on lease liabilities	2,231,867	2,745,810	6,347,249	6,007,830
Expense relating to short-term leases (included in cost of sales)	(267,750)	1,849,530	963,044	3,332,808
Expense relating to short-term leases (included in general and administrative expenses)	31,990	28,648	134,115	87,177
	5,489,434	5,859,107	16,998,651	14,823,635

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. OTHER NON-CURRENT AND CURRENT FINANCIAL LIABILITIES

Other non-current financial liabilities

As at 30 September 2020 and 31 December 2019 other non-current financial liabilities comprised:

<i>In thousands of tenge</i>	30 September 2020 (unaudited)	31 December 2019
Non-current accounts payable	1,074	1,318
Trademark payment obligation	-	1,861,290
	1,074	1,862,608

Other current financial liabilities

As at 30 September 2020 and 31 December 2019 other current financial liabilities comprised:

<i>In thousands of tenge</i>	30 September 2020 (unaudited)	31 December 2019
Payable to employees	12,397,481	16,111,648
Trademark payment obligation (Note 5)	1,780,276	2,087,140
Dividends payable (Note 17)	84,799	1,598,354
Other	2,949,127	2,441,911
	17,211,683	22,239,053

As at 30 September 2020 and 31 December 2019, other current financial liabilities were not interest bearing and the balances were mainly denominated in tenge.

As at 30 September 2020, trademark payment obligation in the amount of KZT 1,780,276 thousand was represented by the liability of the Group to pay royalty for the usage of Tele2 trademark (31 December 2019: KZT 3,948,430 thousand) (Note 5).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. NON-CURRENT AND CURRENT CONTRACT LIABILITIES

Non-current contract liabilities

As at 30 September 2020 and 31 December 2019 non-current contract liabilities comprised:

<i>In thousands of tenge</i>	30 September 2020 (unaudited)	31 December 2019
Contract liabilities from operators	3,836,246	4,292,035
Contract liabilities for connection of subscribers	754,938	889,219
Other contract liabilities	1,684,783	1,697,055
	6,275,967	6,878,309

Current contract liabilities

As at 30 September 2020 and 31 December 2019 current contract liabilities comprised:

<i>In thousands of tenge</i>	30 September 2020 (unaudited)	31 December 2019
Advances received	15,351,494	17,052,535
Contract liabilities from operators	1,365,390	1,338,555
Contract liabilities for connection of subscribers	375,294	409,310
Other contract liabilities	69,675	74,662
Other	91,808	96,872
	17,253,661	18,971,934

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

22. OTHER CURRENT NON-FINANCIAL LIABILITIES

As at 30 September 2020 and 31 December 2019 other current non-financial liabilities comprised:

<i>In thousands of tenge</i>	30 September 2020 (unaudited)	31 December 2019
Taxes payable other than income tax	4,223,993	2,042,840
Payable to pension funds	531,945	558,931
Asset retirement obligations	469,388	345,500
Other	322,956	300,713
	5,548,282	3,247,984

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue from contracts with customers for the three and nine months ended 30 September comprised:

<i>In thousands of tenge</i>	For the three months ended 30 September 2020			
	Fixed line	Mobile connection	Other	Total
Rendering of fixed line and wireless phone services	9,588,178	45,827,947	-	55,416,125
Data transfer services	28,323,320	20,570,055	3,472	48,896,847
Sale of equipment and mobile devices	2,899	10,956,142	-	10,959,041
Interconnect	3,597,682	2,785,570	-	6,383,252
Rent of channels	759,328	-	-	759,328
Other	9,455,481	1,961,019	193,602	11,610,102
	51,726,888	82,100,733	197,074	134,024,695
Services transferred over time	51,723,989	71,144,591	197,074	123,065,654
Goods transferred at a point of time	2,899	10,956,142	-	10,959,041
	51,726,888	82,100,733	197,074	134,024,695
B2C*	28,186,541	68,997,508	-	97,184,049
B2B**	8,907,577	7,557,252	197,074	16,661,903
B2O***	4,162,966	5,305,693	-	9,468,659
B2G****	10,469,804	240,280	-	10,710,084
	51,726,888	82,100,733	197,074	134,024,695

