Kazakhtelecom JSC

Consolidated financial statements

For the year ended 31 December 2020
together with independent auditor's report

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Independent auditor's report

To the Shareholders and the Audit committee of the Board of directors of Kazakhtelecom JSC

Opinion

We have audited the consolidated financial statements of Kazakhtelecom JSC and its subsidiaries (hereinafter, the Group), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
There is a significant risk of misstatement relating to the recognition and measurement of revenue from telecommunication services as the billing systems employed by the Group are complex. In addition, effect of accounting treatment of changing tariff structures and multi-element arrangements on revenue could be significant. The selection and application of revenue recognition policies involve a number of key judgements and estimates by management, and therefore revenue could be subject to misstatement, whether due to fraud or error. The Group's disclosure of information in respect of the accounting policies on revenue recognition is included in *Note 3* to the consolidated financial statements, and detailed revenue disclosures are included in *Note 37* to the consolidated financial statements.	We have considered the relevant IT systems and the design of controls and tested the operating effectiveness of controls over capture and recording of revenue transactions in the billing systems; authorisation of changes in tariff rates input to the billing systems; and calculation of tariff amounts billed to the customers. We performed substantive analytical procedures, including monthly fluctuations analysis and analysis of changes in key drivers of revenue, and compared financial and non-financial data. We also analysed the timeliness of revenue recognition. We analysed the key judgements and estimates, and the accounting policy for compliance with IFRS 15. We considered revenue disclosures in light of the requirements of IFRS 15.
Valuation of non-current assets, including property and equipment, intangible assets and goodwill – risk of impairment	
There is a significant risk of impairment of the Group's non-current assets. Property and equipment, intangible assets and goodwill bear risk of impairment in light of fast technological changes in telecom industry. The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amounts. Testing for impairment of cash-generating units (CGU's) when impairment indicators are present, or annual test for impairment entails highly judgmental assumptions, specifically customer base and average revenue per user (ARPU), CAPEX and EBITDA margin during the forecast period, growth rate used to extrapolate cash flows beyond the forecast period, and discount rate.	We analyzed the existence of the main external and internal indicators of impairment of property and equipment and intangible assets of the Group. Our audit procedures included, amongst others, evaluating and testing the assumptions used in the impairment models. We assessed methodology used by the Group, for compliance with IAS 36 requirements. We involved an internal valuation specialist to assist us with our procedures. We compared assumptions and data used by the Group to the historical data and current industry data. We specifically focused on the sensitivity of the main assumptions during the testing, given the likelihood of a reasonably possible change in assumptions could cause the carrying amounts of the cash-generating units to exceed its recoverable amounts. We also assessed the related disclosures in the Group's consolidated financial statements.

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

The Group's disclosure in respect of the accounting policies on impairment of non-financial assets is included in *Note 3* to the consolidated financial statements and detailed disclosure about impairment testing of the goodwill is included in *Note 13* to the consolidated financial statements, which specifically explains that small changes in the key assumptions used could give rise to an impairment of goodwill balances in the future.

Accounting for leases in accordance with IFRS 16

The Group has significant balances of right-of-use assets in the amount of 79,694,418 thousand tenge and lease liabilities in the amount of 59,110,635 thousand tenge.

We consider this matter to be one of most significant in our audit due to the inherent complexity of the calculations and due to the significance of recorded balances. The process of identification and processing of all relevant data associated with the leases is complex and the measurement of the right-of-use assets and lease liabilities is based on assumptions such as discount rates and the lease terms, including termination and renewal options.

Moreover, in 2020 the Group adopted IFRIC agenda decision on the determination of the lease term for cancellable or renewable leases and retrospectively re-assessed its accounting for the lease contracts of technical sites with the governmental entities.

The Group's disclosure in respect of the accounting policies on lease recognition and measurement is included in *Note 3* to the consolidated financial statements, and detailed lease disclosures are included in *Note 27* to the consolidated financial statements.

We performed testing of the completeness of the identified lease contracts on a sample basis and testing of the accuracy of the input in the lease calculation to the lease contracts.

We challenged management assumptions, specifically the assumptions used to determine the discount rates and lease terms. We recalculated the right-of-use assets and lease liabilities for different types of lease contracts.

We analyzed the updated accounting policy on the lease contracts of technical sites with the governmental entities in light of adoption of IFRIC agenda decision on the determination of the lease term for cancellable or renewable leases.

We assessed the adequacy of the related disclosures provided in the Group's consolidated financial statements.

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Finalisation of purchase price allocation assessment

On 28 June 2019, the Group acquired additional 49% share of Khan Tengri Holding B.V. and obtained control over this entity.

Net assets of Khan Tengri Holding B.V. recognized in the consolidated financial statements as at 31 December 2019 were based on a provisional assessment of their fair value.

In June 2020 the Group finalized the valuation of the net assets' fair value and retrospectively adjusted the fair value recognised at the acquisition date and reflected new information obtained about facts and circumstances at the acquisition date.

Following the finalization of the purchase price allocation, the goodwill from this acquisition amounts to 96,205,967 thousand tenge as of 31 December 2020.

We considered this matter to be one of most significance in the audit due to the materiality of the balance of the goodwill to the Group assets, the significant judgements and estimates made by management in relation to the determination of the fair value of assets and liabilities and the value of separately identifiable intangible assets acquired during business combination.

The information on business combination, including significant judgments and estimates, is included in *Note 6* to the consolidated financial statements.

In the course of the audit procedures, we evaluated the methodology and assumptions behind the significant judgments involved in the determination of the final fair values of the identifiable assets and liabilities by engaging valuation specialists We tested, on a sample basis, estimates of the fair values of identifiable assets and liabilities. We particularly focused on changes compared with the provisional accounting of the acquisition.

We analysed management's assessment of the nature and value of separately identifiable intangible assets acquired.

We assessed the presentation and disclosure of business combination in the consolidated financial statements.

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Other information included in the Group's 2020 Annual report

Other information consists of the information included in the Group's 2020 Annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2020 Annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

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

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

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

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

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

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit committee of the Board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit committee of the Board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

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

Ernst & Young LLP

Paul Cohn
Audit Partner

Rustamzhan Sattarov
Auditor / General Director
Ernst & Young LLP

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

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

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10 March 2021

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

In thousands of tenge	Note	31 December 2020	31 December 2019 (restated)*	1 January 2019 (restated)*
Assets				
Non-current assets				
Property and equipment	10	**463,047,336**	438,122,294	347,701,051
Right-of-use assets	27	**79,694,418**	92,097,436	74,791,226
Intangible assets	11	**217,353,880**	231,114,114	121,476,465
Goodwill	6, 13	**152,402,245**	152,402,245	56,196,278
Advances paid for non-current assets	10	**3,237,280**	8,998,288	765,088
Investments in associates	12	**2,982,957**	2,218,889	77,669,224
Deferred tax assets	46	**1,980,671**	1,818,401	246,884
Cost to obtain contracts		**1,732,174**	977,279	1,037,984
Cost to fulfil contracts		**350,648**	574,012	107,539
Other non-current non-financial assets	16	**1,819,045**	2,798,316	3,194,682
Other non-current financial assets	15	**4,789,179**	4,170,159	9,649,734
Total non-current assets		**929,389,833**	935,291,433	692,836,155
Current assets				
Inventories	17	**15,490,029**	10,565,074	8,402,436
Trade receivables	18	**34,711,705**	37,255,772	52,173,348
Advances paid	19	**4,651,549**	5,696,515	1,406,161
Indemnification assets	36	**–**	–	10,171,407
Corporate income tax prepaid		**4,166,824**	6,429,567	935,022
Cost to obtain contracts		**–**	457,366	420,604
Cost to fulfil contracts		**865,890**	859,495	115,285
Other current non-financial assets	23	**7,300,331**	6,072,482	6,867,549
Other current financial assets	20	**3,626,074**	5,227,326	4,685,111
Financial assets at fair value through other comprehensive income	21	**–**	4,964,633	–
Financial assets at amortized cost	22	**18,923,399**	–	–
Cash and cash equivalents	24	**94,428,532**	71,321,822	45,350,092
		184,164,333	148,850,052	130,527,015
Assets held for sale	47	**1,872,008**	1,878,033	–
Total current assets		**186,036,341**	150,728,085	130,527,015
Total assets		**1,115,426,174**	1,086,019,518	823,363,170

* *Certain amounts shown here do not correspond to the consolidated financial statements for the year ended 31 December 2019, as they reflect the adjustments made, as detailed in Note 5.*

The accounting policies and notes on pages 8 to 89 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In thousands of tenge	Note	31 December 2020	31 December 2019 (restated)*	1 January 2019 (restated)*
Equity				
Share capital	25	**12,136,529**	12,136,529	12,136,529
Treasury shares	25	**(7,065,614)**	(7,065,614)	(6,464,374)
Foreign currency translation reserve	25	**(17,200)**	(3,292)	(15,157)
Other reserves	25	**1,820,479**	1,820,479	1,820,479
Retained earnings		**476,006,801**	420,370,835	373,000,830
		482,880,995	427,258,937	380,478,307
Non-controlling interests	8	**35,659,002**	36,139,332	34,399,073
Total equity		**518,539,997**	463,398,269	414,877,380
Non-current liabilities				
Borrowings: non-current portion	26	**316,290,589**	339,138,061	135,838,411
Lease liabilities: non-current portion	27	**42,461,444**	57,781,449	45,323,458
Other non-current financial liabilities	29	**1,001**	1,862,608	993,705
Deferred tax liabilities	46	**37,293,300**	43,608,409	40,862,330
Employee benefit obligations	28	**16,265,307**	16,315,828	14,471,353
Debt component of preferred shares	25	**814,868**	814,868	874,244
Non-current contract liabilities	30	**6,355,295**	6,878,309	5,699,301
Asset retirement obligations	31	**7,926,958**	6,875,583	1,444,530
Total non-current liabilities		**427,408,762**	473,275,115	245,507,332
Current liabilities				
Borrowings: current portion	26	**46,111,485**	28,477,663	57,614,129
Lease liabilities: current portion	27	**16,649,191**	15,435,140	10,874,952
Other current financial liabilities	33	**21,157,700**	22,239,053	18,853,954
Employee benefit obligations: current portion	28	**1,150,837**	1,147,812	1,334,417
Trade payables	32	**54,866,134**	58,632,660	42,024,342
Current corporate income tax payable		**–**	750,855	1,465,829
Current contract liabilities	34	**18,589,517**	18,971,934	9,142,320
Obligation to pay a fine for termination of the contract		**–**	–	14,551,865
Other current non-financial liabilities	35	**10,057,334**	3,247,984	7,116,650
		168,582,198	148,903,101	162,978,458
Liabilities directly associated with the assets held for sale	47	**895,217**	443,033	–
Total current liabilities		**169,477,415**	149,346,134	162,978,458
Total liabilities		**596,886,177**	622,621,249	408,485,790
Total equity and liabilities		**1,115,426,174**	1,086,019,518	823,363,170

* *Certain amounts shown here do not correspond to the consolidated financial statements for the year ended 31 December 2019, as they reflect the adjustments made, as detailed in Note 5.*

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

Chief financial officer ______ *Uzbekov A.A.*

Chief accountant ______ *Suleimanov Y.E.*

The accounting policies and notes on pages 8 to 89 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

In thousands of tenge	Note	2020	2019 (restated)*
Revenue from contracts with customers	37	**520,916,698**	420,659,896
Compensation for provision of universal services in rural areas	38	**6,413,527**	7,420,778
		527,330,225	428,080,674
Cost of sales	39	**(336,970,281)**	(292,576,930)
Gross profit		**190,359,944**	135,503,744
General and administrative expenses	40	**(39,343,356)**	(37,911,683)
Impairment losses on financial assets	50	**(2,238,046)**	(2,689,585)
Impairment losses on non-financial assets	50	**(6,090,233)**	(5,679,796)
Selling expenses	41	**(12,790,172)**	(11,997,906)
Reversal of tax and related fines and penalties provision	51	**683,901**	5,816,045
Provisions for legal claims	35	**(4,385,679)**	–
(Loss)/gain on disposal of property and equipment, net		**(337,285)**	386,915
Other operating income	45	**4,276,695**	3,442,931
Other operating expenses	45	**(678,110)**	(310,298)
Operating profit		**129,457,659**	86,560,367
Share in profits of associates	12	**234,676**	6,027,195
Finance costs	43	**(51,449,062)**	(42,900,937)
Finance income	43	**4,520,300**	4,305,508
Net foreign exchange gain/(loss)	44	**4,161,428**	(1,276,524)
Gain from re-measurement of previously held interest in the associate	6	**–**	17,042,490
Profit before tax		**86,925,001**	69,758,099
Income tax expenses	46	**(21,661,972)**	(9,481,716)
Profit for the year		**65,263,029**	60,276,383
Attributable to:			
Equity holders of the Parent		**63,493,359**	57,043,124
Non-controlling interests	8	**1,769,670**	3,233,259

* *Certain amounts shown here do not correspond to the consolidated financial statements for the year ended 31 December 2019, as they reflect the adjustments made, as detailed in Note 5.*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

In thousands of tenge	Note	2020	2019 (restated)*
Other comprehensive (loss)/income			
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods (net of tax)			
Foreign exchange differences from translation of financial statements of foreign subsidiaries		**(13,908)**	11,865
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods		**(13,908)**	11,865
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods (net of tax)			
Actuarial gain/(losses) on defined benefits plans, net of tax	28, 46	**615,923**	(1,156,810)
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods		**615,923**	(1,156,810)
Other comprehensive income/(loss) for the year, net of tax		**602,015**	(1,144,945)
Total comprehensive income for the year, net of tax		**65,865,044**	59,131,438
Attributable to:			
Equity holders of the Parent		**64,095,374**	55,898,179
Non-controlling interests	8	**1,769,670**	3,233,259
		65,865,044	59,131,438
Earnings per share			
Basic and diluted, profit for the year attributable to ordinary equity holders of the parent	25	**5,777.75**	5,188.90

* *Certain amounts shown here do not correspond to the consolidated financial statements for the year ended 31 December 2019, as they reflect the adjustments made, as detailed in Note 5.*

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

Chief financial officer ________ *Uzbekov A.A.*

Chief accountant ________ *Suleimanov Y.E.*

The accounting policies and notes on pages 8 to 89 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Attributable to equity holders of the Parent							
In thousands of tenge	Shares outstanding	Treasury shares	Foreign currency translation reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Note	25	25	25	25			8	
At 1 January 2019 (as previously reported)	12,136,529	(6,464,374)	(15,157)	1,820,479	373,056,587	380,534,064	33,742,060	414,276,124
Change in accounting policy and adjustments *(Note 5)*	–	–	–	–	(55,757)	(55,757)	657,013	601,256
At 1 January 2019 (restated)*	12,136,529	(6,464,374)	(15,157)	1,820,479	373,000,830	380,478,307	34,399,073	414,877,380
Net profit for the year (restated)*	–	–	–	–	57,043,124	57,043,124	3,233,259	60,276,383
Other comprehensive loss	–	–	11,865	–	(1,156,810)	(1,144,945)	–	(1,144,945)
Total comprehensive income (restated)*	–	–	11,865	–	55,886,314	55,898,179	3,233,259	59,131,438
Dividends *(Note* 25*)*	–	–	–	–	(8,516,309)	(8,516,309)	(1,493,000)	(10,009,309)
Non-controlling interests *(Note* 25*)*	–	(601,240)	–	–	–	(601,240)	–	(601,240)
At 31 December 2019 (restated)*	12,136,529	(7,065,614)	(3,292)	1,820,479	420,370,835	427,258,937	36,139,332	463,398,269
Net profit for the year	**–**	**–**	**–**	**–**	**63,493,359**	**63,493,359**	**1,769,670**	**65,263,029**
Other comprehensive income	**–**	**–**	**(13,908)**	**–**	**615,923**	**602,015**	**–**	**602,015**
Total comprehensive income	**–**	**–**	**(13,908)**	**–**	**64,109,282**	**64,095,374**	**1,769,670**	**65,865,044**
Dividends *(Note 25)*	**–**	**–**	**–**	**–**	**(8,473,316)**	**(8,473,316)**	**(2,250,000)**	**(10,723,316)**
At 31 December 2020	**12,136,529**	**(7,065,614)**	**(17,200)**	**1,820,479**	**476,006,801**	**482,880,995**	**35,659,002**	**518,539,997**

* *Certain amounts shown here do not correspond to the consolidated financial statements for the year ended 31 December 2019, as they reflect the adjustments made, as detailed in Note 5.*

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

Chief financial officer — *Uzbekov A.A.*

Chief accountant — *Suleimanov Y.E.*

The accounting policies and notes on pages 8 to 89 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

In thousands of tenge	Note	2020	2019 (restated)*
Operating activities			
Profit before tax for the year		**86,925,001**	69,758,099
Adjustment for:			
Depreciation of property and equipment and right of use assets	10, 27	**81,418,841**	74,095,382
Amortisation of intangible assets	11	**28,945,419**	21,863,369
Impairment loss on non-financial assets	50	**6,090,233**	5,679,796
Impairment loss on financial assets	50	**2,238,046**	2,689,585
Net foreign exchange (gain)/loss	44	**(4,161,428)**	1,357,817
Changes in employee benefit obligations		**473,223**	266,452
Write-down of inventories to net realizable value	40	**1,199,617**	57,343
Share in profits of associates	12	**(234,676)**	(6,027,195)
Finance costs	43	**51,449,062**	42,900,937
Finance income	43	**(4,520,300)**	(4,305,508)
Provisions for legal claims	35	**4,385,679**	-
Loss/(gain) on disposal of property and equipment, net		**337,285**	(386,915)
Reversal of tax and related fines and penalties provision	51	**(683,901)**	(5,816,045)
Gain from re-measurement of previously held interest in the associate	6	**-**	(17,042,490)
Operating cash flows before changes in operating assets and liabilities		**253,862,101**	185,090,627
Changes in operating assets and liabilities			
Change in trade receivables		**(3,079,628)**	21,894,941
Change in inventories		**(6,124,572)**	(1,320,367)
Change in indemnification assets		**-**	10,171,407
Change in other current assets		**2,498,977**	13,320,260
Change in advances paid		**1,061,703**	138,132
Change in trade payables		**(6,455,578)**	(20,225,411)
Change in cost to obtain contracts and cost to fulfil contracts		**(80,560)**	(1,186,740)
Change in contract liabilities		**(606,706)**	3,303,265
Changes in other current liabilities		**3,947,470**	(13,054,704)
Cash flows from operating activities		**245,023,207**	198,131,410
Income tax paid		**(26,228,465)**	(21,593,054)
Interest paid	50	**(50,627,061)**	(36,106,901)
Interest received		**2,802,949**	1,136,754
Net cash flows received from operating activities		**170,970,630**	141,568,209

