

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the three months ended 31 March 2023

1. GENERAL INFORMATION

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

The Company’s registered address is Alimzhanova 51, Almaty, the Republic of Kazakhstan.

On 25 December 2010, the Committee of Communications, Informatization and Information under the Ministry of Investments and Development of the Republic of Kazakhstan signed an addendum to the existing GSM license, which provided the Group with a right to operate a 3G network. In December 2010, the Group launched 3G services in Astana and Almaty. As at 1 January 2015, the Group provided all locations with a population of over 10,000 people with mobile services using UMTS/WCDMA based on the terms of the addendum.

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

In 2016 the Group paid 26,000 million tenge for LTE radio frequencies. On 1 March 2016, the Group launched LTE in its network on the previously granted frequencies.

On 13 December 2012, the Company successfully completed its offering of Global Depositary Receipts at the London Stock Exchange and common shares at the Kazakhstan Stock Exchange. On 14 June 2021, the Group officially completed delisting of Global Depositary Receipts (GDR) on LSE and Astana International Exchange (AIX).

As at 31 March 2023 and 31 December 2022 the Company is controlled by Kazakhtelecom JSC. Kazakhtelecom JSC is controlled by the Government of the Republic of Kazakhstan through Sovereign Wealth Fund “Samruk-Kazyna” JSC (“Samruk-Kazyna”) which owns 51% of Kazakhtelecom’s controlling shares

As at 31 March 2023 and 31 December 2022, the shareholders of the Company are presented as follow:

	31 March 2023 (unaudited)	31 December 2022
Kazakhtelecom JSC	51.00%	51.00%
PIONEER TECHNOLOGIES ҰС.А.Р.Л	14.87%	14.87%
First Heartland Jusan Bank JSC	9.08%	9.08%
Single accumulative pension fund JSC	7.06%	7.06%
Raiffeisenbank JSC	1.54%	1.54%
AROYGROUP LLP	–	1.39%
EVEREX LLP	1.18%	1.16%
Other	15.27%	13.90%
	100.00%	100.00%

As at 31 March 2023 and 31 December 2022, the Company has the following principal subsidiary:

	31 March 2023(unaudited)	31 December 2022
KazNet Media LLP	100%	100%

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. GENERAL INFORMATION (Continued)

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

The interim condensed consolidated financial statements were authorised for issue by the Chairman of the Management Board on 10 May 2023.

2. BASIS OF PREPARATION

These interim condensed consolidated financial statements for the year ended 31 March 2023 have been prepared in accordance with International Financial Reporting Standards (hereinafter, “IFRS”), as issued by International Accounting Standard Board (hereinafter, “IASB”).

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

Going concern

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

Foreign currency translation

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

The following table summarises the foreign currency exchange rates for tenge

	31 March 2023	31 December 2022
US dollar	448.05	462.65
Euro	486.58	492.86
Russian ruble	5.82	6.43

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New and amended standards and interpretations

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2022, except for the adoption of new standards effective as at 1 January 2023. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective..

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.

Definition of Accounting Estimates - Amendments to IAS 8

The amendments to IAS 8 clarify the distinction between changes in accounting estimates, and changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual periods beginning on or after January 1, 2023, and apply to changes in accounting policies and estimates that occur on or after the start of that period. Early application is permitted subject to disclosure of that fact. The amendments had no impact on the Group's interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

The amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments had no impact on the Group's interim condensed consolidated financial statements, but are expected to affect the accounting policy disclosures in the Group's annual consolidated financial statements.

The Group is currently assessing the impact of the amendments to determine the impact they will have on the Group's accounting policy disclosures.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12

The amendments to IAS 12 Income Tax narrow the scope of the initial recognition exception, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences such as leases and decommissioning liabilities. The amendments had no impact on the Group's interim condensed consolidated financial statements.