<i>In thousands of tenge</i>	For the three months ended 30 September 2019			
	Fixed line	Mobile connection	Other	Total
Rendering of fixed line and wireless phone services	10,047,257	44,699,211	-	54,746,468
Data transfer services	25,321,980	18,000,046	3,586	43,325,612
Interconnect	3,911,286	2,242,946	-	6,154,232
Sale of equipment and mobile devices	-	4,909,746	-	4,909,746
Rent of channels	875,562	-	-	875,562
Other	8,358,383	98,784	106,658	8,563,825
	48,514,468	69,950,733	110,244	118,575,445
Services transferred over time	48,514,468	65,040,987	110,244	113,665,699
Goods transferred at a point of time	-	4,909,746	-	4,909,746
	48,514,468	69,950,733	110,244	118,575,445
B2C*	26,235,509	58,311,689	-	84,547,198
B2B**	13,429,319	5,840,638	110,244	19,380,201
B2O***	15,999	5,719,303	-	5,735,302
B2G****	8,833,641	79,103	-	8,912,744
	48,514,468	69,950,733	110,244	118,575,445

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)

<i>In thousands of tenge</i>	For the nine months ended 30 September 2020			
	Fixed line	Mobile connection	Other	Total
Rendering of fixed line and wireless phone services	29,100,338	132,756,547	-	161,856,885
Data transfer services	82,897,014	57,384,168	10,682	140,291,864
Sale of equipment and mobile devices	4,661	22,353,645	-	22,358,306
Interconnect	11,126,518	7,940,912	-	19,067,430
Rent of channels	2,278,594	-	-	2,278,594
Other	27,415,330	5,239,659	420,827	33,075,816
	152,822,455	225,674,931	431,509	378,928,895
Services transferred over time	152,817,794	203,321,286	431,509	356,570,589
Goods transferred at a point of time	4,661	22,353,645	-	22,358,306
	152,822,455	225,674,931	431,509	378,928,895
B2C*	82,900,465	188,676,482	-	271,576,947
B2B**	26,880,159	21,290,456	431,509	48,602,124
B2O***	12,793,171	15,327,636	-	28,120,807
B2G****	30,248,660	380,357	-	30,629,017
	152,822,455	225,674,931	431,509	378,928,895

<i>In thousands of tenge</i>	For the nine months ended 30 September 2019			
	Fixed line	Mobile connection	Other	Total
Data transfer services	80,421,724	45,011,274	11,406	125,444,404
Rendering of fixed line and wireless phone services	30,804,910	71,497,930	-	102,302,840
Interconnect	12,095,566	12,832,232	-	24,927,798
Sale of equipment and mobile devices	-	12,115,900	-	12,115,900
Rent of channels	8,818,954	-	-	8,818,954
Other	23,743,058	881,680	339,943	24,964,681
	155,884,212	142,339,016	351,349	298,574,577
Services transferred over time	155,884,212	130,223,116	351,349	286,458,677
Goods transferred at a point of time	-	12,115,900	-	12,115,900
	155,884,212	142,339,016	351,349	298,574,577
B2C*	78,933,792	112,333,329	-	191,267,121
B2B**	25,440,621	13,542,051	351,349	39,334,021
B2O***	24,881,217	16,308,589	-	41,189,806
B2G****	26,628,582	155,047	-	26,783,629
	155,884,212	142,339,016	351,349	298,574,577

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

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

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

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

24. COMPENSATION FOR PROVISION OF UNIVERSAL SERVICES IN RURAL AREAS

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. COMPENSATION FOR PROVISION OF UNIVERSAL SERVICES IN RURAL AREAS (continued)

There are no unfulfilled conditions or contingencies attached to these subsidies. The compensation received for the three and nine months ended 30 September was equal to mil and KZT 4,810,148 thousand, respectively (2019: nil).

25. COST OF SALES

Cost of sales for the three and nine months ended 30 September comprised:

<i>In thousands of tenge</i>	For three months ended 30 September		For nine months ended 30 September	
	2020 (unaudited)	2019 (unaudited)	2020 (unaudited)	2019 (unaudited)
Depreciation and amortization	25,677,326	25,971,861	77,831,519	64,455,934
Personnel costs	18,472,836	16,391,854	56,640,205	48,371,235
Interconnect	6,800,216	8,007,549	22,189,353	23,824,624
Cost of SIM-card, scratch card and handsets	9,362,174	4,545,380	19,573,094	11,261,345
Repair and maintenance	4,862,581	4,400,682	13,640,000	11,009,121
Fees for radiofrequencies use	3,707,152	3,322,963	10,827,157	6,728,769
Fee for usage of channels	2,613,942	2,524,161	7,653,928	10,088,946
Electricity	2,095,898	2,127,657	6,437,354	5,344,790
Fee to provide telecom services	1,798,118	1,242,186	5,333,104	3,725,989
Inventories	1,539,123	1,529,938	3,417,032	4,034,939
Content	1,109,294	1,170,645	3,333,613	3,587,460
Security and safety	815,491	515,369	2,126,469	1,680,891
Utilities	301,858	375,130	1,618,290	1,392,482
Business trip expenses	263,735	310,744	695,280	764,770
Rent of transponders related to satellite communications	181,733	200,050	613,654	599,657
Insurance	168,340	181,528	508,447	471,827
Rental of property and equipment	(449,483)	559,922	349,390	523,749
Fees for usage of GSM radiofrequencies of Mobile Telecom Services LLP	-	-	-	2,667,239
Fees for usage of billing system of Mobile Telecom Services LLP	-	-	-	111,135
Other	3,191,213	1,454,272	6,502,578	3,729,903
	82,511,547	73,712,047	239,290,467	204,374,805

26. FINANCE COSTS

Finance costs for the three and nine months period ended 30 September comprised:

<i>In thousands of tenge</i>	For three months ended 30 September		For nine months ended 30 September	
	2020 (unaudited)	2019 (unaudited)	2020 (unaudited)	2019 (unaudited)
Interest expense on loans	10,854,061	10,358,391	31,334,349	22,284,306
Interest expense on lease liabilities (Note 19)	2,231,867	2,745,810	6,347,249	6,007,830
Unwinding of discount (provision for asset retirement obligations)	122,938	221,103	392,757	233,069
Discounting of long-term loans to employees	(21,098)	345,074	261,016	753,564
Discounting of other non-current financial assets	84,963	4,458	156,343	18,690
Unwinding of discount on long-term accounts payable	43,598	235,284	105,764	803,196
Interest on debt component of preferred shares (Note 17)	22,409	21,865	67,227	67,771
Other costs	22,381	38,834	76,319	38,834
	13,361,119	13,970,819	38,741,024	30,207,260

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. INCOME TAX EXPENSES

Income tax expense for the three and nine months period ended 30 September comprised the following:

<i>In thousands of tenge</i>	For three months ended 30 September		For nine months ended 30 September	
	2020 (unaudited)	2019 (unaudited)	2020 (unaudited)	2019 (unaudited)
Current corporate income tax expenses	9,871,555	9,602,960	24,875,729	17,100,468
Adjustments in respect of current income tax of previous years	-	-	(147,449)	-
Deferred income tax benefit	(3,371,430)	(4,951,773)	(5,972,960)	(5,444,647)
	6,500,125	4,651,187	18,755,320	11,655,821

28. DISPOSAL GROUP

KT Cloud Lab LLP

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

On 13 November 2019, the results of the tender for realization of 100% share in the charter capital of KT Cloud Lab LLP were announced with the selling price of KZT 1,435,000 thousand. The tender winner was Soft Art LLP. In accordance with the tender terms, the conclusion of sale and purchase agreement can only be made after the approval of Samruk-Kazyna, the Parent of the Group. Initially, the Group expected to receive it from Samruk-Kazyna in April 2020. In connection with the introduction of a quarantine and state emergency measures due to the COVID-19 pandemic from March 2020, the approval of Samruk-Kazyna was postponed till the third quarter of 2020. The extension of the period required to complete a sale does not preclude KT Cloud Lab LLP from being classified as held for sale as the delay is caused by the events beyond the Group's control. The Group assesses the sale of KT Cloud Lab LLP as highly probable.

At 30 September 2020, KT Cloud Lab LLP was classified as a disposal group held for sale.

The major classes of assets and liabilities of KT Cloud Lab LLP classified as held for sale as at 30 September 2020 and 31 December 2019 are, as follows:

<i>In thousands of tenge</i>	30 September 2020 (unaudited)	31 December 2019
Assets		
Property and equipment	524,758	520,803
Intangible assets	483,934	483,934
Other non-current financial assets	80,777	83,841
Inventories	11,351	9,631
Trade receivables	531,119	266,252
Other current non-financial assets	66,677	37,923
Other current financial assets	177,657	129,380
Advanced paid	1,573	30,713
Cash and cash equivalents	85,465	315,556
Assets held for sale	1,963,311	1,878,033
Liabilities		
Deferred tax liabilities	17,450	17,450
Trade payables	265,971	79,144
Other current financial liabilities	199,131	179,651
Contract liabilities	2,568	126
Other current non-financial liabilities	170,116	166,662
Liabilities directly associated with assets held for sale	655,236	443,033
Net assets directly associated with disposal group	1,308,075	1,435,000

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

28. DISPOSAL GROUP (continued)**KT Cloud Lab LLP (continued)***Impairment of property and equipment*

Immediately before the classification of KT Cloud Lab LLP as a disposal group held for sale, the recoverable amount was estimated for certain items of property and equipment. In 2019, the Group has recognized impairment loss in the consolidated statement of comprehensive income as part of impairment losses on non-financial assets for KZT 292,843 thousand to reduce the carrying amount of the assets in the disposal group to their fair value less costs to sell.