* *Certain amounts shown here do not correspond to the consolidated financial statements for the year ended 31 December 2019, as they reflect the adjustments made, as detailed in Note 5.*

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of tenge	Note	2020	2019 (restated)*
Investing activities			
Purchase of property and equipment		**(93,092,011)**	(60,371,459)
Purchase of intangible assets		**(13,365,494)**	(9,337,598)
Purchase of financial assets at amortized cost	22	**(36,751,293)**	–
Purchase of financial assets at fair value through other comprehensive income	21	**–**	(5,021,171)
Proceeds from redemption of financial assets at amortized cost	22	**18,139,091**	–
Proceeds from redemption of financial assets at fair value through other comprehensive income	21	**5,385,385**	–
Proceeds from sale of property and equipment		**878,889**	972,881
Placement of deposits		**(43,243)**	–
Return of cash on deposits		**–**	175,968
Issuance of a covered bank guarantee		**–**	(997,730)
Issue of long-term loans to employees		**(555,099)**	(2,567,141)
Repayment of loans to employees		**404,554**	401,182
Investments in associates	12	**(529,392)**	(423,980)
Return of cash restricted in use		**9,181**	–
Acquisition of subsidiary, net of cash received	6	**–**	(176,143,312)
Return of funds of covered bank guarantee		**–**	1,018,925
Net cash flows used in investing activities		**(119,519,432)**	(252,293,435)
Financing activities			
Borrowings received	50	**53,307,169**	214,202,637
Borrowings repaid	50	**(58,216,453)**	(53,118,449)
Dividends paid to equity holders of the Parent	25	**(10,143,729)**	(9,041,085)
Dividends paid to non-controlling interests	8, 25	**(2,250,000)**	(1,493,000)
Repayment of lease liabilities	50	**(14,806,108)**	(11,778,794)
Own repurchased shares	25	**–**	(660,616)
Net cash flows (used in) / received from financing activities		**(32,109,121)**	138,110,693
Effect of exchange rate changes on cash and cash equivalents		**3,713,791**	(1,086,160)
Effect of changes in expected credit losses	24	**15,920**	(12,021)
Net change in cash and cash equivalents		**23,071,788**	26,287,286
Cash and cash equivalents, as at 1 January	24	**71,637,378**	45,350,092
Cash and cash equivalents, as at 31 December	24	**94,709,166**	71,637,378

* *Certain amounts shown here do not correspond to the consolidated financial statements for the year ended 31 December 2019, as they reflect the adjustments made, as detailed in Note 5.*

Disclosure of significant non-cash transactions is presented in *Note 48.*

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

Chief financial officer *Uzbekov A.A.*

Chief accountant *Suleimanov Y.E.*

The accounting policies and notes on pages 8 to 89 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 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 31 December 2020:

	At 31 December 2020	At 31 December 2019
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 7* (hereinafter collectively referred to as the "Group") have a significant share of the fixed line and mobile communication markets, including local, long-distance intercity and international telecommunication services including CIS and non-CIS countries; leases out lines and provides data transfer services, sells mobile devices and provides other telecommunication services.

These consolidated financial statements of the Group were approved for issue by the Chairman of the Management Board on behalf of the Management of the Company on 10 March 2021.

2. BASIS OF PREPARATION

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

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

Going concern

The 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.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2020. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

2. BASIS FOR PREPARATION (continued)

Basis of consolidation (continued)

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

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

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

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

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

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New and amended standards and interpretations

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. The Group has not early adopted any standard, interpretation or amendment that has been issued but are not yet effective.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 *Business Combination* 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 consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

Amendments to 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 consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

Amendments to 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 consolidated financial statements of, nor is there expected to be any future impact to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

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. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

Amendments to IFRS 16 COVID-19 Related Rent Concessions

On 28 May 2020, the IASB issued COVID-19 *Related Rent Concessions* – amendment to IFRS 16 *Leases*. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the consolidated financial statements of the Group.

Standards issued but not yet effective

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

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach);
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

Amendments to IAS 1: Classification of Liabilities as Current or Non-current (continued)

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Reference to the Conceptual Framework − Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 *Business Combinations – Reference to the Conceptual Framework*. The amendments are intended to replace a reference to the *Framework for the Preparation and Presentation of Financial Statements*, issued in 1989, with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 *Levies*, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

These amendments are not applicable to the Group.

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

In May 2020, the IASB issued *Property, Plant and Equipment − Proceeds before Intended Use*, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

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

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

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

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards.* The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. These amendments are not applicable to the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

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

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

IAS 41 Agriculture − Taxation in fair value measurements

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IAS 41 *Agriculture.* The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 with earlier adoption permitted. This standard is not applicable to the Group.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform − Phase 2

In 2018, the IASB added a project to its agenda to consider the financial reporting implications of the Reform. It identified two groups of accounting issues that could have financial reporting implications. These were:

- Phase 1: pre-replacement issues − issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative RFR;
- Phase 2: replacement issues − issues that might affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR.

The IASB gave priority to the Phase 1 issues because they were more urgent and in September 2019, The Board issued Interest Rate Benchmark Reform, *Amendments to IFRS 9, IAS 39 and IFRS 7 (the Phase 1 Amendments)* to address them. The Phase 1 Amendments provided a number of temporary exceptions from applying specific hedge accounting requirements of both IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments*: *Recognition and Measurement*, but also added some additional disclosure requirements to IFRS 7 *Financial Instruments: Disclosures*.

In August 2020, the IASB issued Interest Rate Benchmark Reform Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (the Phase 2 Amendments). The Phase 2 Amendments provide the following changes in respect of financial instruments that are directly required by the Reform:

- A practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted;
- Reliefs from discontinuing hedge relationships;
- Temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component;
- Additional IFRS 7 disclosures.

The Phase 2 Amendments also affected IFRS 16 *Leases* and IFRS 4 *Insurance Liabilities*.

The Phase 2 Amendments are effective for annual periods beginning on or after 1 January 2021 and early application is permitted. The amendments are not expected to have a material impact on the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies

In February 2021 the IASB issued amendments to IAS 1 and IFRS Practice Statement 2. The amendments to IAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendments to IFRS Practice Statement 2 provide guidance on how to apply the concept of materiality to accounting policy disclosures.

The amendments will be effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted.

The amendments are not expected to have a material impact on the Group.

Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates

In February 2021 the IASB issued amendments to IAS 8. The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. That distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally also applied retrospectively to past transactions and other past events.

The amendments will be effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted.

The amendments are not expected to have a material impact on the Group.

Foreign currency translation

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

Transactions and balances

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

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

Foreign exchange rates are presented in the following table:

	31 December 2020	31 December 2019
US dollar	**420.91**	382.59
Euro	**516.79**	429.00
Russian rouble	**5.62**	6.16

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

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

The Group determines that it has acquired a business when the acquired set of activities and assets include an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired process is considered substantive if it is critical to the ability to continue producing outputs, and the inputs acquired include an organised workforce with the necessary skills, knowledge, or experience to perform that process or it significantly contributes to the ability to continue producing outputs and is considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

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

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

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

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

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

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

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

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

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

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

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

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss within 'Share of profit of an associate and a joint venture' in the consolidated statement of comprehensive income.

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

Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when:

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

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

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in the *Note 50*.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

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

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

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

At each reporting date, the Working Group analyses the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per the Group's accounting policies. For this analysis, the Working Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The Working Group also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-current assets held for sale and discontinued operations

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

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

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

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

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

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

Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Please refer to asset retirement obligations *(Note 31)* for further information about decommissioning provision recognised.

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

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

Land is not depreciated.

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

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

Construction-in-progress

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment property

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

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

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

Intangible assets

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

Intangible assets have finite useful lives.

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

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

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

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

Impairment of non-financial assets

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of 5 (five) years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

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

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

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

Goodwill

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

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

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Initial recognition and measurement (continued)

Financial assets of the Group include cash and cash equivalents, trade receivables, financial asset at fair value through other comprehensive income, financial assets at amortized cost and other current financial assets.

Subsequent measurement

For purposes of subsequent measurement financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- Financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade receivables, loans to employees, bank deposits and other non-current and current financial assets

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably its non-listed equity investments under this category.

Derecognition

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

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Derecognition (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, the Group evaluates if it has retained the risks and rewards of the property, and to which extent, if any. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

Financial assets carried at amortised cost

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the credit enhancements that are integral to the contractual terms.

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

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

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

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities comprise trade payables, loans and borrowings, lease liabilities, debt component of preferred shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement

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

Loans and borrowings

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

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

This category generally applies to interest-bearing loans and borrowings. Further details are contained in *Note 26*.

Financial guarantee obligations

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the amount of the loss allowance determined in accordance with IFRS 9 *Financial Instruments* and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with IFRS 15 *Revenue from Contracts with Customers*.

Debt component of preferred shares recorded in liabilities

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

Trade payables

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

Derecognition

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

Offsetting of financial instruments

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

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

Cash and short-term deposits

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

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

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

	Years
Buildings and constructions	5-10
Equipment	3-15

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in section *Impairment of non-financial assets*.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including insubstance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessee (continued)

Lease liabilities (continued)

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases

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

Group as a lessor

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

Provisions

General

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

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

Decommissioning liability

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefit

Social tax

The Group pays social tax according to the current statutory requirements of the Republic of Kazakhstan. Social tax expenses are charged to expenses as incurred.

Besides, the Group withholds 10% of the salary of employees paid as contributions of employees to the accumulating pension funds. Under the legislation, employees are responsible for their retirement benefits and the Group has no present or future obligation to further compensate its employees upon their retirement, except as provided below.

Pension payments

The Group does not incur any expenses in relation to provision of pensions or other post-employment benefits to its employees. In accordance with the legal requirements of the Republic of Kazakhstan, the Group withholds pension contributions from employee salaries and transfers them into state or private pension funds on behalf of its employees. Pension contributions are the responsibility of employees, and the Group has no current or future obligations to make payments to employees following their retirement. Upon retirement of employees, all pension payments are administered by the pension funds directly.

Defined benefits pension plan

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

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

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

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

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

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

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

Treasury shares

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

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

The Group recognises a liability to make cash or non-cash distributions to equity holders of the Parent when the distribution is authorised and the distribution is no longer at the discretion of the Group. According to the legislation, distribution is approved by the shareholders. A corresponding amount is recognised directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value remeasurement recognised directly in equity.

Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in the consolidated statement of comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

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

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

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

Rendering of services

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

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

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

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

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

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

Equipment provided to customers

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

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

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

Sale of equipment and mobile devices

The Group may bundle services and products into one customer offering. Offerings may involve the delivery or performance of multiple products, services, or rights to use assets (multiple deliverables). In some cases, the arrangements include initial installation, initiation, or activation services and involve consideration in the form of a fixed fee or a fixed fee coupled with a continuing payment stream. Costs associated with the equipment are recognised when revenue is recognised. The revenue is allocated to separate product and services on a relative stand-alone selling price method.

The stand-alone selling prices are determined based on the list prices at which the Group sells the mobile devices and telecommunication services. Customised equipment that can be used only in connection with services or products provided by the Group is not accounted for separately and revenue is deferred over the total service arrangement period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (continued)

Sale of equipment and mobile devices (continued)

In revenue arrangements where more than one performance obligation, transaction price is allocated between the goods and services using relative stand-alone selling price method. Determining the transaction price for each separate performance obligation can require complex estimates. The Group generally determines the stand-alone selling price for each separate performance obligation based on prices at which the good or services are regularly sold on a stand-alone basis after considering volume discounts where appropriate.

Roaming discounts

The Group enters into roaming discount agreements with a number of wireless operators. According to the terms of the agreements the Group is obliged to provide and entitled to receive a discount that is generally dependent on the volume of inter operator roaming traffic. The Group uses various estimates and assumptions, based on historical data and adjusted for known changes, to determine the amount of discount to be received or granted. Such estimates are adjusted monthly to reflect newly-available information.

The Group accounts for discounts received as a reduction of roaming expenses and discounts granted as reduction of roaming revenue. The Group considers terms of the various roaming discount agreements to determine the appropriate presentation of amount of receivable from and payable to its roaming partners in its consolidated statement of financial position.

Significant financing component

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

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

Costs to obtain a contract

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

Contract balances

Contract assets

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

Trade receivables

A receivable is recognised if an amount of consideration that is unconditional is due from the customer (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in section *Financial instruments − initial recognition and subsequent measurement.*

Contract liabilities

A contract liability is recognised if a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contract balances (continued)

Compensation for provision of universal services in rural areas

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

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

Interest income

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

Dividends

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

Expense recognition

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

Connection cost

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

Borrowing costs

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

Income tax

Current income tax

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

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

Deferred tax

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax (continued)

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in transaction that is not a business combination and, at the same time of transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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

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

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

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

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Contingent assets and liabilities

Contingent assets are not recognized in the consolidated financial statements. Where an inflow of economic benefits is probable, they are disclosed.

Contingent liabilities are not recognized in the consolidated financial statements unless an outflow of resources embodying economic benefits has become probable. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Transactions with related parties are used to reflect the status of settlements for property, works and services received from companies or sold to companies that are related parties to the Group. Items of a similar nature are disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the consolidated financial statements.

4. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

- Financial instruments and financial risk management objectives and principles − *Note 50*;
- Sensitivity analyses disclosures − *Notes 13 and 28*.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Determining the lease term of contracts with renewal and termination options − Group as lessee

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

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group re-assesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

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

Refer to *Note 50* for information on potential future rental payments relating to periods following the exercise date of extension and termination options that are not included in the lease term.

Assets held for sale

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

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

For more details on the disposed group, refer to *Note 47*.

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

Estimates and assumptions

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

Useful lives of property and equipment and intangible assets

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

Impairment of non-financial assets

An impairment exists when the carrying amount of an asset or cash generating unit exceeds its recoverable amount, which is the higher of: its fair value less costs of disposal and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next 5 (five) years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and growth rates used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in *Note 13*.

Provision for expected credit losses

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

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

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in *Note 18*.

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

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

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

Estimates and assumptions (continued)

Provision for expected credit losses (continued)

Thus, as at 31 December 2020 provision for expected credit losses was created in the amount of KZT 11,040,859 thousand (2019: KZT 9,790,812 thousand) *(Notes 18, 20 and 24)*. Changes in the economy, industry or specific customer conditions would have impact to these allowances recorded in the consolidated financial statements.

Significant financing component

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

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

Costs to obtain a contract

The Group considers commission to sales agents to be an additional cost to obtain a contract, and capitalizes such costs as an asset on expenses under contracts with customers. The Group depreciates the costs to obtain a contract with customers on a systematic basis, which corresponds to the timing of the provision of services to customers. The Group reviews depreciation periods if the expected service dates have changed.

Contract liabilities

Deferred revenues are recognized as contract liabilities and recognized over the expected period of the customer relationship. In making its judgments, management considered the detailed criteria for the recognition of revenues from contracts with customers set out in IFRS 15, industry practice and the Company's historical churn rate.

Non-refundable upfront fees

Upfront fees received for activation and connection to the fixed line and wireless network that do not represent a separate earning process are recognized as contract liabilities and recognized over the expected period of the customer relationship. In making its judgments, management considered the detailed criteria for the recognition of revenues from connection fees set out in IFRS 15, industry practice and the Company's historical churn rate. As at 31 December 2020, average customer relationship period is assessed as 13 (thirteen) years for fixed line customers and 5 (five) years for internet customers.

Decommissioning liability

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

Employee benefit obligations

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

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

Estimates and assumptions (continued)

Employee benefit obligations (continued)

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

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

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

Further details about employee benefit obligations are contained in *Note 28*.

Taxes

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

In 2019, the Group recognized tax loss carry forward in the amount of KZT 1,377,725 thousand. During 2020, the Group recogned additional tax loss carry forward in the amount of KZT 306,891 thousand.

As at 31 December 2020, deferred tax assets of the Group were equal to KZT 1,980,671 thousand (at 31 December 2019: KZT 1,818,401 thousand). Further details are contained in *Note 46*.

Leases − estimating the incremental borrowing rate

For those lease agreements, for which the Group cannot readily determine the interest rate implicit in the lease, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

Fair value measurement of financial instruments

When the fair value of financial instruments and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on data in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the fair value reported in the consolidated financial statements. For more details on the fair values refer to *Note 50*.

Fair value of assets and liabilities acquired in a business combination

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

At the acquisition date, net assets of Khan Tengri Holding B.V. were recognized based on their fair value *(Note 6)*.

5. RESTATEMENT OF COMPARATIVE INFORMATION

Change in accounting policies

Certain amounts in the consolidated statements of financial position as at 31 December 2019 and 1 January 2019, consolidated financial statements of comprehensive income for the year ended 31 December 2019 and consolidated statements of cash flows for the year ended 31 December 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:

Lease term

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

- The broader economic 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.