4. SEGMENT INFORMATION

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SHARE CAPITAL AND EARNINGS PER SHARE

Share capital of the Group is as follows:

	31 March 2023		31 December 2022	
	Share	Number of shares	Share	Number of shares
Kazakhtelecom JSC	51.00%	102,000,000	51.00%	102,000,000
PIONEER TECHNOLOGIES S.A.R.L	14.87%	29,745,215	14.87%	29,745,215
First Heartland Jusan Bank JSC	9.08%	18,167,753	9.08%	18,167,753
Single accumulative pension fund JSC	7.06%	14,116,287	7.06 %	14,116,287
Raiffeisenbank JSC	1.54%	3,070,664	1.54%	3,070,664
AROYGROUP LLP	–	–	1.39%	2,788,927
EVEREX LLP	1.18%	2,350,742	1.16%	2,315,226
Other	15.27%	30,549,339	13.90%	27,795,928
	100.00%	200,000,000	100.00%	200,000,000

The total authorized number of ordinary shares is 200,000,000 shares with a par value of 169 tenge per share, all of which are issued and fully paid.

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

<i>In millions of tenge</i>	Three months ended	
	31 March 2023	31 March 2022
Profit for the period attributable to equity shareholders	12,811	9,232
Weighted average number of ordinary shares	200,000,000	200,000,000
Earnings per share (tenge), basic and diluted	64.06	46.16

The Group has no dilutive or potentially dilutive securities outstanding.

Additional information disclosed in accordance with “KASE” requirements

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

According to the requirements of the “KASE”, the Group has calculated its cost per ordinary share, which was calculated based on the number of ordinary shares outstanding at the reporting date. The cost per ordinary share as at 31 March 2023 and 31 December 2022 is presented below

<i>In millions of tenge</i>	31 March 2023	31 December 2022
Net assets, excluding intangible assets	31,602	95,139
Number of ordinary shares in issue	200,000,000	200,000,000
Cost of ordinary share, calculated in accordance with listing requirements of the “KASE” (tenge)	158.01	475.70

During the three months ended 31 March 2023 and 2022, the Group did not declare dividends payable.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)****6. PROPERTY AND EQUIPMENT**

During the three months period ended 31 March 2023, additions to property and equipment totaled to 3,831 million tenge (during three months period ended 31 March 2022: 3,060 million tenge).

During the three months period ended 31 March 2023, transfer from construction-in-progress to property and equipment amounted to 1,276 million tenge (during three months period ended 31 March 2022: 2,097 million tenge).

During the three months period ended 31 March 2023, the Group recognised depreciation expense in the amount of 3,487 million tenge (during three months ended 31 March 2022: 3,617 million tenge).

During the three months period ended 31 March 2023, the Group recognised increase in changes in estimates in assets retirement obligation in the amount 224 million tenge (during three months period ended 31 March 2022 decrease: 19 million tenge).

During the three months period ended 31 March 2022, the Group sold property with gross book value in the amount of nil tenge and net book value in the amount of nil tenge (during three months period ended 31 March 2022: 18 tenge and 7 million tenge)

During the three months period ended 31 March 2023, the building with a book value of KZT 2,243 million is classified as investment property as it is no longer in use by the Group and a decision has been made to lease the building to third parties and related parties.

As at 31 March 2023, the gross carrying value of property and equipment which has been fully depreciated and still in use, was 182,092 million tenge were (as at 31 December 2022: 182,092 million tenge)

During the three months period ended 31 March 2023, the Group has written off the fully amortized property and equipment with gross book value in the amount of nil tenge (during three months period ended 31 March 2021 1,013 million tenge)

7. INTANGIBLE ASSETS

During the three months ended 31 March 2023, the Group acquired intangible assets in the amount of 79,595 million tenge (during three months ended 31 March 2022: 1,139 million tenge).

During the three months ended 31 March 2023, the Group recognized amortization expense in the amount of 3,247 million tenge (during three months ended 31 March 2021: 2,646 million tenge).

As at 31 March 2023, the carrying amount of 3G license was 917 million tenge (31 December 2022: 1,000 million tenge) and its remaining amortization period was 3 years. As at 31 March 2023, the carrying amount of the 4G license was 13,578 million tenge (31 December 2022: 14,011 million tenge) and its remaining amortization period was 8 years.