29. NON-CASH TRANSACTIONS

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

During the three and nine months period ended 30 September 2020, the Group paid an amount of nil and KZT 32,009,038 thousand, respectively, for property and equipment purchased in prior year (during the three and nine months period ended 30 September 2019: KZT 185,190 thousand and KZT 17,403,861 thousand). Property and equipment in the amount of KZT 16,145,995 thousand (unaudited) were purchased during the nine months period ended 30 September 2020 but not paid by 30 September 2020 (purchased, but not paid by 30 September 2019: KZT 13,500,872 thousand (unaudited)).

During the three and nine months period ended 30 September 2020, in accordance with the lease agreements, the Group did not receive telecommunication equipment (during the three and nine months period ended 30 September 2019: KZT 63,071 thousand and KZT 652.471 thousand, respectively).

During the three and nine months period ended 30 September 2020, the Group received repayment of loans provided to employees in the amount of KZT 512,224 thousand and KZT 1,514,490 thousand, respectively. The repayments were withheld from the salary of employees.

30. RELATED PARTY TRANSACTIONS

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

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

At 30 September 2020, the Group recognized a provision for expected credit loss in the amount of KZT 124,559 thousand in respect of receivables from related parties.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30. RELATED PARTY TRANSACTIONS (continued)

Sales and purchases with related parties during the periods of three and nine months period ended 30 September 2020 and 30 September 2019 and the balances with related parties at 30 September 2020 and 31 December 2019 were as follows:

	For three months ended 30 September		For nine months ended 30 September	
	2020 (unaudited)	2019 (unaudited)	2020 (unaudited)	2019 (unaudited)
<i>In thousands of tenge</i>				
Sales of goods and services				
Parent	7,258	48,062	30,148	142,298
Parent-controlled entities	617,689	727,181	1,816,027	2,043,278
Associate (Khan Tengri Holding B.V.) [1]	-	-	-	18,516,552
Associate (Qaz Cloud LLP)	216,566	223,202	592,405	484,209
Government-related entities	6,660,865	8,912,774	26,580,363	26,783,660
Purchases of goods and services				
Parent	(39)	13,872	(40)	14,104
Parent-controlled entities	569,061	374,325	1,627,373	1,918,172
Associate (Khan Tengri Holding B.V.) [1]	-	-	-	10,185,382
Associate (Qaz Cloud LLP)	169,965	64,662	480,115	174,694
Government-related entities	75,748	7,063	173,607	28,448
Interest accrued on borrowings				
Entities under state control (Development Bank of Kazakhstan JSC)	987,220	324,122	2,792,223	1,543,962
<i>Average interest rate on borrowings</i>	8.19%	8.33%	8.19%	8.33%
Parent	2,875,000	2,875,000	8,625,000	8,625,000
<i>Average interest rate on borrowings</i>	12.18%	11.50%	12.18%	11.50%

	30 September 2020 (unaudited)	31 December 2019 (audited)
<i>In thousands of tenge</i>		
Cash and cash equivalents		
Entities under state control (Development Bank of Kazakhstan JSC)	52	64
Borrowings		
Entities under state control (Development Bank of Kazakhstan JSC)	52,330,851	42,519,628
Parent	100,958,333	103,833,333
Trade and other accounts receivable		
Parent	3,810	17,425
Parent-controlled entities	692,393	678,645
Associate (Qaz Cloud LLP)	181,909	98,055
Government-related entities	13,119,507	7,030,150
Accounts payable		
Parent	73	73
Parent-controlled entities	330,824	352,044
Associate (Qaz Cloud LLP)	60,890	75,991
Government-related entities	759,543	991,114
Other non-current assets		
Long-term loans to key management personnel	24,166	28,707

During the nine months period ended 30 September 2020 and 2019, the Group provided communication services for the entities controlled by the Parent and purchased goods and services to support operating activities related to provision of telecommunication services from such entities.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30. RELATED PARTY TRANSACTIONS (continued)