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 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 2019, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. RESTATEMENT OF COMPARATIVE INFORMATION (continued)

Change in accounting policies (continued)

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

Effect of agenda decision on the Group accounting policy (continued)

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

In thousands of tenge	As previously reported	Finalization of assessment of provisional fair value of Khan Tengri Holding B.V. *(Note 6)*	Change in accounting policy	Adjustments	Note	As restated
Consolidated statement of financial position as at 31 December 2019						
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)	–	(2,090,250)	[3], [2]	152,402,245
Deferred tax assets	1,766,127	–	52,274	–	[1]	1,818,401
Total non-current assets	**930,514,219**	**4,387,802**	**2,479,662**	**(2,090,250)**		**935,291,433**
Current assets						
Corporate income tax prepaid	4,237,313	–	–	2,192,254	[2]	6,429,567
Total current assets	**148,535,831**	**–**	**–**	**2,192,254**		**150,728,085**
Total assets	**1,079,050,050**	**4,387,802**	**2,479,662**	**102,004**		**1,086,019,518**
Equity						
Retained earnings	420,469,917	44,998	(144,080)	–	[1], [3]	420,370,835
Non-controlling interests	35,507,909	–	(65,327)	696,750		36,139,332
Total equity	**462,865,928**	**44,998**	**(209,407)**	**696,750**		**463,398,269**
Non-current liabilities						
Lease liabilities: non-current portion	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**	**3,020,843**	**2,545,195**	**–**		**473,275,115**
Current liabilities						
Lease liabilities: current portion	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)	–	–	[3]	58,632,660
Current corporate income tax payable	1,345,601	–	–	(594,746)	[2]	750,855
Total current liabilities	**148,475,045**	**1,321,961**	**143,874**	**(594,746)**		**149,346,134**
Total liabilities	**616,184,122**	**4,342,804**	**2,689,069**	**(594,746)**		**622,621,249**
Total equity and liabilities	**1,079,050,050**	**4,387,802**	**2,479,662**	**102,004**		**1,086,019,518**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. RESTATEMENT OF COMPARATIVE INFORMATION (continued)

Change in accounting policies (continued)

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

Effect of agenda decision on the Group accounting policy (continued)

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

In thousands of tenge	As previously reported	Change in accounting policy	Adjustments	Note	As restated
Consolidated statement of financial position as at 1 January 2019					
Non-current assets					
Right-of-use assets	71,929,617	2,861,609	−	[1]	74,791,226
Goodwill	58,286,528	−	(2,090,250)	[2]	56,196,278
Total non-current assets	**692,064,796**	**2,861,609**	**(2,090,250)**		**692,836,155**
Current assets					
Corporate income tax prepaid	1,849	−	933,173	[2]	935,022
Total current assets	**129,593,842**	**−**	**933,173**		**130,527,015**
Total assets	**821,658,638**	**2,861,609**	**(1,157,077)**		**823,363,170**
Equity					
Retained earnings	373,056,587	(55,757)	−	[1]	373,000,830
Non-controlling interests	33,742,060	(39,737)	696,750		34,399,073
Total equity	**414,276,124**	**(95,494)**	**696,750**		**414,877,380**
Non-current liabilities					
Lease liabilities: non-current portion	43,278,960	2,044,498	−	[1]	45,323,458
Deferred tax liabilities	40,902,068	(39,738)	−	[1]	40,862,330
Total non-current liabilities	**243,502,572**	**2,004,760**	**−**		**245,507,332**
Current liabilities					
Lease liabilities: current portion	9,922,609	952,343	−	[1]	10,874,952
Current corporate income tax payable	3,319,656	−	(1,853,827)	[2]	1,465,829
Total current liabilities	**163,879,942**	**952,343**	**(1,853,827)**		**162,978,458**
Total liabilities	**407,382,514**	**2,957,103**	**(1,853,827)**		**408,485,790**
Total equity and liabilities	**821,658,638**	**2,861,609**	**(1,157,077)**		**823,363,170**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. RESTATEMENT OF COMPARATIVE INFORMATION (continued)

Change in accounting policies (continued)

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

Effect of agenda decision on the Group accounting policy (continued)

In thousands of tenge	As previously reported	Finalization of assessment of provisional fair value of Khan Tengri Holding B.V. *(Note 6)*	Change in accounting policy	Reclassification	Note	As restated
Consolidated statement of comprehensive income for the year ended 31 December 2019						
Cost of sales	(292,479,664)	(374,404)	277,138	–	[1], [3]	(292,576,930)
Gross profit	**135,601,010**	**(374,404)**	**277,138**	**–**		**135,503,744**
Selling expenses	(12,770,588)	772,682	–		[3]	(11,997,906)
Gain on disposal of property and equipment, net	–	–	–	386,915	[4]	386,915
Other operating income	–	–	–	3,442,931	[4]	3,442,931
Other operating expenses	–	–	–	(310,298)	[4]	(310,298)
Operating profit	**82,365,403**	**398,278**	**277,138**	**3,519,548**		**86,560,367**
Finance costs	(42,484,296)	–	(416,641)	–	[1]	(42,900,937)
Net foreign exchange loss	(1,269,021)	(7,503)	–	–	[3]	(1,276,524)
Gain from re-measurement of previously held interest in associate	17,310,113	(267,623)	–	–	[3]	17,042,490
Gain on disposal of property and equipment, net	386,915	–	–	(386,915)	[4]	–
Other income	3,442,931	–	–	(3,442,931)	[4]	–
Other expenses	(310,298)	–	–	310,298	[4]	–
Profit before income tax	**69,774,450**	**123,152**	**(139,503)**	**–**		**69,758,099**
Income tax expenses	(9,429,152)	(78,154)	25,590	–	[1], [3]	(9,481,716)
Total comprehensive income for the year, net of tax	**60,345,298**	**44,998**	**(113,913)**	**–**		**60,276,383**
Earnings per share						
Basic and diluted, profit for the year attributable to ordinary equity holders of the parent, in tenge	**5,192.83**	**4.09**	**(8.02)**	**–**	**[1], [3]**	**5,188.90**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. RESTATEMENT OF COMPARATIVE INFORMATION (continued)

Change in accounting policies (continued)

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

Effect of agenda decision on the Group accounting policy (continued)

In thousands of tenge	As previously reported	Finalization of assessment of provisional fair value of Khan Tengri Holding B.V. *(Note 6)*	Change in accounting policy	Note	As restated
Consolidated statement of cash flows for the year ended 31 December 2019					
Cash flows from operating activities					
Profit before tax	69,774,450	123,152	(139,503)	[1], [3]	69,758,099
Adjustments for:					
Depreciation of property and equipment and right of use assets	73,481,369	(18,438)	632,451	[1], [3]	74,095,382
Amortisation of intangible assets	21,470,527	392,842	–	[3]	21,863,369
Finance costs	42,484,296	–	416,641	[1]	42,900,937
Income from re-measurement of previously held interest in the associate	(17,310,113)	267,623	–	[3]	(17,042,490)
Operating cash flows before changes in operating assets and liabilities	**183,415,859**	**765,179**	**909,589**		**185,090,627**
Changes in other current liabilities	(12,242,827)	–	(811,877)		(13,054,704)
Cash flows from operating activities	**197,268,519**	**765,179**	**97,712**		**198,131,410**
Interest paid	(35,690,260)	–	(416,641)	[1]	(36,106,901)
Net cash flows received from operating activities	**141,121,959**	**765,179**	**(318,929)**		**141,568,209**
Cash flows from financing activities					
Repayment of principal portion of lease liabilities	(11,332,544)	–	(446,250)	[1]	(11,778,794)
Net cash flows received from financing activities	**138,556,943**	**–**	**(446,250)**		**138,110,693**
Net change in cash and cash equivalents	**26,287,286**	**765,179**	**(765,179)**		**26,287,286**

[1] The Group adopted IFRS Interpretations Committee's agenda decision on cancellable or renewable leases, and related non-removable leasehold improvements and restated the comparative information as required by IAS 8.

[2] In 2020, Kcell JSC, subsidiary, revised the calculation of income tax recognized in its 2015-2018 consolidated financial statements for the purpose of the re-submission of income tax declarations for 2015-2018 periods, and as a result, Kcell JSC identified certain adjustments to calculation of income tax related to 2015-2018 periods. Identified adjustments are mainly related to delay in receipt of fiscal documents and long reconciliation process between Kcell JSC and its counterparties. As a result, the amount of goodwill has been reduced by KZT 2,090,250 thousand.

[3] In June 2020, the valuation of the fair value of the identified assets and liabilities of Khan Tengri Holding B.V. has been completed and 2019 comparative information was restated to reflect the adjustment to the provisional amounts *(Note 6)*.

[4] Gain on disposal of property and equipment, other income and expenses were reclassified from other non-operating part into separate lines within the operating part in the consolidated statement of comprehensive income. Reclassification was made in order to conform with the presentation adopted in the consolidated statement of comprehensive income for the year ended 31 December 2020.

5. RESTATEMENT OF COMPARATIVE INFORMATION (continued)

Reclassification in disclosure (Note 37 Revenue from contracts with customers)

In thousands of tenge	As previously reported	Reclas-sification	Note	As restated
Revenue from contracts with customers				
Mobile connection				
Data transfer services	62,664,151	26,076,587	[1]	88,740,738
Rendering of fixed line and wireless phone services	116,592,951	(26,076,587)	[1]	90,516,364
	215,977,168	**–**		**215,977,168**

[1] The Group changed its approach to the allocation of bundled services to data transfer services and rendering of fixed line and wireless phone services. Reclassification was made in order to conform with the presentation adopted in the disclosure *Revenue from contracts with customers* for the year ended 31 December 2020.

All the disclosure amounts within the comparative information were changed respectively.

6. 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., which is the sole participant of mobile operator in the Republic of Kazakhstan − Mobile Telecom Service LLP, the company rendering GSM and LTE mobile telecommunication services under Tele2 and Altel brands. 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 12)*.

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

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

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

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

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

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

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

6. BUSINESS COMBINATIONS (continued)

Acquisition in 2019 (continued)

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

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

In thousands of tenge	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.*

6. BUSINESS COMBINATIONS (continued)

Acquisition in 2019 (continued)

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

Net assets recognized 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 years ended 31 December 2020, the Group made first payment under the agreement for KZT 2,087,140 thousand *(Notes 29, 33)*.

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

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

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

The amount of goodwill equal to KZT 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.

During 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.

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

7. CONSOLIDATION

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

	Country of incorporation	Percentage ownership 31 December 2020	31 December 2019
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 6*.

8. MATERIAL PARTLY-OWNED SUBSIDIARIES

Kcell JSC

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

Name	Country of incorporation	31 December 2020	31 December 2019
Kcell JSC	Kazakhstan	**25.00%**	25.00%

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

Summarised consolidated statement of comprehensive income of Kcell JSC for 2020 and 2019 from the acquisition date:

In thousands of tenge	2020	2019
Revenue from contracts with customers	**174,683,563**	156,656,861
Cost of sales	**(132,257,468)**	(122,052,416)
Provisions for legal claims	**(4,385,785)**	–
General and administrative expenses	**(10,426,147)**	(8,924,684)
Impairment of financial assets	**(1,547,115)**	(2,256,120)
Impairment of non-financial assets	**(5,223,925)**	(1,844,104)
Selling expenses	**(1,964,949)**	(2,887,221)
Reversal of tax and related fines and penalties provision	**683,901**	5,816,045
Finance costs	**(11,749,583)**	(11,894,471)
Finance income	**2,300,398**	1,415,357
Net foreign exchange income/(loss)	**986,942**	(91,454)
Other income	**807,545**	317,052
Other expenses	**(410,009)**	(84,469)
Profit before tax	**11,497,368**	14,170,376
Income tax expenses	**(4,418,647)**	(1,237,342)
Profit for the year	**7,078,721**	12,933,034
Profit attributable to equity holders of the Parent	**5,309,051**	9,699,775
Profit attributable to non-controlling interests	**1,769,670**	3,233,259
Change in accounting policy	**–**	(171,503)
Dividends paid to non-controlling interests	**2,250,000**	1,493,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)

Kcell JSC (continued)

Summarised consolidated statement of financial position of Kcell JSC as at 31 December 2020 and 2019:

In thousands of tenge	**2020**	2019
Non-current assets	**218,992,458**	237,093,834
Current assets	**73,253,134**	46,371,130
Non-current liabilities	**(88,909,214)**	(99,732,744)
Current liabilities	**(60,700,371)**	(39,174,894)
Total equity	**142,636,007**	144,557,326
Attributable to:		
Equity holders of the Participants	**106,977,005**	108,417,994
Non-controlling interests	**35,659,002**	36,139,332

Summarised consolidated cash flow information of Kcell JSC for the years ended 31 December 2020 and 2019:

In thousands of tenge	**2020**	2019
Operating cash flows	**52,259,104**	35,061,346
Investing cash flows	**(36,621,393)**	(18,182,552)
Financing cash flows	**(1,887,190)**	(14,032,498)
Foreign exchange effect on cash and cash equivalents	**447,076**	(50,290)
Net increase in cash and cash equivalents	**14,197,597**	2,796,006

9. 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 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 consolidated financial statements.

The following tables disclose revenue and profit information for the Group's operating segments for the years ended 31 December 2020 and 2019.

9. SEGMENT INFORMATION (continued)

For the year ended 31 December 2020

In thousands of tenge	Fixed line	Mobile tele-communi-cation services in GSM and LTE standards	Other	Elimina-tions and adjustments	Group
Revenue from contracts with customer					
Sales to external customers	215,672,911	310,924,680	732,634	–	527,330,225
Inter-segment	36,613,456	13,395,884	620,740	(50,630,080)	–
Total revenue from contracts with customers	252,286,367	324,320,564	1,353,374	(50,630,080)	527,330,225
Financial results					
Depreciation and amortisation	(37,207,916)	(74,634,638)	(29,582)	1,507,876	(110,364,260)
Finance costs	(27,773,738)	(25,348,210)	(475)	1,673,361	(51,449,062)
Finance income	3,187,081	2,635,644	3	(1,302,428)	4,520,300
Dividends income	7,011,582	–	–	(7,011,582)	–
Share in profits of associates	–	–	234,676	–	234,676
Impairment losses on non-financial assets	(2,693)	(6,041,408)	(46,132)	–	(6,090,233)
Impairment losses on financial assets	(380,882)	(1,866,211)	(12,005)	21,052	(2,238,046)
Income tax expenses	(7,740,699)	(13,840,162)	90,916	(172,027)	(21,661,972)
Segment profit/(loss)	41,504,158	51,464,318	52,587	(6,096,062)	86,925,001
Operating assets	750,627,968	724,829,686	3,943,053	(363,974,533)	1,115,426,174
Operating liabilities	323,183,472	296,030,213	639,868	(22,967,376)	596,886,177
Other disclosures					
Investments in associates	–	–	2,982,957	–	2,982,957
Assets held for sale	1,872,008	–	–	–	1,872,008
Capital expenditures	63,575,357	51,800,983	10,778	–	115,387,118

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. SEGMENT INFORMATION (continued)

For the year ended 31 December 2019

In thousands of tenge	Fixed line	Mobile tele-communi-cation services in GSM and LTE standards	Other	Elimina-tions and adjustments	Group
Revenue from contracts with customer					
Sales to external customers	211,648,838	215,977,168	454,668	–	428,080,674
Inter-segment	22,294,505	6,957,249	280,201	(29,531,955)	–
Total revenue from contracts with customer	233,943,343	222,934,417	734,869	(29,531,955)	428,080,674
Financial results					
Depreciation and amortisation	(37,694,711)	(58,875,901)	(228,346)	840,207	(95,958,751)
Finance costs	(26,007,763)	(19,617,103)	–	2,723,929	(42,900,937)
Finance income	4,932,477	1,585,120	433	(2,212,522)	4,305,508
Dividends income	9,101,302	–	–	(9,101,302)	–
Share in profit of associates	–	5,830,925	196,270	–	6,027,195
Impairment losses on non-financial assets	(300,971)	(5,377,947)	(878)	–	(5,679,796)
Impairment losses on financial assets	(28,402)	(2,653,023)	(8,160)	–	(2,689,585)
Income tax expenses	(6,307,021)	(3,143,069)	(5,687)	(25,939)	(9,481,716)
Segment profit/(loss)	32,337,163	13,792,086	(148,686)	23,777,536	69,758,099
Operating assets	750,602,980	706,904,382	2,677,106	(374,164,950)	1,086,019,518
Operating liabilities	348,535,158	307,458,473	317,483	(33,689,865)	622,621,249
Other disclosures					
Investments in associates	–	–	2,218,889	–	2,218,889
Assets held for sale	1,878,033	–	–	–	1,878,033
Capital expenditures	41,930,188	28,758,575	–	41,085	70,729,848

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

Reconciliation of profit

In thousands of tenge	**2020**	2019
Segment profit	**93,021,063**	45,980,563
Other	**(6,096,062)**	23,777,536
Profit of the Group	**86,925,001**	69,758,099

Reconciliation of assets

In thousands of tenge	**2020**	2019
Segment operating assets	**1,479,400,707**	1,460,184,468
Elimination of the Company's investments in subsidiaries	**(340,809,525)**	(338,530,820)
Elimination of intra-group receivables and payables	**(23,165,008)**	(35,634,130)
Total assets of the Group	**1,115,426,174**	1,086,019,518

9. SEGMENT INFORMATION (continued)

Reconciliation of liabilities

In thousands of tenge	**2020**	2019
Segment operating liabilities	**619,853,553**	656,311,114
Elimination of intra-group receivables and payables	**(22,967,376)**	(33,689,865)
Total liabilities of the Group	**596,886,177**	622,621,249