As at 31 March 2023, the gross carrying value of intangible assets, which have been fully amortized and still in use, was 25,319 million tenge (31 December 2022: 39,792 million tenge). During the three months period ended 31 March 2023, the Group has written off the fully amortized intangible assets with gross book value in the amount of nil tenge (during three months period ended 31 March 2022 2,907 million tenge)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. TRADE RECEIVABLES

As at 31 March 2023 and 31 December 2022, trade receivables comprised of the following:

<i>In millions of tenge</i>	31 March 2023 (unaudited)	31 December 2022
Trade receivable from subscribers	37,526	35,363
Trade receivable from interconnect services	1,755	1,838
Trade receivables from roaming operators	152	358
Trade receivables from dealers and distributors	283	574
Trade receivables from related parties (Note 21)	3,608	5,650
Less: allowance for expected credit losses	(13,781)	(12,915)
	29,543	30,868
Less: long-term portion of trade receivable from subscribers	(2,628)	(4,345)
	26,915	26,523

During the three months ended 31 March movements in the allowance for expected credit losses were as follows:

<i>In millions of tenge</i>	31 March 2023 (unaudited)	31 December 2022
Allowance for expected credit losses at the beginning of the period	(12,915)	(6,651)
Charge for the period	(866)	(762)
Write-off for the period	-	-
Sales of trade receivables	-	-
Allowance for expected credit losses at the end of the period	(13,781)	(7,413)

9. INVENTORY

As at 31 March 2023 and 31 December 2022, inventories comprised:

<i>In millions of tenge</i>	31 March 2023 (unaudited)	31 December 2022
Handsets and accessories (at lower of cost and net realizable value)	11,100	7,407
Start packages (at cost)	234	235
Marketing materials (at cost)	95	42
SIM-cards (at cost)	128	108
Other materials (at cost)	157	188
	11,714	7,980

During the three months ended 31 March 2022 and 2023, The Group has not recognized an expense on inventories carried at net realizable value.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. OTHER CURRENT NON-FINANCIAL ASSETS

As at 31 March 2023 and 31 December 2022, other current non-financial assets comprised of the following:

<i>In millions of tenge</i>	31 March 2023 (unaudited)	31 December 2022
Advances paid	4,628	1,858
VAT recoverable	2,017	3,738
Prepaid expenses	955	1,090
Prepaid taxes other than income taxes	86	211
	7,686	6,897

11. CASH AND CASH EQUIVALENTS

As at 31 March 2023 and 31 December 2022, cash and cash equivalents comprised of the following:

<i>In millions of tenge</i>	31 March 2023 (unaudited)	31 December 2022
Bank deposits with original maturity of less than 90 days	29,338	36,134
Cash on current bank accounts	3,882	10,111
Cash on hand	4	3
	33,224	46,248

As of 31 March 2023, short-term bank deposits represent overnight deposits in tenge in Halyk Bank JSC at interest rate 15.6% in the amount of 29 000 million tenge, in Citibank Kazakhstan JSC at interest rate 6.5% in the amount of 53 million tenge, deposit in First Heartland Jýsan Bank JSC at interest rate 14.9% in the amount of 10 million tenge and deposit in USD at interest rate 2.0% in the amount of 20 thousand USD.

As at 31 March 2023 and 31 December 2022, cash and cash equivalents were denominated in various currencies as follow:

<i>In millions of tenge</i>	31 March 2023 (unaudited)	31 December 2022
Tenge	32,261	26,876
US dollars	769	19,206
Euro	153	117
Russian rubles	40	48
Other	1	1
	33,224	46,248

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. BORROWINGS

As at 31 March 2023 and 31 December 2022 borrowings comprised of the following:

<i>In millions of tenge</i>	Currency	Effective interest rate	Maturity date	31 March 2023 (unaudited)	31 December 2022
First Heartland Jusan Bank JSC	Tenge	11,70%	10 November 2024	40,289	40,208
Bank of China Kazakhstan JSC	Tenge	10,70%	1 June 2024	2,033	2,033
VTB Bank JSC	Tenge	11,90%	15 October 2023	5,006	5,002
				47,328	47,243
Less: non-current portion				(41,744)	(41,646)
				5,584	5,597

The Group's borrowings are denominated in Kazakhstani tenge and represented by unsecured loans. The borrowings have financial and non-financial covenants. Breaches in meeting the covenants would permit the banks to immediately call loans and borrowings. As at 31 March 2023 and 31 December 2022, there have been no breaches of the covenants.

The Group has not entered into any hedging arrangements in respect of its interest rate exposures.