[1] As stated in *Note 5*, the Group has acquired control over Khan Tengri Holding B.V. and since the date of control Khan Tengri Holding B.V. is consolidated as a subsidiary. The Group's interest in Khan Tengri Holding B.V. was accounted in the interim condensed consolidated financial statements using the equity method till the date of control acquisition. Sales and purchases with MTS the nine months ended 30 September 2020 and 2019 were as follows:

<i>In thousands of tenge</i>	For nine months ended 30 September	
	2020 (unaudited)	2019 (unaudited)
Sales		
Data transmission [A]	-	7,566,176
Interconnect [B]	-	5,646,243
Rent of channels [C]	-	2,778,374
Rent of sites for base stations	-	342,678
Base cell stations maintenance [D]	-	338,132
Other	-	1,844,949
	-	18,516,552
Purchases		
Interconnect [E]	-	4,473,217
Fee for usage of GSM radiofrequencies [F]	-	2,667,239
Mobile traffic at wholesale tariffs [G]	-	2,551,672
Fee for usage of billing system [H]	-	111,135
Other	-	382,119
	-	10,185,382

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

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

[C] Rent of channels represents revenue from the provision to the temporary use of channels with the specified technical characteristics, organized based on LTE base cell stations (i.e. 4G license radiofrequencies). It is calculated based on the actual number of rented channels. In February 2016, the Group concluded an agreement with MTS for renting out 4G license radiofrequencies. Rental fees are payable on a monthly basis. Simultaneously upon concluding the agreement for renting out 4G license radiofrequencies the Group and MTS agreed to increase fees for use of GSM radiofrequencies and fee for usage of the billing system payable by the Group as described below. For the nine months ended 30 September 2020 revenue from rent of channels amounted to nil KZT (for the nine months ended 30 September 2019: KZT 2,778,374 thousand).

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

30. RELATED PARTY TRANSACTIONS (continued)

- [D] Revenue from base cell stations maintenance represents revenue from the provision of various services to ensure the stable and uninterrupted operation of radio access networks, and is calculated based on the actual number of base stations served.
- [E] Expenses on interconnect are calculated based on the actual volume of minutes of the connections.
- [F] Fee for usage of GSM radiofrequencies is fixed monthly payment for the usage of the GSM radiofrequencies owned by MTS. For the nine months ended 30 September 2020 fee for usage of GSM radiofrequencies amounted to nil KZT (for the nine months ended 30 September 2019: KZT 2,667,239 thousand).
- [G] Cost of mobile traffic at wholesale tariffs is the actual traffic used by Kazakhtelecom JSC customers in the mobile operator's network and is calculated based on the actual number of outgoing minutes, short messages (SMS), and megabytes of mobile traffic.
- [H] Fee for usage of billing system is fixed monthly payment for the usage of the MTS billing system. For the nine months ended 30 September 2020 fee for usage of billing system amounted to nil KZT (for the nine months ended 30 September 2019: KZT 111,135 thousand).

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

31. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES**Impairment losses on financial assets**

Impairment losses on financial assets for the nine months ended 30 September 2020, comprise accrued allowance for expected credit loss for trade receivables in amount of KZT 2,152,341 thousand (*Note 12*), other current financial assets in amount of KZT 80,440 thousand (*Note 13*), cash and cash equivalents in amount of KZT (7,597) thousand (*Note 16*) (for the nine months ended 30 September 2019: trade receivables in amount of KZT 2,168,395 thousand, other current financial assets in amount of KZT 1,423 thousand, cash and cash equivalents in amount of KZT (727) thousand).

Impairment losses on financial assets for the three months ended 30 September 2020, comprise accrued allowance for expected credit loss for trade receivables in amount of KZT 661,539 thousand (*Note 12*), other current financial assets in amount of KZT 11,407 thousand (*Note 13*), cash and cash equivalents in amount of KZT 876 thousand (*Note 16*) (for the three months ended 30 September 2019: trade receivables in amount of KZT 170,396 thousand, other current financial assets in amount of KZT (28,932) thousand, cash and cash equivalents in amount of KZT 5,133 thousand).