10. PROPERTY AND EQUIPMENT

Movements of property and equipment in 2020 and 2019 were as follows:

In thousands of tenge	**Land**	**Buildings and constructions**	**Equipment**	**Other**	**Construction in progress**	**Total**
Cost						
At 1 January 2019	2,927,610	54,747,006	544,905,927	16,714,716	52,652,625	671,947,884
Additions	23	404,498	20,516,975	794,880	36,868,969	58,585,345
Acquisition of subsidiary *(Note 6)*	350,814	12,920,247	67,634,326	1,691,611	17,962,521	100,559,519
Asset retirement obligations *(Note 31)*	–	–	577,768	–	–	577,768
Transfers	–	1,375,068	22,942,450	133,075	(24,450,593)	–
Disposals	(13,973)	(325,011)	(4,094,966)	(372,918)	(87,885)	(4,894,753)
Assets held for sale *(Note 47)*	–	(405,118)	(1,021,623)	(74,182)	–	(1,500,923)
At 31 December 2019	3,264,474	68,716,690	651,460,857	18,887,182	82,945,637	825,274,840
Additions	**777**	**480,587**	**26,752,929**	**486,085**	**71,206,468**	**98,926,846**
Asset retirement obligations *(Note 31)*	**–**	**–**	**740,628**	**–**	**–**	**740,628**
Transfers	**–**	**16,394,604**	**70,010,032**	**326,140**	**(86,730,776)**	**–**
Disposals	**(5,622)**	**(331,080)**	**(6,953,391)**	**(343,675)**	**(37,486)**	**(7,671,254)**
At 31 December 2020	**3,259,629**	**85,260,801**	**742,011,055**	**19,355,732**	**67,383,843**	**917,271,060**
Accumulated depreciation and impairment						
At 1 January 2019	–	20,038,240	291,626,220	11,478,648	1,103,725	324,246,833
Depreciation charge	–	2,559,055	58,859,551	1,581,648	–	63,000,254
Impairment	–	–	2,136,947	–	3,077,728	5,214,675
Disposals	–	(136,918)	(3,837,861)	(358,882)	4,565	(4,329,096)
Assets held for sale *(Note 47)*	–	(43,346)	(886,731)	(50,043)	–	(980,120)
At 31 December 2019	–	22,417,031	347,898,126	12,651,371	4,186,018	387,152,546
Depreciation charge	**–**	**3,000,450**	**63,589,529**	**1,923,616**	**–**	**68,513,595**
Impairment	**–**	**165,034**	**94,746**	**–**	**4,964,287**	**5,224,067**
Disposals	**–**	**(193,572)**	**(6,147,925)**	**(324,987)**	**–**	**(6,666,484)**
At 31 December 2020	**–**	**25,388,943**	**405,434,476**	**14,250,000**	**9,150,305**	**454,223,724**
Net book value						
At 31 December 2019	3,264,474	46,299,659	303,562,731	6,235,811	78,759,619	438,122,294
At 31 December 2020	**3,259,629**	**59,871,858**	**336,576,579**	**5,105,732**	**58,233,538**	**463,047,336**

As at 31 December 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 31 December 2020, the gross carrying value of property and equipment which has been fully depreciated and still in use was KZT 404,178,863 thousand (as at 31 December 2019: KZT 347,558,082 thousand).

As at 31 December 2020, advances paid for non-current assets in the amount of KZT 3,237,280 thousand mainly represented by advances paid for installation of base stations, construction and delivery of fixed assets (as at 31 December 2019: KZT 8,998,288 thousand). During 2020, the Group has recognized impairment loss on its advances paid for non-current assets for KZT 356,318 thousand (2019: KZT 423,395 thousand).

10. PROPERTY AND EQUIPMENT (continued)

Impairment test

The coronavirus (COVID-19) outbreak has affected many countries and resulted in significant volatility in financial and commodity markets around the world. There is already evidence that the virus has significantly impacted the global economy *(Note 51)*. The Group's management analyzed external and internal sources of information, including the current and future impact of the COVID-19 pandemic on the Group and on macroeconomic environment, and did not observe any significant negative impacts on the Group's business, financial conditions and results of operations. During 2020, the Group did not identify impair ment factors for all CGUs related with Covid-19 impact, except certain items of property and equipment as described below.

During 2020, the Group recognized an impairment loss in the amount of KZT 259,780 thousand (2019: KZT 1,844,104 thousand) for property and equipment and KZT 4,964,287 thousand for construction-in-progress (2019: KZT 3,077,728 thousand), which represented the write-down of certain assets to the recoverable amount as a result of technological obsolescence and damage. Impairment was recognized in the consolidated statement of comprehensive income as an operating expense. Additionally, during 2019, the Group recognized an impairment loss of KZT 292,843 thousand to reduce the carrying amount of the assets in the disposal group to their fair value less costs to sell *(Note 47)*.

11. INTANGIBLE ASSETS

Movements of intangible assets for 2020 and 2019 were as follows:

In thousands of tenge	Licenses	Software	Other	Intangible assets under development	Total
Cost					
At 1 January 2019	112,628,735	24,356,327	10,733,889	1,190,442	148,909,393
Additions	3,604,581	5,503,654	186,964	2,271,536	11,566,735
Acquisition of subsidiary *(Note 6)*	108,498,898	2,180,628	9,759,000	–	120,438,526
Disposals	(1,185,574)	(1,489,826)	–	–	(2,675,400)
Assets held for sale *(Note 47)*	–	(729,247)	–	–	(729,247)
Transfers	90,406	2,181,130	–	(2,271,536)	–
At 31 December 2019	223,637,046	32,002,666	20,679,853	1,190,442	277,510,007
Additions	**3,352,911**	**11,147,577**	**448,150**	**771,006**	**15,719,644**
Disposals	**(879,619)**	**(53,410)**	**–**	**–**	**(933,029)**
Transfers	**(70,372)**	**1,559,087**	**–**	**(1,488,715)**	**–**
At 31 December 2020	**226,039,966**	**44,655,920**	**21,128,003**	**472,733**	**292,296,622**
Accumulated amortisation and impairment					
At 1 January 2019	7,389,985	17,539,499	2,503,444	–	27,432,928
Amortisation charge	14,323,070	6,002,130	1,538,169	–	21,863,369
Disposals	(1,165,320)	(1,489,771)	–	–	(2,655,091)
Assets held for sale *(Note 47)*	–	(245,313)	–	–	(245,313)
At 31 December 2019	20,547,735	21,806,545	4,041,613	–	46,395,893
Amortisation charge	**18,303,264**	**8,781,910**	**1,860,245**	**–**	**28,945,419**
Impairment	**–**	**46,132**	**–**	**472,733**	**518,865**
Disposals	**(879,619)**	**(37,816)**	**–**	**–**	**(917,435)**
At 31 December 2020	**37,971,380**	**30,596,771**	**5,901,858**	**472,733**	**74,942,742**
Net book value					
At 31 December 2019	203,089,311	10,196,121	16,638,240	1,190,442	231,114,114
At 31 December 2020	**188,068,586**	**14,059,149**	**15,226,145**	**–**	**217,353,880**

Licenses and trademarks, software and other include intangible assets acquired as a result of business combinations *(Note 6)*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. INTANGIBLE ASSETS (continued)

During 2020, the Group recognized an impairment loss of KZT 472,733 thousand for intangible assets under development, which represented the write-down of billing system (2019: nil). The loss was recorded in the consolidated statement of comprehensive income as part of impairment losses on non-financial assets.

As at 31 December 2020 the gross carrying value of intangible assets, which have been fully amortized and still in use was KZT 57,814,037 thousand (as at 31 December 2019: KZT 52,411,724 thousand).

12. INVESTMENTS IN ASSOCIATES

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

			31 December 2020		31 December 2019	
In thousands of tenge	**Primary activities**	**Country of incorporation**	**Carrying amount**	**Ownership share**	Carrying amount	Ownership share
QazCloud LLP	IT services	Kazakhstan	**2,982,957**	**49%**	2,218,889	49%
			2,982,957		2,218,889	

Movements in investments in associates for the years 2020 and 2019 are as follows:

In thousands of tenge	**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	–	423,980	423,980
Share in profit of associates	5,830,925	196,270	6,027,195
Derecognition of investment in associate *(Note 6)*	(81,901,510)	–	(81,901,510)
At 31 December 2019	–	2,218,889	2,218,889
Additional contribution to the charter capital of an associate	**–**	**529,392**	**529,392**
Share in profits of associates	**–**	**234,676**	**234,676**
At 31 December 2020	**–**	**2,982,957**	**2,982,957**

Investments in Khan Tengri Holding B.V.

As described in *Note 6,* the Group obtained control over in Khan Tengri Holding B.V. and since that date Khan Tengri Holding B.V. is consolidated. In the consolidated financial statements, the Group's interest in Khan Tengri Holding B.V. was accounted using the equity method till the date of obtaining control.

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

In thousands of tenge	**2020**	From 1 January 2019 till 28 June 2019
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 year	**–**	11,433,187
Total comprehensive income	**–**	11,433,187
Share of the Group in profit for the year	**–**	5,830,925

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. INVESTMENTS IN ASSOCIATES (continued)

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.

On 5 November 2020, 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 529,392 thousand.

On 9 December 2020, the Group made contributions to the charter capital of QazCloud LLP in the amount of KZT 529,392 thousand. The additional contributions to the charter capital of QazCloud LLP did not lead to the change in share of interest of the Group as the second participant, Samruk-Kazyna Business Service LLP, also made the contributions to the charter capital of QazCloud LLP according to its share. The table below provides a summarized financial information on the Group's investment in QazCloud LLP on the basis of an assessment of the fair value:

In thousands of tenge	**31 December 2020**	31 December 2019
Non-current assets	**4,364,015**	2,982,071
Current assets, including	**7,033,758**	3,356,967
Cash and cash equivalents	***4,589,503***	*2,621,936*
Non-current liabilities, including	**(970,186)**	(395,465)
Non-current financial liabilities	***(881,229)***	*(267,526)*
Current liabilities, including	**(4,339,919)**	(1,415,229)
Current financial liabilities	***(2,711,217)***	*(1,343,183)*
Equity	**6,087,668**	4,528,344
Share of the ownership − 49%	**2,982,957**	2,218,889
Carrying amount of the investment of the Group	**2,982,957**	2,218,889

In thousands of tenge	**2020**	2019
Revenue from contracts with customers	**6,594,529**	3,489,009
Depreciation and amortization	**(1,040,130)**	(603,879)
Finance income	**31,844**	27,085
Finance costs	**(165,072)**	(57,264)
Income tax expense	**(119,735)**	(100,137)
Profit for the year	**478,931**	400,550
Total comprehensive income	**478,931**	400,550
Share of the Group in profit for the year	**234,676**	196,270

13. IMPAIRMENT TESTING

Goodwill

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

13. IMPAIRMENT TESTING (continued)

Goodwill (continued)

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

In thousands of tenge	**2020**	2019
Khan Tengri Holding B.V. *(Note 6)*	**96,205,967**	96,205,967
Kcell JSC	**53,489,943**	53,489,943
IP TV	**2,706,335**	2,706,335
	152,402,245	152,402,245

The Group performed its annual impairment test in December 2020 and 2019.

Khan Tengri Holding B.V.

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

The pre-tax discount rate applied to projected cash flows was 18.63% (2019: 16.96%), and cash flows beyond the five-year period were extrapolated taking into account a growth rate of 1.5% (2019: 1.5%).

As a result of the analysis, management did not identify an impairment for this CGU as at 31 December 2020.

Kcell JSC

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

The pre-tax discount rate applied to projected cash flows was 17.88% (2019: 16.71%), and cash flows beyond the five-year period were extrapolated taking into account a growth rate of 1.5% (2019: 1.5%).

As a result of the analysis, management did not identify an impairment for this CGU as at 31 December 2020.

IP TV

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

The pre-tax discount rate applied to the cash flow projections is 15.02% (2019: 15.14%), and cash flows beyond the five-year period are extrapolated using a 1.5% growth rate (2019: 1.5%).

As a result of the analysis, management did not identify an impairment for this CGU as at 31 December 2020.

Key assumptions used in value in use calculations

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

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

13. IMPAIRMENT TESTING (continued)

Key assumptions used in value in use calculations (continued)

Customer base and average revenue per customer

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

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

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

Level of capital investments

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

EBITDA margin

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

Growth rates

Rates are based on published industry research.

Discount rate

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

Sensitivity to changes in assumptions − IP TV

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

Customer base, average revenue per customer and revenue growth rates

Although the management expects that the market share owned by the Group would not grow over the forecast period, according to the financial plan, slowing growth of customer base or decrease in the average revenue per customer, leading to a decrease in revenue from current business plan by more than 3.65% (2019: 16.80%), would result in a loss from impairment in IP TV GCU for KZT 26 thousand (2019: KZT 1,247 thousand).

Level of capital investments

Increase in capital investments by more than 95% (2019: 366.50%) would result in loss from impairment in IP TV CGU for KZT 201 thousand (2019: KZT 2,127 thousand).

Growth rates

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

13. IMPAIRMENT TESTING (continued)

Sensitivity to changes in assumptions − IP TV (continued)

Discount rate

An increase in pre-tax discount rate to23.56% (2019: 34.00%) would result in impairment loss in IP TV CGU for KZT 28 thousand (KZT 2,620 thousand).

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

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

Customer base, average revenue per customer and revenue growth rates

Although the management expects that the market share owned by the Group would grow over the forecast period, according to the financial plan, slowing growth of customer base or decrease in the average revenue per customer, leading to a decrease in revenue from current business plan by more than 6.30% (2019: 9.54%), would result in a loss from impairment in Khan Tengri Holding B.V. CGU for KZT 720,765 thousand (2019: KZT 4,531,171 thousand).

Level of capital investments

Increase in capital investments by more than 85% (2019: 72.39%) would result in loss from impairment in Khan Tengri Holding B.V. CGU for KZT 1,415,055 thousand (2019: KZT 4,513,932 thousand).

EBITDA margin

Decrease in EBITDA margin by more than 14% (2019: 12.23%) would result in loss from impairment in Khan Tengri Holding B.V. CGU for KZT 979,530 thousand (2019: KZT 4,466,584 thousand).

Growth rates

Management recognises that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions. A reduction by 54,3% (2019: 21.39%) per annum in the long-term growth rate in Khan Tengri Holding B.V CGU would result in impairment loss for KZT 41,140 thousand (2019: KZT 4,502,738 thousand).

Discount rate

An increase in pre-tax discount rate to 33% (2019: 28.59%) would result in impairment loss in Khan Tengri Holding B.V. CGU for KZT 2,399,056 thousand (2019: KZT 4,538,160 thousand).

Sensitivity to changes in assumptions − Kcell JSC

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

Customer base and average revenue per customer

Although the management expects that the market share of mobile telecommunications owned by the Group would grow over the forecast period, according to the financial plan, slowing growth of customer base or decrease in the average revenue per customer, leading to a decrease in revenue from current business plan by more than 5.06% (2019: 12.48%), would result in a loss from impairment in Kcell CGU for KZT 84,186 thousand (2019: KZT 237,528 thousand).

Level of capital investments

Increase in capital investments by more than 91.5% (2019: 53.24%) would result in loss from impairment in Kcell CGU for KZT 189.203 thousand (2019: KZT 230,913 thousand).

EBITDA margin

Decrease in EBITDA margin by more than 11.2% (2019: 7.99%) would result in loss from impairment in Kcell CGU for KZT 204,366 thousand (2019: KZT 285,645 thousand).

13. IMPAIRMENT TESTING (continued)

Sensitivity to changes in assumptions − Kcell JSC (continued)

Growth rates

Management recognises that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions. A reduction by 30.21% (2019: 13.57%) per annum and more in the long-term growth rate in Kcell CGU would result in impairment loss for KZT 261,186 thousand (2019: KZT 242,484 thousand).

Discount rate

An increase in pre-tax discount rate to 28.85% (2019: 25.05%) would result in loss from impairment in Kcell CGU for KZT 270,725 thousand (2019: KZT 231,239 thousand).

14. INVESTMENT PROPERTY

Movements in investment property for the years ended 31 December 2020 and 2019 were as follows:

In thousands of tenge	**2020**	2019
Cost		
At 1 January	**1,264,668**	1,264,668
At 31 December	**1,264,668**	1,264,668
Accumulated depreciation and impairment		
At 1 January	**(1,264,668)**	(1,264,668)
At 31 December	**(1,264,668)**	(1,264,668)
Carrying amount		
At 1 January	**–**	–
At 31 December	**–**	–

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

The impairment of KZT 1,264,668 thousand represents the write down of the carrying amount of the investment property to its recoverable amount. The recoverable amount was based on analysis of value in use and fair value less costs to sell and estimated to be nil as at 31 December 2020 and 2019, as it is unlikely that the Group will receive reimbursement for its construction costs either through sale of the office building or rental payments. However, these assumptions may change in the future. The fair value of investment property is determined by reference to significant unobservable in-puts (Level 3).

15. OTHER NON-CURRENT FINANCIAL ASSETS

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

In thousands of tenge	**2020**	2019
Long-term accounts receivable	**2,421,066**	1,118,077
Loans to employees	**2,060,858**	2,767,965
Cash restricted in use	**43,243**	2,653
Other	**264,012**	281,464
	4,789,179	4,170,159

As at 31 December 2020 and 2019, the Group's other non-current financial assets were denominated in the following currencies:

In thousands of tenge	**2020**	2019
Tenge	**4,745,936**	4,170,159
US dollars	**43,243**	–
	4,789,179	4,170,159

15. OTHER NON-CURRENT FINANCIAL ASSETS (continued)

As at 31 December 2020, the long-term accounts receivable represented by special agreements with customers for the purchase of contract phones for KZT 2,421,066 thousand (as at 31 December 2019: KZT 1,118,077 thousand). These long-term accounts receivable were discounted as at market interest rates of 10% per annum (2019: 10% per annum).