First Heartland Jusan Bank JSC

On 10 November 2021, the Group and First Heartland Jusan Bank JSC, one of the shareholders of the Company, signed a credit line agreement in the amount of 60,500 million tenge. On 11 November 2021 two tranches were received from First Heartland Jusan Bank JSC in the amount of 22,000 million tenge and 12,000 million tenge with a nominal interest rate of 11% per annum and 10.7% per annum, respectively. Additionally, on 25 November 2021, third tranche was received from First Heartland Jusan Bank JSC in the amount of 6,500 million tenge with a nominal interest rate of 11% per annum, with a maturity until 10 November 2024.

At the date of initial recognition, the loan was recognized at fair value based on expected cash outflows at a market rate observable for similar instruments of 12.9% at the time the loan was issued. On initial recognition of all three tranches total discount in the amount of 1,260 million tenge was recognised within equity as the additional paid-in capital.

VTB Bank JSC

On 28 October 2020 the Group obtained loan in the amount of 6,000 million tenge within the credit line agreement with VTB Bank JSC with maturity till October 2023 at interest rate 10.7% per annum. On 31 March 2021 the Group signed an additional agreement with VTB Bank JSC to increase the amount of the credit line from 6,000 million tenge to 7,000 million tenge, and obtained 1,000 million tenge with a maturity until 15 October 2023 and an interest rate of 10.7% per annum. On 1 March 2022, the Group partially repaid principal in the amount of 2,000 million tenge.

Bank of China Kazakhstan JSC

During 2019 and 2020, the Group obtained loan in the amount of 5,000 million and 6,000 million tenge, respectively, within credit line agreement with Bank of China Kazakhstan JSC with a repayment period of 36 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 JSC to decrease interest rate from 10.5% to 10.3% per annum under credit line agreement. The change in the interest rate does not represent a substantial modification in accordance with IFRS 9 and thus, it did not lead to the derecognition of the original liability. Consequently, in 2020 the Group recognized finance income in the amount of 33 million tenge as a result of change in the interest rate. The loan is secured by the financial guarantee provided by Kazakhtelecom JSC, the Parent. The Group considers the financial guarantee provided by the parent to be an integral part of the loan, and therefore does not recognize the guarantee received separately in its interim condensed consolidated financial statements.

On 2 June 2021 the Group obtained additional tranche in the amount of 2,000 million tenge from Bank of China JSC within the same credit line agreement.

During 2022, the Group partially repaid principal in the amount of 11,000 million tenge.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

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

<i>In millions of tenge</i>	Total
Cost	
As at 1 January 2022 (audited)	30,238
Additions	1,668
As at 31 March 2022	31,906
As at 1 January 2023	33,316
Additions	3,297
As at 31 March 2023	36,613
Accumulated depreciated	
As at 1 January 2022	(13,295)
Depreciation charge	(1,224)
Cancellation	–
As at 31 March 2022	(14,519)
As at 1 January 2023	(18,232)
Depreciation charge	(1,354)
As at 31 March 2023	(19,586)
Net book value	
As at 31 December 2022	15,084
As at 31 March 2023	17,027

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

<i>In millions of tenge</i>	31 March 2023 (unaudited)	31 March 2022 (unaudited)
At the beginning of the year	17,837	20,129
Interest expenses	602	634
Payments	(3,577)	(1,850)
Additions	3,297	1,668
At the end of the period	18,159	20,581
Short-term	6,209	4,373
Long-term	11,950	16,208

The following amounts are recognised in profit or loss:

<i>In millions of tenge</i>	31 March 2023 (unaudited)	31 March 2022 (unaudited)
Depreciation expense of right-of use assets	1,354	1,224
Interest expense on lease liabilities	602	634
Total amount, recognized in profit or loss	1,956	1,858

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. TRADE PAYABLES

As at 31 March 2023 and 31 December 2022, trade payables comprised of the following:

<i>In millions of tenge</i>	31 March 2023 (unaudited)	31 December 2022
Trade payables to third parties	72,099	31,529
Trade payables to related parties (Note 21)	2,516	3,220
	74,615	34,749

As at 31 March 2023 and 31 December 2022, the Group's trade payables were denominated in the following currencies:

<i>In millions of tenge</i>	31 March 2023 (unaudited)	31 December 2022
Tenge	74,590	33,127
US Dollars	20	87
Other currencies	5	1,535
	74,615	34,749

15. FINANCIAL GUARANTEE OBLIGATION

On 27 November 2020 the Group issued the financial guarantee on loan agreement of Kazakhtelecom JSC obtained from Development Bank of Kazakhstan JSC in the amount of 18,266 million tenge. The financial guarantee has maturity till 19 December 2024. The Group initially recognised the financial guarantee at fair value in the amount of 592 million tenge through retained earnings in equity. As at 31 March 2023 and 31 December 2022, the Group measured financial guarantee obligation 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. As at 31 March 2023, financial guarantee obligation equaled to 125 million tenge, which represents the initial amount less the cumulative amount of income recognised in accordance with IFRS 15 (31 December 2022: 155 million tenge).