Impairment losses on non-financial assets

Impairment losses on non-financial assets for the nine months ended 30 September 2020, comprise accrued/(recovered) allowance for doubtful debt for advances paid for non-current assets for KZT 321,391 thousand (*Note 7*), advances paid for current assets for KZT 71,853 thousand, allowance for write-down of inventories to net realizable value for KZT 319,453 thousand and impairment of fixed assets for KZT 1,281,409 thousand (*Note 7*) (for the nine months ended 30 September 2019: impairment of fixed assets for KZT 1,844,104 thousand).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Impairment losses on non-financial assets (continued)

Impairment losses on non-financial assets for the three months ended 30 September 2020, comprise accrued allowance for write-down of inventories to net realizable value for KZT 325,397 (*Note 7*) thousand and advances paid for current assets for KZT 80,459 thousand, allowance for write-down of inventories to net realizable value for KZT 165,695 thousand and impairment of fixed assets for KZT 561,049 thousand (*Note 7*) (for the three months ended 30 September 2019: impairment of fixed assets for nil).

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

Fair value

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

The tables below present fair value hierarchy of assets and liabilities of the Group. Disclosure of quantitative information of fair value hierarchy of financial instruments as at 30 September 2020 and 31 December 2019 was as follow:

<i>In thousands of tenge</i>	Date of valuation	Price quotation on active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value					
Financial assets					
at fair value through other comprehensive income	30 September 2020	-	-	-	-
Assets for which fair values are disclosed					
Financial assets					
at amortised cost	30 September 2020	18,049,622	-	-	18,049,622
Trade receivables	30 September 2020	-	-	40,726,161	40,726,161
Other non-current financial assets	30 September 2020	-	-	4,812,427	4,812,427
Other current financial assets	30 September 2020	-	-	4,404,666	4,404,666
Liabilities for which fair values are disclosed					
Borrowings					
	30 September 2020	-	-	372,926,480	372,926,480
Trade payables					
	30 September 2020	-	-	33,114,584	33,114,584
Other non-current financial liabilities					
	30 September 2020	-	-	1,074	1,074
Other current financial liabilities					
	30 September 2020	-	-	17,211,683	17,211,683

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Fair value (continued)

<i>In thousands of tenge</i>	Date of valuation	Price quotation on active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value					
Financial assets at fair value through other comprehensive income	31 December 2019	4,964,633	-	-	4,964,633
Assets for which fair values are disclosed					
Trade receivables	31 December 2019	-	-	37,255,772	37,255,772
Other non-current financial assets	31 December 2019	-	-	3,734,079	3,734,079
Other current financial assets	31 December 2019	-	-	5,227,326	5,227,326
Liabilities for which fair values are disclosed					
Borrowings	31 December 2019	-	-	367,461,482	367,461,482
Trade payables	31 December 2019	-	-	58,632,660	58,632,660
Other non-current financial liabilities	31 December 2019	-	-	1,862,608	1,862,608
Other current financial liabilities	31 December 2019	-	-	22,239,053	22,239,053

As at 30 September 2020 and 31 December 2019, the carrying amounts of the Group's financial assets and liabilities presented as follow:

<i>In thousands of tenge</i>	Carrying amount as at 30 September 2020 (unaudited)	Fair value as at 30 September 2020 (unaudited)	Unrecognised gain/(loss) as at 30 September 2020 (unaudited)	Carrying amount as at 31 December 2019	Fair value as at 31 December 2019	Unrecognised gain/(loss) as at 31 December 2019
Financial assets						
Cash and cash equivalents	120,854,212	120,854,212	-	71,321,822	71,321,822	-
Other non-current financial assets	4 812 427	4 812 427	-	4,170,159	3,734,079	(436,080)
Other current financial assets	4 404 666	4 404 666	-	5,227,326	5,227,326	-
Financial assets at fair value through other comprehensive income	-	-	-	4,964,633	4,964,633	-
Financial assets at amortized cost	18,456,640	18,049,622	(407,018)	-	-	-
Trade receivables	40,726,161	40,726,161	-	37,255,772	37,255,772	-
Financial liabilities						
Borrowings	392,459,530	372,926,480	19,533,050	367,615,724	367,461,482	154,242
Trade payables	33,114,584	33,114,584	-	58,632,660	58,632,660	-
Other non-current financial liabilities	1,074	1,074	-	1,862,608	1,862,608	-
Other current financial liabilities	17,211,683	17,211,683	-	22,239,053	22,239,053	-
Total unrecognised change in unrealised fair value			19,533,050			(281,838)

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

32. COMMITMENTS AND CONTINGENCIES**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.

Coronavirus pandemic and market conditions

Starting from March 2020, there has been significant volatility in the stock, currency and commodity markets, including a drop in oil prices and a devaluation of tenge against the US dollar and the euro. Moreover, in connection with the recent rapid development of the coronavirus pandemic (COVID-19), on 16 March 2020 Kazakhstan introduced state emergency measures during the period through 16 April 2020, and subsequently extended until 15 May 2020, including quarantine in major cities, which had a significant impact on the level and scale of business activity. Later the Government of Kazakhstan introduced new quarantine period from 5 July 2020 till 16 August 2020.