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 9.6% per annum to 19.1% (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.

16. OTHER NON-CURRENT NON-FINANCIAL ASSETS

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

In thousands of tenge	**2020**	2019
Deferred connection cost of operators	**1,353,299**	1,679,290
Long-term VAT receivable	**369,524**	1,041,255
Other	**96,222**	77,771
	1,819,045	2,798,316

As at 31 December 2020 and 2019, the Group's other non-current non-financial assets were denominated in the following currencies:

In thousands of tenge	**2020**	2019
US dollars	**995,943**	1,216,292
Tenge	**465,746**	1,119,026
Other currencies	**357,356**	462,998
	1,819,045	2,798,316

17. INVENTORIES

As at 31 December 2020 and 2019, inventories comprised:

In thousands of tenge	**2020**	2019
Goods for resale at lower of cost and net realisable value	**11,734,343**	7,261,070
Raw and other materials at cost	**1,641,865**	926,043
Cable materials at cost	**1,340,654**	1,506,324
Spare parts at cost	**463,893**	541,525
Fuel at cost	**309,274**	330,112
	15,490,029	10,565,074

During 2020, an amount of KZT 1,199,617 (2019: KZT 57,343 thousand) was recognized as expenses in respect of inventories recorded at net realizable value. In 2020, this amount was recorded within the item "General and administrative expenses" in the consolidated statement of comprehensive income.

18. TRADE RECEIVABLES

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

In thousands of tenge	**2020**	2019
Trade receivables	**40,847,311**	42,206,665
	40,847,311	42,206,665
Less: allowance for expected credit losses	**(6,135,606)**	(4,950,893)
	34,711,705	37,255,772

18. TRADE RECEIVABLES (continued)

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

In thousands of tenge	**2020**	2019
Allowance for expected credit losses at the beginning of the year	**(4,950,893)**	(3,175,108)
Charge for the year *(Note 50)*	**(2,159,063)**	(2,569,696)
Write-off for the year	**974,350**	785,721
Assets held for sale	**–**	8,190
Allowance for expected credit losses at the end of the year	**(6,135,606)**	(4,950,893)

Below is information as at 31 December 2020 about the credit risk exposure on the Group's trade receivables using a matrix of reserves:

		Days past due						
In thousands of tenge	**Current**	**1 to 30 days**	**31 to 60 days**	**61 to 90 days**	**91 to 120 days**	**121 to 360 days**	**Over 360 days**	**Total**
Estimated credit loss rate	**0.50%**	**6.89%**	**18.30%**	**23.32%**	**39.95%**	**68.41%**	**100%**	
Estimated total gross carrying amount at default	**28,423,009**	**3,314,635**	**1,694,987**	**1,062,628**	**791,244**	**2,117,242**	**3,443,566**	**40,847,311**
Allowance for expected credit losses	**(141,385)**	**(228,289)**	**(310,136)**	**(247,793)**	**(316,064)**	**(1,448,373)**	**(3,443,566)**	**(6,135,606)**

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

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

As at 31 December 2020 and 2019, the Group's trade receivables were denominated in the following currencies:

In thousands of tenge	**2020**	2019
Tenge	**33,215,353**	35,008,599
US dollars	**1,260,092**	1,830,387
Euro	**205,826**	140,286
Other currencies	**30,434**	276,500
	34,711,705	37,255,772

19. ADVANCES PAID

As at 31 December 2020 and 2019, advances paid comprised:

In thousands of tenge	**2020**	2019
Advances paid	**4,688,615**	5,741,078
	4,688,615	5,741,078
Less: allowance for impairment	**(37,066)**	(44,563)
	4,651,549	5,696,515

19. ADVANCES PAID (continued)

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

In thousands of tenge	2020	2019
Allowance for impairment at the beginnings of the year	**(44,563)**	(3,137)
Reversal/(charge) for the year	**9,017**	(41,426)
Write-off for the year	**(1,520)**	–
Allowance for impairment at the end of the year	**(37,066)**	(44,563)

As at 31 December 2020 and 2019, advances paid for short term assets were given to contractors for services and delivery of inventories for operational activities of the Group.

20. OTHER CURRENT FINANCIAL ASSETS

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

In thousands of tenge	2020	2019
Bank deposits	**3,399,500**	3,399,500
Loans to employees	**1,502,112**	1,879,405
Restricted cash	**920,317**	929,499
Due from employees	**364,405**	283,688
Other accounts receivable	**2,341,581**	3,555,821
	8,527,915	10,047,913
Less: allowance for expected credit losses	**(4,901,841)**	(4,820,587)
	3,626,074	5,227,326

As at 31 December 2020 and 2019, the Group does not have bank deposits with initial maturity of more than 3 (three) months but less than 12 (twelve) months, except deposit placed in Eximbank Kazakhstan JSC.

As at 31 December 2020 and 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.

Restricted cash represents cash on the accounts with KazInvestBank JSC and Eximbank Kazakhstan JSC for KZT 420,863 thousand and KZT 499,454 thousand, respectively, which are assessed as unlikely to be recovered due to the revocation of banking licenses. Allowance for expected credit loss was recorded for the whole amount of this cash.

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

In thousands of tenge	2020	2019
Allowance for expected credit losses at the beginning of the year	**(4,820,587)**	(4,220,670)
Charge for the year *(Note 50)*	**(90,887)**	(108,003)
Write-off for the year	**9,633**	7,540
Transfer from cash and cash equivalents *(Note 24)*	**–**	(499,454)
Allowance for expected credit losses at the end of the year	**(4,901,841)**	(4,820,587)

Below is information as at 31 December 2020 about the credit risk exposure on the Group's loans to employees, due from employees and other receivables using the reserve matrix:

		Days past due						
In thousands of tenge	**Current**	**1 to 30 days**	**31 to 60 days**	**61 to 90 days**	**91 to 120 days**	**121 to 360 days**	**Over 360 days**	**Total**
Estimated credit loss rate	**1.75%**	**1.99%**	**8.57%**	**7.37%**	**24.86%**	**56.30%**	**100.00%**	
Estimated total gross carrying amount at default	**3,631,594**	**26,950**	**14,707**	**5,444**	**1,585**	**27,351**	**500,467**	**4,208,098**
Allowance for expected credit losses	**(63,568)**	**(535)**	**(1,260)**	**(401)**	**(394)**	**(15,399)**	**(500,467)**	**(582,024)**

20. OTHER CURRENT FINANCIAL ASSETS (continued)

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

		Days past due						
In thousands of tenge	Current	1 to 30 days	31 to 60 days	61 to 90 days	91 to 120 days	121 to 360 days	Over 360 days	Total
Estimated credit loss rate	1.36%	3.45%	8.83%	3.48%	11.64%	46.78%	100%	
Estimated total gross carrying amount at default	5,271,177	3,918	10,692	4,138	3,221	13,692	412,076	5,718,914
Allowance for expected credit losses	(71,509)	(135)	(944)	(144)	(375)	(6,405)	(412,076)	(491,588)

As at 31 December 2020 and 2019, other current financial assets were denominated in the following currencies:

In thousands of tenge	**2020**	2019
Tenge	**3,618,457**	5,070,053
US dollars	**7,617**	157,273
	3,626,074	5,227,326

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As at 31 December 2020 financial assets at fair value through other comprehensive income represented by investments in US treasury bills acquired in August 2019, were fully redeemed (31 December 2019: KZT 4,964,633 thousand). 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 KZT 5,021,171 thousand at the date of acquisition), with maturity till August 2020 and yield to maturity at 2.6%. 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 KZT 5,385,385 thousand and KZT 141,366 thousand, respectively).

22. FINANCIAL ASSETS AT AMORTIZED COST

As at 31 December 2020 financial assets at amortized cost in the amount of KZT 18,923,399 thousand (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 KZT 36,751,293 thousand in June-December 2020. During 2020, short-term NBRK discount note was redeemed for a total amount of KZT 18,139,091 thousand of nominal value and interest income of KZT 760,909 thousand.

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 31 December 2020, financial assets at amortised cost comprised of the following:

In thousands of tenge	**Maturity date**	**Yield to maturity**	**Nominal value**	**31 December 2020**	31 December 2019
NBRK note	13 January 2021	8.92%	10,000,000	**9,968,318**	–
NBRK note	15 January 2021	9.41%	4,000,000	**3,984,591**	–
NBRK note	22 January 2021	9.85%	3,000,000	**2,982,294**	–
NBRK note	22 January 2021	9.85%	2,000,000	**1,988,196**	–
			19,000,000	**18,923,399**	–

23. OTHER CURRENT NON-FINANCIAL ASSETS

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

In thousands of tenge	**2020**	2019
VAT receivable	**4,661,908**	3,468,766
Taxes prepaid other than corporate income tax	**1,241,207**	1,734,131
Deferred connection cost of operators	**237,750**	237,750
Other	**1,159,466**	631,835
	7,300,331	6,072,482

24. CASH AND CASH EQUIVALENTS

As at 31 December 2020 and 2019, cash and cash equivalents comprised:

In thousands of tenge	**2020**	2019
Cash on current bank accounts	**84,060,922**	67,674,762
Deposits with less than 90 days' maturity from the date of opening	**10,325,020**	3,631,562
Cash on hand	**46,002**	34,830
	94,431,944	71,341,154
Less: allowance for expected credit losses	**(3,412)**	(19,332)
Total cash and cash equivalents	**94,428,532**	71,321,822

Cash on current bank accounts earn interest at the rates ranging from 0.1% to 7.25% per annum (2019: from 0.2% to 8.0% per annum).

As at 31 December 2020, short-term deposits for KZT 10,325,020 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 rate of up to 8.50% per annum (as at 31 December 2019: KZT 3,631,562 thousand with a rate of up to 8.40%).

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

In thousands of tenge	**2020**	2019
Cash on current bank accounts	**84,060,922**	67,674,762
Deposits with less than 90 days' maturity from the date of opening	**10,325,020**	3,631,562
Cash on current bank accounts attributable to disposed group *(Note 47)*	**280,634**	315,556
Cash on hand	**46,002**	34,830
	94,712,578	71,656,710
Less: allowance for expected credit losses	**(3,412)**	(19,332)
Total cash and cash equivalents	**94,709,166**	71,637,378

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

In thousands of tenge	**2020**	2019
US dollars	**79,699,144**	43,199,243
Tenge	**13,491,284**	27,356,685
Euro	**1,116,469**	652,984
Russian roubles	**120,751**	107,521
Other	**884**	5,389
	94,428,532	71,321,822

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

In thousands of tenge	**2020**	2019
Allowance for expected credit losses at the beginning of the year	**(19,332)**	(506,765)
Reversal/(charge) for the year *(Note 50)*	**15,920**	(12,021)
Transfer to other current financial assets *(Note 20)*	**–**	499,454
Allowance for expected credit losses at the end of the year	**(3,412)**	(19,332)

25. EQUITY

Authorised and issued shares

	Number of shares		In thousands of tenge		
	Common shares	Preferred non-voting shares	Common shares	Preferred non-voting shares	Total issued shares
At 31 December 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 31 December 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		
	Common shares	Preferred non-voting shares	Common shares	Preferred non-voting shares	Total
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 31 December 2020	**216,852**	**914,868**	**3,052,617**	**4,012,997**	**7,065,614**

Shares issued less reacquired shares

As at 31 December 2020 and 2019, number of common and preferred shares issued net of reacquired shares was 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 31 December 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. As at 31 December 2019 the debt component of preferred shares decreased by KZT 59,376 thousand as a result of repurchased 21,771 preferred shares during 2019. Preferred shareholders receive the right to vote if the general meeting of shareholders considers decisions restricting rights of preferred shareholders, decisions on reorganization or liquidation of the Company and if dividends on preferred shares are not paid within 3 (three) months after a specified payment date.

Dividends

The preferred shares earn a non-discretionary dividend of 300 tenge per share in accordance with the Company's charter documents. Preferred shares are considered to be compound financial instruments, and accordingly the liability and equity components are presented separately in the consolidated statement of financial position. Dividends in the amount of KZT 89,636 thousand were accrued as at 31 December 2020 (at 31 December 2019: KZT 89,635 thousand) and are recorded as interest expenses in the consolidated statement of comprehensive income *(Note 43)*.

25. EQUITY (continued)

Dividends (continued)

On the basis of the decision made at the annual shareholders general meeting of Kazakhtelecom JSC on 30 April 2020, the Company declared dividends on preferred shares based on 2019 results in the amount of KZT 142,852 thousand and dividends on common shares in the amount of KZT 10,580,464 thousand (2019: KZT 154,202 thousand and KZT 9,855,107 thousand, respectively). The dividends accrued on common shares during 2020. Dividends per share (common and preferred) as at 31 December 2020 were equal to KZT 778.11 (as at 31 December 2019: KZT 781.06 per common share).

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

In thousands of tenge	**2020**	2019
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 *(Note 43)*	**89,636**	89,635
Dividends paid to equity holders of the parent	**(10,143,729)**	(9,041,085)
Dividends paid to non-controlling interests	**(2,250,000)**	(1,493,000)
Dividends payable at the end of the year *(Note 33)*	**17,577**	1,598,354

For the year ended 31 December 2020 the Group paid withholding tax on dividends in the amount of KZT 162,819 thousand (2019: KZT 156,411 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 in 2020 and 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 consolidated financial statements in accordance with the accounting policy disclosed in *Note 3*.

Earnings per share

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

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

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

In thousands of tenge	**2020**	2019
Net profit	**63,493,359**	57,043,124
Interest on preferred shares *(Note 43)*	**89,636**	89,635
Net profit for calculating of basic and diluted earnings per share	**63,582,995**	57,132,759
Weighted average number of common and preferred shares for calculation of basic and diluted earnings per share	**11,004,809**	11,010,577
Basic and diluted earnings per share, tenge	**5,777.75**	5,188.90

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

25. EQUITY (continued)

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

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

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

In thousands of tenge	**2020**	2019
Total assets	**1,115,426,174**	1,086,019,518
Less: intangible assets, including goodwill	**369,756,125**	383,516,359
Less: total liabilities	**596,886,177**	622,621,249
Less: preferred shares issued net of reacquired shares	**298,785**	298,785
Net assets for calculation of cost of ordinary share in accordance with listing requirements of KASE	**148,485,087**	79,583,125
Number of ordinary shares	**10,706,024**	10,706,024
Cost of ordinary share, calculated in accordance with listing requirements of KASE (in tenge)	**13,869**	7,433

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

26. BORROWINGS

As at 31 December 2020 and 2019, borrowings comprised:

In thousands of tenge	**Weighted average effective interest rate**	**2020**	Weighted average effective interest rate	2019
Borrowings with a fixed interest rate of 7.12% to 13.06% per annum	**10.99%**	**181,449,097**	11.22%	160,758,517
Bonds with a fixed interest rate of 7.78% to 11.86% per annum	**11.85%**	**180,952,977**	11.84%	206,857,207
		362,402,074		367,615,724

Borrowings are repayable as follows:

In thousands of tenge	**2020**	2019
Current portion of borrowings	**46,111,485**	28,477,663
Maturity between 1 and 2 years	**28,978,947**	38,648,363
Maturity between 2 and 5 years	**187,254,778**	196,418,649
Maturity over 5 years	**100,056,864**	104,071,049
Total non-current portion of borrowings	**316,290,589**	339,138,061
Total borrowings	**362,402,074**	367,615,724

26. BORROWINGS (continued)

As of 31 December 2020 and December 2019, loans represented by the following:

Borrowings	Maturity date	Currency	Effective interest rate	2020	2019
Halyk Bank of Kazakhstan JSC	21 May 2027	Tenge	12.20%	**68,609,396**	79,135,027
Development Bank of Kazakhstan JSC *(Note 49)*	30 June 2032	Tenge	7.95%-8.41%	**25,762,791**	13,293,317
Development Bank of Kazakhstan JSC *(Note 49)*	19 December 2024	Tenge	7.12%-9.20%	**23,651,673**	29,226,311
Eurasian Development Bank JSC	20 June 2024	Tenge	13.06%	**18,129,058**	28,956,330
Halyk Bank of Kazakhstan JSC	21 April 2023	Tenge	11.20%	**15,223,348**	–
Halyk Bank of Kazakhstan JSC	30 June 2023	Tenge	12.18%	**13,008,089**	–
Bank of China Kazakhstan JSC	20 August 2022	Tenge	10.70%	**11,059,412**	5,059,792
VTB Bank JSC	15 October 2023	Tenge	11.90%	**6,005,330**	5,087,740
Total				**181,449,097**	160,758,517

As of 31 December 2020 and 2019 the Group's borrowings have fixed interest rates.

On 22 May 2019, the Group and Halyk Bank JSC entered into credit facility agreement with the credit line limit in the amount of KZT 90,000,000 thousand and effective interest rate equal to 12.2%. The maturity of the loan is 21 May 2027. During 2020, the Group made principal repayment of the loan obtained for KZT 10,428,192 thousand and interest repayment for KZT 8,761,130 thousand.

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 March-June 2020, the Group obtained several loans within the credit line agreements in Development Bank of Kazakhstan JSC for KZT 13,307,169 thousand with the maturity in June 2032 and during 2020 the Group made repayment of principal amount for KZT 1,066,666 thousand and interest amount for KZT 1,435,082 thousand.

During 2020, the Group made repayment of principal amount for KZT 5,485,532 thousand and interest amount for KZT 2,195,942 thousand under the credit line agreements concluded with the Development Bank of Kazakhstan JSC with the maturity in December 2024.

During 2020, the Group repaid principal amount of the loan obtained from Eurasian Development Bank in the amount of KZT 11,130,000 thousand and interest amount in amount of KZT 3,256,059 thousand.