16. PROVISIONS

As at 31 March 2023 and 31 December 2022 amount of provisions comprised of the following:

<i>In millions of tenge</i>	31 March 2023 (unaudited)	31 December 2022
Legal claims on contractual liabilities	3,924	3,685
Asset retirement obligation: current portion	–	–
	3,924	3,685

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. GOVERNMENT GRANTS

<i>In millions of tenge</i>	31 March 2023	31 March 2022
Government grants as at 1 January	11,268	7,925
Received during the period	3,268	–
Released to the consolidated statement of comprehensive income	(849)	(560)
Government grants as at 31 March	13,687	7,365
Government grants: current portion	3,857	2,237
Government grants: non-current portion	9,830	5,128

In 2021 the Government approved the changes to the Rules for the assignment of frequency bands, radio frequencies, operation of radio-electronic means and high-frequency devices (“the Rules”), based on which the Group is eligible for government grants in form of 90% reduction in the annual fee for use of radio frequencies from 1 January 2020 till 1 January 2025. The government grants are subject to conditions, namely financing of the projects related to broadband internet in rural and urban areas. If the financing of the projects related to broadband internet is lower than the amount of the tax incentive received, the Group should pay the annual fee equal for use of radio frequencies to the amount of unfulfilled obligations to the authorities.

The funds released as a result of reduction in the annual fee for use of radio frequencies for 2020 and 2021 in the amount of 4,725 million tenge and 5,308 million tenge, respectively, were used by the Group for the purchase and construction of broadband internet. Government grants related to assets are recognized as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset. As of 31 March 2023 the balance of deferred income recognized was equal to 13,687 million tenge (As of 31 December 2022: 11,268 million tenge), and part of the government grants released to the profit and loss over the period necessary to match the related depreciation charges equals to 849 million tenge.

As of 31 March 2023 there are no unfulfilled conditions or contingencies attached to these grants.

18. REVENUE FROM CONTRACTS WITH CUSTOMERS

<i>In millions of tenge</i>	For the three months ended 31 March	
	2023 (unaudited)	2022 (unaudited)
Voice and data services	45,556	38,076
Sale of handsets and equipment	9,568	10,519
Other	2,010	1,738
	57,134	50,333
Over time	47,566	39,814
At point of time	9,568	10,519
	57,134	50,333

As at 31 March 2023 and 31 December 2022, the contract liabilities in the amount of 2,466 million tenge and 5,645 million tenge, respectively, were represented by deferred revenue.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. COST OF SALES

<i>In millions of tenge</i>	For the three months ended 31 March	
	2023 (unaudited)	2022 (unaudited)
Cost of handsets, SIM-card and scratch card sales	7,191	8,171
Depreciation and amortization	7,085	6,375
Interconnect fees and expenses	3,685	5,129
Personnel costs	3,889	3,141
Transmission services	3,450	2,672
Repair and maintenance	2,192	1,985
Fees for use of frequency range	2,538	1,830
Electricity	1,123	1,272
Network sharing agreement	1,188	797
Mobile service tax	544	561
Security and safety	90	73
Materials	23	9
Other	1,156	362
	34,154	32,377

20. INCOME TAX EXPENSE

<i>In millions of tenge</i>	For the three months ended 31 March	
	2023 (unaudited)	2022 (unaudited)
Current income tax expense	4,475	2,502
Deferred income tax benefit	–	371
	4,475	2,873

21. RELATED PARTY DISCLOSURES

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

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

As at 31 March 2023, the Group recognized an allowance for expected credit losses in the amount of 253 million tenge in respect of receivables from related parties (31 December 2022: 237 million tenge).