As the date of issuance of the interim condensed consolidated financial statements, Kazakhstan has not introduced strict quarantine measures to confront the possible second wave of coronavirus pandemic. However, if measures such as smart distancing do not succeed in keeping the rate of new infections to a minimum and restrictions cannot be eased further to restore a sense of safety to businesses and households, then a sustained period of weakness is to be expected. The Group keeps analysing and monitoring the situation.

The coronavirus pandemic has developed into a global economic crisis. Higher demand for certain telecommunications services means the impact of the crisis is likely to be felt less severely by the telecommunications industry than by other industries. Nevertheless, there is currently a great deal of uncertainty regarding the extent to which business activities and thus the results of operations and financial position of the Group could be affected overall.

The Group is experiencing a direct impact on roaming revenues from lower international travel and expects economic pressures to impact the Group's customer revenues over time. However, the Group is also seeing significant increases in data volumes. Despite trade restrictions till 15 May 2020 revenue from sales of handsets and equipment was not highly affected.

Further possible future effects on the measurement of individual assets and liabilities are currently being analysed. The Group has put in place cost saving measures to mitigate potential effects on earnings.

Recognition of expected credit losses (ECL) on the Group's financial assets that are not measured at fair value considered estimated impacts of the COVID-19 pandemic. For financial assets whose counterparties have ratings published by credit risk agencies, when already reflecting the effects of the pandemic, the information was used to calculate the ECL. For other financial assets, in general, the expected effects of COVID-19 pandemic were incorporated into the ECL by identifying the changes in default probability based on observable data. No significant effects were identified.

The Group believes that there were no impairment indicators of its long-term non-financial assets as at 30 September 2020. As uncertainties in market trend and economic conditions may remain persistent considering duration of the spread of COVID-19 and countermeasures taken by country, actual results in any future periods could be different materially from the estimates. The Group will continue to monitor the situation closely.

Capital commitments

The Group generally enters into contracts for the completion of construction projects and purchase of telecommunication equipment. As at 30 September 2020, the Group had contractual obligations in the total amount of KZT 79,642,830 thousand, excluding VAT (as at 31 December 2019: KZT 38,186,280 thousand, excluding VAT) mainly related to purchase of telecommunication equipment and construction of telecommunication network.

License commitments

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

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

32. COMMITMENTS AND CONTINGENCIES (continued)**Taxation**

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

Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 30 September 2020. Management believes that as at 30 September 2020 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.

Tax audit for 2012 – 3rd quarter 2015

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 KZT 9,008,002 thousand, of which KZT 5,789,678 thousand is for unpaid taxes and KZT 3,218,324 thousand 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 KZT 2,196,555 thousand;
- Additional VAT on software technical support services provided by non-resident legal entities in the amount of KZT 779,916 thousand;
- Related fines and penalties in the amount of KZT 2,092,355 thousand.

For the three and nine-month ended 30 September 2019, the Group recognised income from reversal of tax and related penalties provision in the amount of KZT 5,068,826 thousand.

Tax risks assessment

In the beginning of 2020, the Group performed recalculation of the tax risk provisions recognized by the Group in previous years. For the three and nine-month ended 30 September 2020, the Group recognized income from reversal of the tax and related fines and penalties provision in the total amount of KZT 36,491 thousand and KZT 538,398 thousand, respectively, in the consolidated statement of comprehensive income.

Income from reversal of the tax and related fines and penalties provision for the nine month period ended 30 September 2020 included income in the amount of KZT 70,789 thousand recognized due to expiration of the limitation period for tax liabilities and income from reversal of provision on VAT and personal income tax in the amount of KZT 256,782 thousand and KZT 210,827 thousand, respectively.

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

32. COMMITMENTS AND CONTINGENCIES (continued)**Taxation (continued)**

Tax risks assessment (*continued*)

Income from reversal of the tax and related fines and penalties provision for the three month period ended 30 September 2020 included income in the amount of KZT 36,491 thousand recognized due to expiration of the limitation period for tax liabilities.