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 14 July 2020 interest rates of loan was decreased from 11.5% to 11.2% per annum under credit line agreement. The change in the interest rate from 11.5% to 11.2% does not represent a substantial modification as in accordance with IFRS 9 and thus, it did not lead to the derecognition of the original liability. The Group recognized finance income in the amount of KZT 115,580 thousand as a result of change in the interest rate. During 2020, the Group made interest repayment for KZT 864,125 thousand.

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 12.18% and maturity date on June 2023. During 2020, the Group made interest repayment for KZT 736,089 thousand.

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 14 October 2020 the Group has signed addendum to loan agreement with Bank of China Kazakhstan JSC to decrease interest rate from 10.5% to 10.3% per annum under credit line agreement. The change in the interest rate from 10.5% to 10.3% does not represent a substantial modification as in accordance with IFRS 9 and thus, it did not lead to the derecognition of the original liability. The Group recognized finance income in the amount of KZT 31,974 thousand as a result of change in the interest rate.

On 8 December 2020 the Group has obtained additional loan in the amount of KZT 1,500,000 thousand from Bank of China Kazakhstan JSC. During 2020, the Group made interest repayment for KZT 892,085 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. BORROWINGS (continued)

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 KZT 133,249 thousand, respectively.

On 28 October 2020 the Group obtained loan in the amount of KZT 6,000,000 thousand within the credit line agreement with VTB Bank JSC with maturity till October 2023 at interest rate 11.9% per annum. During 2020, the Group made interest repayment for KZT 105,958 thousand.

As of 31 December 2020 and 2019, debt securities issued represented by the following:

Bonds	Maturity date	Currency	Effective interest rate	2020	2019
Local bonds of Kazakhtelecom JSC (KZTKb3)	19 June 2026	Tenge	11.86%	**80,207,595**	80,189,473
Local bonds of Kazakhtelecom JSC (KTCB.1024 and KTCB2.1024) *(Note 49)*	1 November 2024	Tenge	11.84%	**77,875,000**	103,833,333
Local bonds of Kcell JSC (KCELb1)	16 January 2021	Tenge	11.84%	**22,870,382**	22,828,111
Local bonds of Kazakhtelecom JSC (KZTKb3)	10 January 2020	Tenge	7.78%	**–**	6,290
				180,952,977	206,857,207

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 11.84% 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. On 18 August 2020, 150 million shares or 75% of shares of Kcell JSC were pledged to the Parent as a collateral for the bonds of the Group.

On 10 December 2020, the Group early redempted local bonds with the maturity till 1 November 2024 in the amount of KZT 25,000,000 thousand from Parent company.

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 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 11.86% and maturity in June 2026. The nominal value of one bond is one thousand tenge.

Covenants

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

27. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

Set out below are the carrying amounts of right-of-use assets and the movements during the year:

In thousands of tenge	**Buildings and constructions**	**Equipment**	**Total**
Cost			
At 1 January 2019	32,562,164	42,229,062	74,791,226
Additions and modifications	4,358,733	619,429	4,978,162
Acquisition of subsidiary	23,423,176	–	23,423,176
At 31 December 2019	60,344,073	42,848,491	103,192,564
Additions	**920,142**	**–**	**920,142**
Modifications	**(137,957)**	**–**	**(137,957)**
Disposals	**(283,107)**	**–**	**(283,107)**
Recognition of right-of use assets as a result of lease back transactions	**3,150**	**–**	**3,150**
At 31 December 2020	**60,846,301**	**42,848,491**	**103,694,792**
Accumulated depreciation			
At 1 January 2019	–	–	–
Depreciation charge	7,196,419	3,898,709	11,095,128
At 31 December 2019	7,196,419	3,898,709	11,095,128
Depreciation charge	**9,373,301**	**3,531,945**	**12,905,246**
At 31 December 2020	**16,569,720**	**7,430,654**	**24,000,374**
Net book value			
At 31 December 2019	53,147,654	38,949,782	92,097,436
At 31 December 2020	**44,276,581**	**35,417,837**	**79,694,418**

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

In thousands of tenge	**31 December 2020**	31 December 2019
At the beginning of the year	**73,216,589**	56,198,410
Additions *(Note 50)*	**920,142**	4,918,409
Modifications *(Note 50)*	**(137,957)**	–
Disposals *(Note 50)*	**(281,000)**	–
Lease back transactions *(Note 50)*	**198,969**	–
Acquisition of subsidiary	**–**	23,878,564
Interest expenses *(Note 43)*	**8,254,779**	8,422,715
Payment of interest part *(Note 50)*	**(8,254,779)**	(8,422,715)
Payment of principal part *(Note 50)*	**(14,806,108)**	(11,778,794)
At the end of the year	**59,110,635**	73,216,589

Set out below are the carrying amounts of non-current and current lease liabilities:

In thousands of tenge	**31 December 2020**	31 December 2019
Non-current portion of liabilities	**42,461,444**	57,781,449
Current portion of lease liabilities	**16,649,191**	15,435,140

The following are the amounts recognised in profit or loss:

In thousands of tenge	**2020**	2019
Depreciation expense of right-of-use assets	**12,905,246**	11,095,128
Interest expense on lease liabilities *(Note 43)*	**8,254,779**	8,422,715
Expense relating to short-term leases and leases of low-value assets (included in cost of sales) *(Note 39)*	**611,299**	748,690
Expense relating to short-term leases (included in general and administrative expenses) *(Note 40)*	**78,946**	111,427
	21,850,270	20,377,960

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

The Group had total cash outflows for leases of KZT 23,751,132 thousand in 2020, including cash outflow of KZT 690,245 thousand related to leases of low-value assets and short-term leases (2019: KZT 21,061,626 thousand and KZT 860,117 thousand, respectively). The Group also had non-cash additions to right-of-use assets and lease liabilities of KZT 920,142 thousand in 2020 (2019: KZT 4,918,409 thousand).

28. EMPLOYEE BENEFIT OBLIGATIONS

State contribution plan

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

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

Employee benefit obligations

As at 31 December 2020 and 2019, the total employee benefit obligations of the Group comprised the following:

In thousands of tenge	**2020**	2019
Present value of defined benefit pension plan obligation	**16,688,944**	16,823,296
Present value of obligations for other long-term payments	**727,200**	640,344
	17,416,144	17,463,640

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

The Group did not create a fund for such obligations.

A reconciliation of the present value of the defined benefit plan obligation with specified payments was as follows for the years ended 31 December 2020 and 2019:

In thousands of tenge	**2020**	2019
Total liability at the beginning of the year	**16,823,296**	15,225,384
Current service cost	**422,107**	431,740
Interest expenses	**1,278,571**	1,277,409
Benefits paid during the year	**(1,300,764)**	(1,502,655)
Actuarial (income)/losses recognized during the year within other comprehensive income	**(534,266)**	1,391,418
Total liability at the end of the year	**16,688,944**	16,823,296
Liability payable within one year	**(1,044,538)**	(1,061,940)
Liability payable after one year	**15,644,406**	15,761,356

A reconciliation of the present value of obligations for other long-term payments with specified payments was as follows for the years ended 31 December 2020 and 2019:

In thousands of tenge	**2020**	2019
Total liability at the beginning of the year	**640,344**	580,386
Current service cost	**56,861**	53,440
Interest expenses	**48,666**	48,695
Benefits paid during the year	**(77,960)**	(68,464)
Actuarial losses recognized during the year in profit and loss	**59,289**	26,287
Total liability at the end of the year	**727,200**	640,344
Liability payable within one year	**(106,299)**	(85,872)
Liability payable after one year	**620,901**	554,472

28. EMPLOYEE BENEFIT OBLIGATIONS (continued)

Employee benefit obligations (continued)

Actuarial losses recognised in 2020 have resulted primarily from changes in the assumptions relating to the discount rate and from historical adjustments.

Cost of current service, interest expenses and actuarial losses in the total amount of KZT 1,865,494 thousand were recorded in cost of sales and general and administrative expenses within personnel costs (2019: KZT 1,837,571 thousand) *(Note 42)*.

Actuarial losses recognized in 2020 within other comprehensive income, net of income tax, were equal to KZT 615,923 thousand (2019: KZT 1,156,810 thousand).

There were no unrecognised actuarial losses or past service costs.

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

	2020	2019
Discount rate	**7.95%**	7.60%
The expected rate of future annual minimum salary increases	**7.50%**	8.00%

A quantitative sensitivity analysis for significant assumptions as at 31 December 2020, was as follows:

	Discount rate		**The expected rate of future annual minimum salary increases**	
Sensitivity level	**Growth by 0.5%**	**Reduction by 0.5%**	**Growth by 1%**	**Reduction by 1%**
Impact on defined benefit plan obligations, in thousands tenge	**(952,376)**	**1,311,061**	**1,306,837**	**(1,235,297)**

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

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

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

29. OTHER NON-CURRENT FINANCIAL LIABILITIES

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

In thousands of tenge	**2020**	2019
Non-current accounts payable	**1,001**	1,318
Trademark payment obligation *(Note 33)*	**–**	1,861,290
	1,001	1,862,608

30. NON-CURRENT CONTRACT LIABILITIES

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

In thousands of tenge	**2020**	2019
Contract liabilities from operators	**3,775,772**	4,292,035
Contract liabilities for connection of subscribers	**704,852**	889,219
Other contract liabilities	**1,874,671**	1,697,055
	6,355,295	6,878,309

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

In thousands of tenge	**2020**	2019
Contract liabilities as at 1 January	**25,850,243**	14,841,621
Deferred during the year	**327,962,587**	239,214,018
Recognised as revenue during the year	**(328,868,018)**	(228,205,396)
Total contract liabilities as at 31 December	**24,944,812**	25,850,243
Current *(Note 34)*	**18,589,517**	18,971,934
Non-current	**6,355,295**	6,878,309

31. ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations

Provision for asset retirement obligations is recorded at the discounted value of expected costs to bring the sites and facilities to their original condition using estimated cash flows and is recognised as part of the cost of the specific asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the asset retirement obligations.

Movements in provision for asset retirement obligations for the years ended 31 December 2020 and 2019 were as follows:

In thousands of tenge	**2020**	2019
Provision for asset retirement obligations as at 1 January	**7,221,083**	1,444,530
Change in estimate *(Note 10)*	**740,628**	577,768
Amortization of discount *(Note 43)*	**518,865**	372,555
Acquisition of subsidiary *(Note 6)*	**–**	4,826,230
Provision for asset retirement obligations as at 31 December	**8,480,576**	7,221,083
Current *(Note 35)*	**553,618**	345,500
Non-current	**7,926,958**	6,875,583

32. TRADE PAYABLES

As at 31 December 2020 and 2019, trade payables comprised:

In thousands of tenge	**2020**	2019
Trade payables for supply of property and equipment	**34,791,217**	32,009,038
Trade payables for services rendered	**18,624,547**	25,187,191
Trade payables for inventory received	**1,450,370**	1,436,431
	54,866,134	58,632,660

As at 31 December 2020 and 2019, trade payables were interest-free.

32. TRADE PAYABLES (continued)

As at 31 December 2020 and 2019, trade payables were mainly denominated in the following currencies:

In thousands of tenge	**2020**	2019
Tenge	**48,813,976**	49,492,395
US dollars	**4,825,924**	7,898,867
Euro	**1,011,825**	977,256
Russian roubles	**108,125**	256,091
Other	**106,284**	8,051
	54,866,134	58,632,660

33. OTHER CURRENT FINANCIAL LIABILITIES

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

In thousands of tenge	**2020**	2019
Payable to employees	**18,724,559**	16,111,648
Trademark payment obligation *(Note 6)*	**1,861,290**	2,087,140
Dividends payable *(Note 25)*	**17,577**	1,598,354
Other	**554,274**	2,441,911
	21,157,700	22,239,053

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

As at 31 December 2020, trademark payment obligation in the amount of KZT 1,861,290 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 6)*.

34. CURRENT CONTRACT LIABILITIES

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

In thousands of tenge	**2020**	2019
Advances received	**16,613,199**	17,052,535
Contract liabilities from operators	**1,382,292**	1,338,555
Contract liabilities for connection of subscribers	**365,438**	409,310
Other contract liabilities	**83,758**	74,662
Other	**144,830**	96,872
	18,589,517	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.

35. OTHER CURRENT NON-FINANCIAL LIABILITIES

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

In thousands of tenge	**2020**	2019
Legal claims on contractual obligation and penalties	**4,385,679**	–
Taxes payable other than income tax	**2,091,070**	2,042,840
Tax provisions	**1,616,063**	–
Payable to pension funds	**604,275**	558,931
Asset retirement obligations	**553,618**	345,500
Other	**806,629**	300,713
	10,057,334	3,247,984

In 2020, the Group accrued certain payable amounts related to legal claims on contractual obligation, tax provisions and penalties that Management considers as probable in the amount of KZT 6,001,742 thousand. The Group recognized provisions for legal claims and penalties for KZT 4,385,679 thousand in the separate line in the consolidated statements of comprehensive income.

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

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

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

37. REVENUE FROM CONTRACTS WITH CUSTOMERS

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

	For the year ended 31 December 2020			
In thousands of tenge	**Fixed line**	**Mobile connection**	**Other**	**Total**
Data transfer services	**112,334,456**	**145,691,466**	**14,146**	**258,040,068**
Rendering of fixed line and wireless phone services	**38,705,399**	**112,547,108**	**–**	**151,252,507**
Sale of equipment and mobile devices	**10,909**	**34,411,607**	**–**	**34,422,516**
Interconnect	**15,116,577**	**10,863,509**	**–**	**25,980,086**
Rent of channels	**3,034,972**	**–**	**–**	**3,034,972**
Other	**40,057,071**	**7,410,990**	**718,488**	**48,186,549**
	209,259,384	**310,924,680**	**732,634**	**520,916,698**
Services transferred over time	**209,248,475**	**276,513,073**	**732,634**	**486,494,182**
Goods transferred at a point of time	**10,909**	**34,411,607**	**–**	**34,422,516**
	209,259,384	**310,924,680**	**732,634**	**520,916,698**
B2C*	**111,959,505**	**260,667,094**	**–**	**372,626,599**
B2B**	**36,633,762**	**28,258,893**	**732,634**	**65,625,289**
B2O***	**17,383,629**	**20,754,915**	**–**	**38,138,544**
B2G****	**43,282,488**	**1,243,778**	**–**	**44,526,266**
	209,259,384	**310,924,680**	**732,634**	**520,916,698**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)

	For the year ended 31 December 2019[1]			
In thousands of tenge	Fixed line	Mobile connection	Other	Total
Data transfer services	106,657,901	88,740,738	15,198	195,413,837
Rendering of fixed line and wireless phone services	39,830,602	90,516,364	–	130,346,966
Interconnect	15,162,225	15,510,651	–	30,672,876
Sale of equipment and mobile devices	–	19,092,662	–	19,092,662
Rent of channels	9,595,335	–	–	9,595,335
Other	32,981,489	2,116,753	439,978	35,538,220
	204,227,552	215,977,168	455,176	420,659,896
Services transferred over time	204,227,552	196,884,506	455,176	401,567,234
Goods transferred at a point of time	–	19,092,662	–	19,092,662
	204,227,552	215,977,168	455,176	420,659,896
B2C*	105,585,105	174,184,160	–	279,769,265
B2B**	34,665,007	16,051,632	455,176	51,171,815
B2O***	28,030,146	25,437,915	–	53,468,061
B2G****	35,947,294	303,461	–	36,250,755
	204,227,552	215,977,168	455,176	420,659,896

[1] Certain amounts shown here do not correspond to the consolidated financial statements for the year ended 31 December 2019, as they reflect the adjustments made, as detailed in Note 5.

* *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.*

38. COMPENSATION FOR PROVISION OF UNIVERSAL SERVICES IN RURAL AREAS

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

There are no unfulfilled conditions or contingencies attached to these subsidies. The compensation received for the year ended 31 December 2020 was equal to KZT 6,413,527 thousand (2019: KZT 7,420,778 thousand).

39. COST OF SALES

Cost of sales for the years ended 31 December comprised:

In thousands of tenge	**2020**	2019
Depreciation and amortization	**105,590,510**	91,486,382
Personnel costs *(Note 42)*	**80,316,588**	69,737,976
Cost of SIM-card, scratch card and handsets	**30,435,527**	17,288,323
Interconnect	**29,802,995**	31,145,689
Repair and maintenance	**20,824,147**	17,611,758
Fees for radiofrequencies use	**14,453,143**	10,066,530
Rent of channels	**10,233,175**	13,375,816
Electricity	**8,481,407**	7,534,144
Fee to provide telecom services	**7,146,145**	4,968,143
Inventories	**6,086,681**	7,094,023
Content	**4,466,583**	4,809,281
Security and safety	**3,285,881**	2,822,916
Fees for the usage of license software	**2,798,041**	2,194,403
Utilities	**2,336,516**	2,040,847
Emergency expenses	**1,337,089**	–
Business trip expenses	**1,004,466**	1,115,966
Satellite communication services	**814,243**	844,450
Network sharing agreement	**720,119**	180,280
Insurance	**747,157**	671,954
Short-term leases and leases of low-value assets *(Note 27)*	**611,299**	748,690
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	**5,478,569**	4,060,985
	336,970,281	292,576,930

40. GENERAL AND ADMINISTRATIVE EXPENSES

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

In thousands of tenge	**2020**	2019
Personnel costs *(Note 42)*	**19,914,268**	17,904,255
Depreciation and amortization	**4,773,750**	4,472,369
Taxes other than corporate income tax	**4,501,801**	4,070,810
Consulting services	**2,240,647**	3,528,329
Write-down of inventories to net realizable value *(Note 17)*	**1,199,617**	57,343
Repair and maintenance expenses	**525,946**	716,424
Inventories	**470,726**	435,828
Social activities	**365,396**	885,195
Collectors services	**360,849**	609,581
Trainings	**289,410**	170,128
Business trips	**286,401**	647,782
Bank fees	**229,113**	142,734
Insurance	**225,138**	208,651
Security and safety	**107,468**	115,561
Short-term lease expenses *(Note 27)*	**78,946**	111,427
Other	**3,773,880**	3,835,266
	39,343,356	37,911,683

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

41. SELLING EXPENSES

Selling expenses for the years ended 31 December comprised:

In thousands of tenge	**2020**	2019
Marketing and advertising	**6,880,692**	6,023,361
Amortization of cost to obtain a contract	**4,599,413**	5,155,168
Other	**1,310,067**	819,377
	12,790,172	11,997,906

42. PERSONNEL EXPENSES

Personnel expenses for the years ended 31 December comprised:

In thousands of tenge	**2020**	2019
Payroll	**89,707,975**	78,538,576
Payroll related taxes	**8,657,387**	7,266,084
Employee benefits *(Note 28)*	**1,865,494**	1,837,571
	100,230,856	87,642,231

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

In thousands of tenge	**2020**	2019
Cost of sales *(Note 39)*	**80,316,588**	69,737,976
General and administrative expenses *(Note 40)*	**19,914,268**	17,904,255
	100,230,856	87,642,231

43. (FINANCE COSTS) / FINANCE INCOME

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

In thousands of tenge	**2020**	2019
Finance costs		
Interest expense on loans *(Note 50)*	**(42,165,267)**	(32,865,372)
Interest expense on lease liabilities *(Note 27)*	**(8,254,779)**	(8,422,715)
Unwinding of discount (provision for asset retirement obligations) *(Note 31)*	**(518,865)**	(372,555)
Discounting of long-term loans to employees	**(259,241)**	(1,072,221)
Interest on debt component of preferred shares *(Note 25)*	**(89,636)**	(89,635)
Discounting of other non-current financial assets	**(18,251)**	(11,808)
Other costs	**(143,023)**	(66,631)
	(51,449,062)	(42,900,937)
Finance income		
Interest income on deposits	**1,320,422**	293,104
Interest income on financial assets at amortised cost	**1,064,616**	–
Unwinding of discount on long-term loans to employees	**918,945**	872,308
Interest income on cash balances	**771,777**	842,788
Unwinding of discount on long-term accounts receivable	**182,403**	200,873
Recognition of discount on long-term loans	**147,554**	977,095
Interest income on loans issued	**–**	1,007,975
Interest income on guarantees issued	**–**	21,586
Other income	**114,583**	89,779
	4,520,300	4,305,508

44. NET FOREIGN EXCHANGE GAIN/(LOSS)

On 20 August 2015, the National Bank and the Government of the Republic of Kazakhstan announced the transition to "free floating exchange rate of tenge" and cancelation of the currency corridor. As a result, Kazakhstani tenge significantly devalued against US dollar and other major currencies approximately by 90%. Subsequently, the exchange rate of tenge to US dollar significantly fluctuated in accordance with the market conditions. Net foreign exchange gain for the year ended 31 December 2020 was KZT 4,161,428 thousand (net foreign exchange loss for the year ended 31 December 2019 was KZT 1,276,524 thousand).

45. OTHER OPERATING INCOME/(EXPENSES)

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

In thousands of tenge	**2020**	2019
Other operating income		
Rental income	**1,696,194**	1,953,194
Fines and penalties	**760,473**	256,860
Services for the provision of secure communication channels	**311,964**	204,987
Income from liabilities write-off	**250,519**	123,144
Non-core operations	**150,898**	251,998
Other	**1,106,647**	652,748
	4,276,695	3,442,931
Other operating expenses		
Non-core operations	**(497,671)**	(248,153)
Rental expenses	**(10,954)**	(14,167)
Other	**(169,485)**	(47,978)
	(678,110)	(310,298)

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

46. INCOME TAX EXPENSES

Income tax expenses for the years ended 31 December comprised:

In thousands of tenge	**2020**	2019
Current corporate income tax expenses	**27,986,492**	18,133,350
Adjustments in respect of income tax of previous year	**71,202**	(75,644)
Deferred income tax benefit	**(6,395,722)**	(8,575,990)
	21,661,972	9,481,716

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

Tax rate for the Group and subsidiaries except for subsidiaries stated above was 20% in 2020 and 2019.

A reconciliation of income tax expenses applicable to profit before taxation at the statutory rate of 20% (2019: 20%), with the current corporate income tax expenses for the years ended 31 December is out below:

In thousands of tenge	**2020**	2019
Profit before taxation	**86,925,001**	69,758,099
Income tax at statutory income tax rate of 20%	**17,385,000**	13,951,620
Impairment of non-financial assets	**1,218,047**	–
Legal disputes expenses	**877,136**	–
Adjustments in respect of deferred income tax of previous year	**328,000**	520,178
Non-deductible expenses related to employee benefits obligations	**218,297**	367,514
Inventories write-offs	**129,611**	6,594
Adjustments in respect of income tax of previous year	**71,202**	(75,644)
Share in profit of associates	**(46,935)**	(1,205,439)
Change in unrecognized tax assets	**–**	(1,377,725)
Gain from re-measurement of previously held interest in the associate	**–**	(3,462,023)
Non-deductible expenses	**1,481,614**	756,641
Total income tax expenses	**21,661,972**	9,481,716

46. INCOME TAX EXPENSES (continued)

As at 31 December 2020, deferred taxes calculated by applying the official tax rates effective at the reporting date to the temporary differences between the tax bases of assets and liabilities and the amounts recognized in the consolidated financial statements included the following items:

	Consolidated statement of financial position		**Consolidated statement of comprehensive income**		**The effect of the application of new standards**		**Acquisition of a subsidiary *(Note 6)***		**As part of other comprehensive loss**	
In thousands of tenge	**31 December 2020**	31 December 2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2020
Deferred tax assets										
Property and equipment	**12,170,519**	11,813,629	**356,890**	943,787	**–**	–	**–**	10,869,842	**–**	–
Deferred services	**4,520,418**	650,877	**3,869,541**	622,267	**–**	–	**–**	–	**–**	–
Reserves on employee bonuses	**2,460,521**	2,140,076	**320,445**	2,140,076	**–**	–	**–**	–	**–**	–
Tax loss carry forward	**1,684,616**	1,377,725	**306,891**	–	**–**	–	**–**	–	**–**	–
Asset retirement obligations reserves	**1,663,002**	1,444,217	**218,785**	190,065	**–**	–	**–**	965,246	**–**	–
Employee benefit obligations	**1,330,675**	1,258,300	**(9,282)**	(80,566)	**–**	–	**–**	–	**81,657**	234,608
Lease liabilities	**864,188**	658,975	**205,213**	504,638	**–**	154,337	**–**	–	**–**	–
Accrued provisions for unused vacations	**753,244**	601,040	**152,204**	262,602	**–**	–	**–**	–	**–**	–
Allowance for expected credit losses	**627,375**	547,369	**80,006**	(384,698)	**–**	–	**–**	125,799	**–**	–
Trademark payment obligation	**372,258**	636,650	**(264,392)**	(153,036)	**–**	–	**–**	789,686	**–**	–
Intangible assets	**181,306**	136,254	**45,052**	(74,418)	**–**	–	**–**	–	**–**	–
Obligation to pay a fine for termination of the contract	**–**	–	**–**	(2,910,373)	**–**	–	**–**	–	**–**	–
Other	**1,196,643**	4,215,015	**(3,018,372)**	(1,899,472)	**–**	–	**–**	2,984,385	**–**	–
Less: unrecognized tax assets less deferred tax	**–**	**–**	**–**	1,377,725	**–**	–	**–**	–	**–**	–
Less: deferred tax assets less deferred tax liabilities	**(25,844,094)**	(23,661,726)	**(2,182,368)**	449,900	**–**	–	**–**	(15,734,958)	**–**	–
Deferred tax assets	**1,980,671**	1,818,401	**80,613**	988,497	**–**	154,337	**–**	–	**81,657**	234,608
Deferred tax liabilities										
Property and equipment	**30,691,836**	32,509,284	**(1,817,448)**	(3,626,397)	**–**	–	**–**	3,271,448	**–**	–
Intangible assets	**32,259,165**	34,811,462	**(2,552,297)**	(1,792,745)	**–**	–	**–**	22,603,007	**–**	–
Indemnification assets	**–**	–	**–**	(2,182,780)	**–**	–	**–**	–	**–**	–
Other	**186,393**	(50,611)	**237,004**	(435,471)	**–**	–	**–**	–	**–**	–
Less: deferred tax assets less deferred tax liabilities	**(25,844,094)**	(23,661,726)	**(2,182,368)**	449,900	**–**	–	**–**	(15,734,958)	**–**	–
Deferred tax liabilities	**37,293,300**	43,608,409	**(6,315,109)**	(7,587,493)	**–**	–	**–**	10,139,497	**–**	–
The effect of the application of new standards					**–**	154,337				
Acquisition of a subsidiary *(Note 6)*							**–**	(10,139,497)		
Deferred income tax benefit	**–**	–	**6,395,722**	8,575,990					**81,657**	234,608

46. INCOME TAX EXPENSES (continued)

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

In thousands of tenge	**2020**	2019
Deferred tax assets	**1,980,671**	1,818,401
Deferred tax liabilities	**(37,293,300)**	(43,608,409)
Net deferred tax liabilities	**(35,312,629)**	(41,790,008)

In thousands of tenge	**2020**	2019
Reconciliation of deferred tax liabilities, net		
Balance at 1 January	**(41,790,008)**	(40,615,446)
Income tax benefit for the reporting period − origination and recovery of temporary differences	**6,395,722**	8,575,990
Less: deferred tax recognised within other comprehensive loss	**81,657**	234,608
The effect of the application of new standards	**–**	154,337
Deferred taxes acquired in business combinations *(Note 6)*	**–**	(10,139,497)
Balance at 31 December	**(35,312,629)**	(41,790,008)

The Group performs offsetting of tax assets and liabilities only if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred tax assets and deferred tax liabilities relating to income tax collected by the same taxation authority.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. In accordance with legislation of the Republic of Kazakhstan, tax losses may be deferred for 10 (ten) years from the date of their origination and will expire in 2029. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

As at 31 December 2020, the aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised was equal to KZT 23,297,788 thousand (as at 31 December 2019: deferred tax assets – KZT 30,844,785 thousand). The Group is able to control the timing of the reversal of those temporary differences and does not expect to reverse them in the foreseeable future.

47. 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 were announced with the selling price of KZT 1,435,000 thousand. The tender winner was selected. 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. 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 from April 2020 till the first quarter of 2021. The extension of the period required to complete a sale does not preclude KT Cloud 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 31 December 2020, assets and liabilities of KT Cloud Lab LLP were classified as an assets held for sale and liabilities directly associated with the assets held for sale.

47. DISPOSAL GROUP (continued)

KT Cloud Lab LLP (continued)

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

In thousands of tenge	**31 December 2020**	31 December 2019
Assets		
Property and equipment	**524,616**	520,803
Intangible assets	**483,934**	483,934
Other non-current financial assets	**78,504**	83,841
Inventories	**14,485**	9,631
Trade receivables	**277,519**	266,252
Other current non-financial assets	**43,130**	37,923
Other current financial assets	**165,422**	129,380
Advanced paid	**3,764**	30,713
Cash and cash equivalents	**280,634**	315,556
Assets held for sale	**1,872,008**	1,878,033
Liabilities		
Deferred tax liabilities	**11,099**	17,450
Trade payables	**227,904**	79,144
Other current financial liabilities	**235,884**	179,651
Contract liabilities	**136**	126
Other current non-financial liabilities	**420,194**	166,662
Liabilities directly associated with assets held for sale	**895,217**	443,033
Net assets directly associated with disposal group	**976,791**	1,435,000

Impairment of property and equipment

Immediately before the classification of KT Cloud Lab LLP as a disposal group held for sale, the recoverable amount was estimated for certain items of property and equipment. 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.

48. NON-CASH TRANSACTIONS

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

In 2020, the Group paid an amount of KZT 32,009,038 thousand for property and equipment purchased in prior year (2019: KZT 17,425,331 thousand). Property and equipment in the amount of KZT 34,791,217 thousand was purchased in 2020 but not paid as at 31 December 2020 (2019: KZT 32,009,038 thousand).

In 2020, in accordance with the lease agreements, the Group received telecommunication equipment amounting to KZT 11,885 thousand (2019: KZT 680,885 thousand).

In 2020, the Group withhold from the salary of employees the amount of previously issued loans for KZT 1,894,649 thousand (2019: KZT 2,210,760 thousand).

49. 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.

49. RELATED PARTY TRANSACTIONS (continued)

At 31 December 2020, the Group recognized a provision for expected credit loss in the amount of KZT 62,828 thousand in respect of receivables from related parties.

Sales and purchases with related parties during the years ended 31 December 2020 and 2019 and the balances with related parties at 31 December 2020 and 2019 were as follows:

In thousands of tenge	**2020**	2019
Sales of goods and services		
Parent	**37,924**	190,428
Parent-controlled entities	**2,462,596**	2,758,492
Associate (Khan Tengri Holding B.V.) [1]	**–**	18,516,552
Associate (Qaz Cloud LLP)	**826,289**	695,499
Government-related entities	**38,055,152**	36,252,401
Purchases of goods and services		
Parent	**–**	–
Parent-controlled entities	**2,277,127**	2,582,219
Associate (Khan Tengri Holding B.V.) [1]	**–**	10,185,382
Associate (Qaz Cloud LLP)	**701,511**	313,338
Government-related entities	**244,924**	109,485
Interest accrued on borrowings and bonds		
Entities under state control		
(Development Bank of Kazakhstan JSC)	**3,749,325**	2,233,153
Average interest rate on borrowings	**8.09%**	8.13%
Parent*	**11,332,292**	11,500,000
Average interest rate on bonds	**11.84%**	11.84%

* *Local bonds of Kazakhtelecom JSC (KTCB.1024 and KTCB2.1024) were purchased by the parent company, Samruk-Kazyna.*

In thousands of tenge	**2020**	2019
Cash and cash equivalents		
Entities under state control		
(Development Bank of Kazakhstan JSC)	**50**	64
Borrowings and bonds ***(Note 26)***		
Entities under state control		
(Development Bank of Kazakhstan JSC)	**49,414,464**	42,519,628
Parent*	**77,875,000**	103,833,333
Trade receivables		
Parent	**2,760**	17,425
Parent-controlled entities	**608,395**	678,645
Associate (Qaz Cloud LLP)	**137,327**	98,055
Government-related entities	**6,019,838**	7,030,150
Trade payables		
Parent	**59**	73
Parent-controlled entities	**231,402**	352,044
Associate (Qaz Cloud LLP)	**134,869**	75,991
Government-related entities	**1,081,231**	991,114
Other non-current assets		
Long-term loans to key management personnel	**23,573**	28,707

* *Local bonds of Kazakhtelecom JSC (KTCB.1024 and KTCB2.1024) were purchased by the parent company, Samruk-Kazyna.*

49. RELATED PARTY TRANSACTIONS (continued)

In 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.

[1] As stated in *Note 6*, the Group has acquired control over Khan Tengri Holding B.V. and since the date of control Khan Tengri Holding B.V. is consolidated as a subsidiary. The Group's interest in Khan Tengri Holding B.V. was accounted in the consolidated financial statements using the equity method till the date of control acquisition.

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

Sales and purchases with MTS during the years ended 31 December 2020 and 2019 were as follows:

In thousands of tenge	**2020**	From 1 January 2019 till 28 June 2019
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 period from 1 January 2019 till 28 June 2019, revenue from rent of channels amounted to KZT 2,778,374 thousand.

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

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

[F] Fee for usage of GSM radiofrequencies is fixed monthly payment for the usage of the GSM radiofrequencies owned by MTS. For the period from 1 January 2019 till 28 June 2019, fee for usage of GSM radiofrequencies amounted to 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.

49. RELATED PARTY TRANSACTIONS (continued)

[H] Fee for usage of billing system is fixed monthly payment for the usage of the MTS billing system. For the period from 1 January 2019 till 28 June 2019, fee for usage of billing system amounted to 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.

Compensation to key management personnel

For the years ended 31 December 2020 and 2019, the total compensation to key management personnel included in the accompanying consolidated statement of comprehensive income under general and administrative expenses was KZT 1,740,130 thousand and KZT 1,040,277 thousand, respectively. Compensation to key management personnel consists of wages fixed in the employment agreement, as well as remuneration based on the performance for the year.

As disclosed in *Note 38*, the Government of the Republic of Kazakhstan provides the Group with certain compensation for the provision of universal services in rural areas.

50. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES

Impairment losses on financial assets

Impairment losses on financial assets for the year ended 31 December 2020, comprise accrued/(reversed) allowance for expected credit loss for trade receivables in amount of KZT 2,159,063 thousand *(Note 18)*, other current financial assets in amount of KZT 90,887 thousand *(Note 20)*, cash and cash equivalents in amount of KZT (15,920) thousand *(Note 24)* and trade receivables of disposal group (KT Cloud Lab LLP) in amount of KZT 4,016 thousand (2019: trade receivables in amount of KZT 2,569,696 thousand, other current financial assets in amount of KZT 108,003 thousand, other non-current financial assets in amount of KZT (135) thousand, cash and cash equivalents in amount of KZT 12,021 thousand).