Additionally, based on the assessment the Group recognized reserve on CIT expenses in the amount of KZT 488,380 thousand and adjustments in current income tax of previous year in the amount of KZT 163,740 thousand (*Note 27*) in the consolidated statement of comprehensive income.

New technical regulations

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

Cases related to the abuse of dominant position*Tariffication of Kcell's mobile Internet services*

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

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. On 14 April 2020, the Committee appealed the decision of Specialised Inter-district Economic Court of Almaty. On 4 May 2020 the administrative proceedings were finalized after the decision of the Supreme Court of RK to reject the Committee's appeal due to lack of offence. The decision of Supreme Court of RK (as the superior level of authority) is final decision, that essentially not subject to revision.

Billing cycle of mobile phone plans

On 27 December 2019, the Company received a notification from the Committee on Regulation and Protection of Competition of the Ministry of National Economy of the Republic of Kazakhstan (“Committee”) prescribing that the Group should bring its existing and legacy mobile phone plans in line with Rules for provision of mobile services (“Rules”), namely to set a calendar month as default billing cycle, as follows from the definition of the term “accounting period”. According to the Committee, by establishing a one-day, a weekly, a 28-day or a 30-day billing cycle on mobile phone plans the Group breaches article 174.1 of the Business Code of the Republic of Kazakhstan. The Committee also sees the reduction of billing cycle as possible abuse of the dominant position through violation of the rights of consumers.

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

32. COMMITMENTS AND CONTINGENCIES (continued)*Billing cycle of mobile phone plans (continued)*

On 15 July 2020 the Company received a copy of the Committee's Order on conducting an investigation. In the course of the investigation, the Company has provided the relevant data and information requested by the Committee. On 7 September 2020 the Company received Investigation Report stating that there were no any violations of the legislation in the actions of the mobile operator. The investigation in relation to the Company's activity was terminated.

Kcell Solution tax legal case

In 2018, tax authorities initiated tax audit in respect to Kcell Solutions LLP (Kcell Solutions) with regard to CIT and VAT. According to the result of audit tax, generated tax losses carried forward and recognized VAT input by Kcell Solutions in 2013-2017 have been reduced by the total amount of KZT 427,245 thousand and KZT 165,266 thousand respectively. Kcell Solutions disputed the results of the tax authority in Judicial Board for Civil Cases of Almaty City Court. On 29 January 2020, Judicial Board for Civil Cases of Almaty City Court dismissed the appeal of Kcell Solutions. Kcell Solutions did not agree with results and filed an appeal to the Supreme Court of the Republic of Kazakhstan. Based on resolution of the Supreme Court of the Republic of Kazakhstan dated 25 August 2020, the Kcell Solutions's appeal was fully satisfied, thus previously reduced tax losses carried forward and VAT input in the amount of KZT 427,245 thousand and KZT 165,266 thousand, respectively, were fully recovered. Accordingly, the Group recognised deferred tax assets on the tax losses carried forward and other income on recovered VAT input in the amount of KZT 427,245 thousand and KZT 107,846 thousand, respectively.

Customs inspection

On 13 September 2019, the Customs Control Department ("CCD") of Almaty issued an order on initiation of custom audit in relation to the Group's operation for the period 2014-2019. CCD examines the Group's tax reporting documents on possible violations on incorrect determination of the customs value of goods and its incorrect classification. On 9 October 2019, CCD suspended the custom audit to allow the Group to prepare required documents. On 9 September 2020, the Group provided the entire package of documents requested by the CCD, which are currently being examined by the auditors of CCD. The ongoing custom audit is related to possible violations of customs regulations, incorrect determination of the customs value of goods, and if violations are identified, the Group may be brought to administrative penalty and be liable to pay appropriate customs charges, including import VAT and late payment fees. The Group cannot estimate probability and amount of possible additional charge, fines and penalties. On 15 October 2020 the Customs Control Department issued the notice to postpone the customs inspection of the Group for an indefinite period.

5G services

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

33. 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 nine 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.

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

34. SUBSEQUENT EVENTS

On 14 October 2020 the Group signed addendum to loan agreement with Bank of China to change interest rate from 10.5% to 10.3% per annum under credit line agreement.

On 15 October 2020 the Group signed credit line agreement with VTB Bank JSC for the amount of KZT 6,000,000 thousand at interest rate of 10.7% per annum.

On 28 October 2020 the Group obtained loan in the amount of 6,000,000 thousand tenge within the credit line agreement with VTB Bank JSC and partially repaid principal of loan obtained from the Eurasian Development Bank in the amount of KZT 6,000,000 thousand.