Impairment losses on non-financial assets

Impairment losses on non-financial assets for the year ended 31 December 2020, comprise accrued/(recovered) allowance for impairment for advances paid for non-current assets for KZT 356,318 thousand *(Note 10)*, advances paid for current assets for KZT (9,017) thousand *(Note 19)*, impairment of property and equipment for KZT 5,224,067 thousand *(Note 10)* and impairment of intangible assets for KZT 518,865 thousand *(Note 11)* (for the year ended 30 June 2019: allowance for impairment for advances paid for non-current assets for KZT 423,395 thousand, advances paid for current assets for KZT 41,426 thousand and impairment of property and equipment for KZT 5,214,675 thousand).

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

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. As at 31 December 2020 and 2019, the Group had no loans or borrowings with floating interest rates and was not subjected to the risk of changes in market interest rates.

Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

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

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

Foreign currency risk (continued)

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

	2020		2019	
In thousands of tenge	**Increase/ (decrease) in exchange rate**	**Effect on profit before tax**	Increase/ (decrease) in exchange rate	Effect on profit before tax
US dollars	**14%**	**10,556,797**	12%	3,903,990
	-11%	**(8,294,626)**	-9%	(2,927,993)

Credit risk

Credit risk is the risk that the Group will incur finance costs because its customers, clients or counterparties failed to discharge their contractual obligations. The Group is exposed to credit risk associated with its operating activities (primarily with respect to trade receivables) and financial activities, including bank deposits and financial organizations, foreign exchange transactions and other financial instruments.

Trade receivables and contract assets

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

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in *Notes 15, 18, 20, 21 and 22*.

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

Financial instruments and cash deposits

In accordance with the financial policy, the Group places free cash in several of the largest Kazakhstani banks (with the highest credit ratings). To manage the credit risk associated with the placement of free cash in banks, the Group's management periodically conducts procedures for assessing the solvency of banks. To facilitate such an assessment, deposits are primarily placed in banks, where the Group already has comparable credit obligations, a current checking account and can easily monitor the activities of such banks.

In thousands of tenge	**Rating 2020**	Rating 2019	**Cash balance**		**Balance on deposit accounts**	
			2020	2019	**2020**	2019
Halyk Bank Kazakhstan JSC	**BB/stable/BB, kzA+**	BB/stable/B, kzA+	**78,477,311**	49,606,338	**1,542,952**	376,000
Citibank Kazakhstan JSC	**A+/stable/ A+**	A+/stable	**2,887,111**	3,119,696	**658**	138,712
Altyn Bank JSC	**BBB-/stable, kzAA+**	BBB-/stable	**1,299,966**	1,862,580	**8,781,410**	3,116,850
Credit Suisse (Schweiz) AG	**A+**	A+/stable	**1,056,758**	465,918	**–**	–
Sberbank PAO	**Baa3/stable**	Baa3	**181,893**	169,278	**–**	–
Kaspi Bank JSC	**BB-/stable, kzA**	BB-/stable/B, kzA	**145,276**	515,813	**–**	–
Sberbank JSC	**BBB-/stable, kzAA+**	BBB-/stable	**7,917**	97,142	**–**	–
Bank of China in Kazakhstan JSC	**BBB +/stable, kzAAA**	A/stable	**393**	430	**–**	–
Bank CenterCredit JSC	**B/stable, kzBB+**	B/negative/B, kzBB+	**302**	264	**–**	–
First Heartland Jýsan Bank JSC	**B/negative, kzBB+**	B-/positive/B, kzBB	**291**	31	**–**	–
Alfa Bank JSC	**BB-/stable/BB-, kzBBB+**	BB-/positive/B, kzA	**85**	31	**–**	–
Forte Bank JSC	**B/stable/B+, kzBBB**	B+/stable/B, kzBBB	**70**	21,989	**–**	–
VTB Bank (Kazakhstan)	**BB+/stable, kzAA**	BB+/stable/B, kzAA	**61**	27	**–**	–
Development Bank of Kazakhstan JSC	**BB+/stable/B, kzAA+**	BB+/stable/B, kzAA+	**50**	64	**–**	–
ATF Bank JSC	**B-/stable/B-, kzBB-**	B-/stable/B, kzBB	**26**	11,794,238	**–**	–
AO «Halyk Finance»	**BB/stable/B, kzA+**	BB/stable/B, kzA+	**–**	1,232	**–**	–
Eurasian Bank JSC	**Baa1/stable**	Baa1/stable	**–**	359	**–**	–
Total			**84,057,510**	67,655,430	**10,325,020**	3,631,562

Liquidity risk

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

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of borrowings and leases. The Group's policy is that not more than 30% of borrowings and leases should mature in the next 12 month period. Approximately 15% of the Group's debt will mature in less than one year at 31 December 2020 (31 December 2019: 10%) based on the carrying amount of borrowings and leases reflected in the consolidated financial statements.

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

Liquidity risk (continued)

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

In thousands of tenge	On demand	1 to 3 months	3 months to 1 year	From 1 to 5 years	More than 5 years	Total
At 31 December 2020						
Borrowings	**–**	**33,244,905**	**36,815,685**	**296,497,461**	**110,334,560**	**476,892,611**
Lease liabilities	**–**	**5,505,016**	**15,572,341**	**45,380,417**	**6,948,821**	**73,406,595**
Trade payables	**41,827,632**	**5,433,430**	**7,605,072**	**–**	**–**	**54,866,134**
Other financial liabilities	**–**	**19,296,410**	**1,861,290**	**1,001**	**–**	**21,158,701**
	41,827,632	**63,479,761**	**61,854,388**	**341,878,879**	**117,283,381**	**626,324,041**
At 31 December 2019						
Borrowings	–	20,017,580	40,613,328	367,228,861	135,536,632	563,396,401
Lease liabilities	–	5,429,949	15,950,465	58,938,794	18,911,841	99,231,049
Trade payables	45,282,413	5,117,029	8,233,218	–	–	58,632,660
Other financial liabilities	–	22,239,053	–	1,862,608	–	24,101,661
	45,282,413	52,803,611	64,797,011	428,030,263	154,448,473	745,361,771

Cash flow risk

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount.

Cash flows requirements are monitored on a regular basis and management provides for availability of sufficient funds required to fulfil any liabilities when they arise. The management of the Group believes that any possible fluctuations of future cash flows associated with a monetary financial instrument will not have material impact on the Group's operations.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to the holders of common shares, return equity to shareholders or issue new shares. No changes were made by the Group in the capital management objectives, policies or processes in 2020 and 2019.

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

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

In thousands of tenge	**31 December 2020**	31 December 2019
Interest-bearing loans and borrowings	**362,402,074**	367,615,724
Lease liabilities	**59,110,635**	73,216,589
Net debt	**421,512,709**	440,832,313
Total equity, including non-controlling interests	**518,539,997**	463,398,269
Debt-equity ratio	**0.81**	0.95

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

Fair value

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

The table below presents fair value hierarchy of assets and liabilities of the Group. Disclosure of quantitative information of fair value hierarchy of financial instruments as at 31 December 2020 was as follows:

		Fair value measurement using			
In thousands of tenge	**Date of valuation**	**Price quotations on active markets (Level 1)**	**Significant observable in-puts (Level 2)**	**Significant unobservable in-puts (Level 3)**	**Total**
Assets for which fair values are disclosed					
Financial assets at amortized cost	31 December 2020	**18,624,000**	**–**	**–**	**18,624,000**
Other non-current financial assets	31 December 2020	**–**	**–**	**5,139,320**	**5,139,320**
Other current financial assets	31 December 2020	**–**	**–**	**3,626,074**	**3,626,074**
Trade receivables	31 December 2020	**–**	**–**	**34,711,705**	**34,711,705**
Liabilities for which fair values are disclosed					
Borrowings	31 December 2020	**–**	**–**	**361,549,441**	**361,549,441**
Other non-current financial liabilities	31 December 2020	**–**	**–**	**1,001**	**1,001**
Other current financial liabilities	31 December 2020	**–**	**–**	**21,157,700**	**21,157,700**
Trade payables	31 December 2020	**–**	**–**	**54,866,134**	**54,866,134**

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

		Fair value measurement using			
In thousands of tenge	Date of valuation	Price quotations on active markets (Level 1)	Significant observable in-puts (Level 2)	Significant unobservable in-puts (Level 3)	Total
Assets 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					
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
Trade receivables	31 December 2019	–	–	37,255,772	37,255,772
Liabilities for which fair values are disclosed					
Borrowings	31 December 2019	–	–	367,461,482	367,461,482
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
Trade payables	31 December 2019	–	–	58,632,660	58,632,660

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Fair value (continued)

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

In thousands of tenge	**Carrying amount 2020**	**Fair value 2020**	**Unrecognised gain/(loss) 2020**	Carrying amount 2019	Fair value 2019	Unrecognised gain/(loss) 2019
Financial assets						
Cash and cash equivalents	**94,428,532**	**94,428,532**	**–**	71,321,822	71,321,822	–
Other non-current financial assets	**4,789,179**	**5,139,320**	**350,141**	4,170,159	3,734,079	(436,080)
Other current financial assets	**3,626,074**	**3,626,074**	**–**	5,227,326	5,227,326	–
Financial assets at amortized cost	**18,923,399**	**18,624,000**	**(299,399)**	–	–	–
Financial assets at fair value through other comprehensive income	**–**	**–**	**–**	4,964,633	4,964,633	–
Trade receivables	**34,711,705**	**34,711,705**	**–**	37,255,772	37,255,772	–
Financial liabilities						
Borrowings	**362,402,074**	**361,549,441**	**852,633**	367,615,724	367,461,482	154,242
Other non-current financial liabilities	**1,001**	**1,001**	**–**	1,862,608	1,862,608	–
Other current financial liabilities	**21,157,700**	**21,157,700**	**–**	22,239,053	22,239,053	–
Trade payables	**54,866,134**	**54,866,134**	**–**	58,632,660	58,632,660	–
Total unrecognised change in unrealised fair value			**903,375**			(281,838)

Valuation techniques and assumptions

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

Assets for which fair value approximates carrying value

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

Financial liabilities carried at amortised cost

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

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

Changes in liabilities arising from financial activities

Changes in liabilities arising from financial activities for 2020 were as follows:

In thousand tenge	1 January 2020	**Principal obtained**	**Additions**	**Modifica- tions**	**Disposals**	**Leaseback transact- tions**	**Reclassifi- cation**	**Repayment of principal**	**Interest expense *(Note 43)***	**Interest paid**	**Discount *(Note 43)***	**Other**	**31 December 2020**
Borrowings: long term	339,138,061	**53,307,169**	**–**	**–**	**–**	**–**	**(76,007,087)**	**–**	**–**	**–**	**(147,554)**	**–**	**316,290,589**
Borrowings: short term	28,477,663	**–**	**–**	**–**	**–**	**–**	**76,007,087**	**(58,216,453)**	**42,165,267**	**(42,372,282)**	**–**	**50,203**	**46,111,485**
Lease liabilities: long term	57,781,449	**–**	**920,142**	**(137,957)**	**(281,000)**	**198,969**	**(16,020,159)**	**–**	**–**	**–**	**–**	**–**	**42,461,444**
Lease liabilities: short term	15,435,140	**–**	**–**	**–**	**–**	**–**	**16,020,159**	**(14,806,108)**	**8,254,779**	**(8,254,779)**	**–**	**–**	**16,649,191**
Total	440,832,313	**53,307,169**	**920,142**	**(137,957)**	**(281,000)**	**198,969**	**–**	**(73,022,561)**	**50,420,046**	**(50,627,061)**	**(147,554)**	**50,203**	**421,512,709**

Changes in liabilities due to financial activities for 2019 were as follows:

In thousand tenge	1 January 2019	Acqusition of subsidiary *(Note 6)*	Principal obtained	Additions and modifications	Reclassifi- cation	Repayment of principal	Interest expense *(Note 43)*	Interest paid	Discount *(Note 43)*	Other	31 December 2019
Borrowings: long term	135,838,411	7,091,161	93,089,611	–	104,095,973	–	–	–	(977,095)	–	339,138,061
Borrowings: short term	57,614,129	1,708,387	121,113,026	–	(104,095,973)	(53,118,449)	32,865,372	(27,684,186)	–	75,357	28,477,663
Lease liabilities: long term	45,323,458	18,911,643	–	4,918,409	(11,372,061)	–	–	–	–	–	57,781,449
Lease liabilities: short term	10,874,952	4,966,921	–	–	11,372,061	(11,778,794)	8,422,715	(8,422,715)	–	–	15,435,140
Total	249,650,950	32,678,112	214,202,637	4,918,409	–	(64,897,243)	41,288,087	(36,106,901)	(977,095)	75,357	440,832,313

51. COMMITMENTS AND CONTINGENCIES

Operating environment

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

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 2 August 2020.

As the date of issuance of the 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 analyzing and monitoring the situation.

The coronavirus pandemic has developed into a global economic crisis. Due to higher demand for certain telecommunications services the impact of the crisis was felt less severely by the telecommunications industry than by other industries.

The Group experienced a direct impact on roaming revenues from lower international travel and expected economic pressures to impact the Group's customer revenues over time. However, the Group sustained significant increases in data volumes. Despite trade restrictions revenue from sales of handsets and equipment was not highly affected.

The management assessed that even there is currently a deal of uncertainty regarding the pandemic, the results of operations and financial position of the Group would not be significantly affected.

Further possible future effects on the measurement of individual assets and liabilities are continued to be 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 31 December 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 differ 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 31 December 2020, the Group had contractual obligations in the total amount of KZT 33,543,751 thousand, including VAT (31 December 2019: KZT 38,186,280 thousand, including VAT) mainly related to purchase of telecommunication equipment and construction of telecommunication network.

License commitments

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

51. 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 31 December 2020. Management believes that as at 31 December 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 consolidated financial statements.

Tax audit for 2012 – 3rd quarter 2015

In July 2017, the Kazakhstan tax authority completed its comprehensive tax audit of Kcell JSC for the period of 2012 – 3rd quarter 2015. Based on the results of the tax audit, the tax authority made an accrual of additional taxes and fines and penalties in the total amount of 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. Kcell JSC did not agree with some results of tax audit and filed an appeal.

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

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

- Additional charge on withholding tax for services provided by non-resident legal entities in the amount of KZT 2,196,555 thousand;
- Additional VAT on software technical support services provided by non-resident legal entities in the amount of KZT 779,916 thousand;
- Related fines and penalties in the amount of KZT 2,839,574 thousand.

For the year ended 31 December 2019, the Group recognised income from reversal of tax and related penalties provision in the amount of KZT 5,816,045 thousand tenge.

For the year ended 31 December 2020, the Group recognised income from reversal of the tax and related fines and penalties provision in the amount of KZT 683,901 thousand recognized due to expiration of the limitation period for tax liabilities.

Tax risks assessment

In the beginning of 2020, the Group performed recalculation of the tax risk provisions for VAT and PIT recognized by the Group in previous years. As a result, for the year ended 31 December 2020, the Group recognized income from reversal of provision on VAT and personal income tax in the amount of KZT 256,782 thousand tenge and KZT 210,827 thousand, respectively.

51. COMMITMENTS AND CONTINGEncies (continued)

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 2019, the Committee on Regulation of Natural Monopolies, Protection of Competition and Consumer Rights of the Ministry of National Economy of the Republic of Kazakhstan ("Committee") initiated administrative proceedings against Kcell JSC for an alleged administrative violation related to the abuse of dominant position in 2017. The potential fine, which can be imposed by the court, constitutes approximately KZT 2,000,000 thousand.

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

The Kcell JSC did not agree with the order issued by the Committee. On 3 July 2019, the 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 2020, Kcell JSC received a notification from the Committee on Regulation and Protection of Competition of the Ministry of National Economy of the Republic of Kazakhstan ("Committee") prescribing that Kcell JSC should bring its existing and legacy cell phone plans in line with Rules for provision of mobile services ("Rules"), namely to set a calendar month as default billing cycle, as follows from the definition of the term "accounting period". According to the Committee, by establishing a one-day, a weekly, a 28-day or a 30-day billing cycle on mobile phone plans Kcell JSC breaches article 174.1 of the Business Code of the Republic of Kazakhstan. The Committee also sees the reduction of billing cycle as possible abuse of the dominant position through violation of the rights of consumers. On 15 July 2020 Kcell JSC received a copy of the Committee's Order on conducting an investigation. In the course of the investigation, Kcell JSC has provided the relevant data and information requested by the Committee. On 7 September 2020 Kcell JSC received Investigation Report stating that there were no violations of the legislation in the actions of the mobile operator. The investigation in relation to Kcell JSC's activity was terminated.

Kcell Solutions 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.

51. COMMITMENTS AND CONTINGEncies (continued)

Kcell Solutions tax legal case (continued)

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 for the purpose of the revealing of 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 the revealing of 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. On 15 October 2020 the Customs Control Department issued the notice to postpone the customs inspection of the Group for an indefinite period. The Group estimated probability of the outflow of resources embodying economic benefits as probable and accrued provision on additional charge, fines and penalties in the amount of KZT 701,004 thousand *(Note 35)*.

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).

52. SUBSEQUENT EVENTS

On 6 January 2021 the Group has obtained loan from Alfa Bank in the amount of KZT 12,000,000 thousand with interest rate of 10.7% per annum with maturity till 5 January 2024.

On 8 January 2021 the Group has partially repaid loan obtained from Eurasian Development Bank in the amount of KZT 12,000,000 thousand ahead of the schedule.

On 27 January 2021 the Group additionally acquired notes of the National Bank of the Republic of Kazakhstan in the amount of KZT 2,979,637 thousand.

On 24 February 2021, the Group has obtained two tranches within the credit line from Halyk Bank of Kazakhstan JSC from 24 September 2013 for the total amount of KZT 7,000,000 thousand with interest rate of 11.2% per annum with maturity till 22 February 2024.

On 24 February 2021, the Group has sold notes of the National Bank of the Republic of Kazakhstan in the amount of KZT 3,000,000 thousand with a coupon interest of KZT 20,364 thousand.