Parent ("Kazakhtelecom JSC") is controlled by the Government of the Republic of Kazakhstan through Sovereign Wealth Fund "Samruk-Kazyna" JSC ("Samruk-Kazyna") which owns 51% of Kazakhtelecom's controlling shares (*Note 1*). Governmental entities include entities under common control and associates of the Government of the Republic of Kazakhstan.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. RELATED PARTY DISCLOSURES (continued)

Related party transactions were made on terms agreed between parties that may not necessarily be at market rate. Sales and purchases with related parties for three months ended 31 March 2023 and 2022, and the balances with related parties as at 31 March 2023 and 2022, were as follows:

<i>In millions tenge</i>	For the three months ended 31 March	
	2023 (unaudited)	2022 (unaudited)
Sales of goods and services		
Entities of Samruk Kazyna Group	106	100
Entities of Kazakhtelecom Group	3,424	5,472
Government entities	78	78
	3,608	5,650
Purchases of goods and services		
Entities of Samruk Kazyna Group	140	118
Entities of Kazakhtelecom Group	6,300	6,279
Government entities	5	22
	6,445	6,419
Finance expense		
Other shareholders	1,107	1,101
	1,107	1,101
	31 March 2023 (unaudited)	31 December 2022
<i>In millions of tenge</i>		
Trade receivables (Note 8)		
Entities of Samruk Kazyna Group	106	100
Entities of Kazakhtelecom Group	3,424	5,472
Government entities	78	78
	3,608	5,650
Trade payables (Note 13)		
Entities of Samruk Kazyna Group	34	34
Entities of Kazakhtelecom Group	2,456	3,186
Government entities	26	-
	2,516	3,220
Borrowings (Note 11)		
Other Shareholders	40,289	40,208
Cash and deposit accounts		
Other shareholders	19,059	10,244

Compensation to key management personnel

For the three months ended 31 March 2023, the total amount of key management remuneration included in the accompanying consolidated statement of comprehensive income under general and administrative expenses is 656 million tenge. Compensation to key management personnel consists of wages fixed in the employment agreement, as well as remuneration based on the performance for the year.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. FINANCIAL INSTRUMENTS

Fair value

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

The tables below represents fair value hierarchy of assets and liabilities of the Group. Disclosure of quantitative information of fair value hierarchy of financial instruments as at 31 March 2023 and 31 December 2022 is as follows:

<i>In millions of tenge</i>	Date of valuation	Price quotation on active market (Level 1)	Significant observable in-puts (Level 2)	Significant unobservable in-puts (Level 3)	Total
Assets for which fair values are disclosed					
Short-term trade receivables	31 March 2023	–	–	26,915	26,915
Long-term trade receivables	31 March 2023	–	–	2,628	2,628
Other current financial assets	31 March 2023	–	–	361	361
Liabilities for which fair values are disclosed					
Borrowings	31 March 2023	–	–	43,267	43,267
Trade payables	31 March 2023	–	–	74,615	74,615
Financial guarantee obligation	31 March 2023	–	–	125	125
Due to employees	31 March 2023	–	–	3,653	3,653

<i>In millions of tenge</i>	Date of valuation	Price quotation on active market (Level 1)	Significant observable in-puts (Level 2)	Significant unobservable in-puts (Level 3)	Total
Assets for which fair values are disclosed					
Financial assets at amortized cost	31 December 2022	14,897	–	–	14,897
Short-term trade receivables	31 December 2022	–	–	26,523	26,523
Long-term trade receivables	31 December 2022	–	–	4,345	4,345
Other current financial assets	31 December 2022	–	–	800	800
Liabilities for which fair values are disclosed					
Borrowings	31 December 2022	–	–	43,142	43,142
Trade payables	31 December 2022	–	–	34,749	34,749
Financial guarantee obligation	31 December 2022	–	–	155	155
Due to employees	31 December 2022	–	–	5,708	5,708

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. FINANCIAL INSTRUMENTS (continued)

Fair values (continued)

As at 31 March 2023 and 31 December 2022, the carrying amounts of the Group's financial assets and liabilities presented as follow:

<i>In millions of tenge</i>	Carrying amount 31 March 2023	Fair value 31 March 2023	Unrecogni sed gain/(loss)	Carrying amount 31 December 2022	Fair value 31 December 2022	Unrecognis ed gain/(loss)
Financial assets						
Cash and cash equivalents	33,224	33,224	-	46,248	46,248	-
Financial assets at amortized cost	-	-	-	14,833	14,897	64
Short-term trade receivables	26,915	26,915	-	26,523	26,523	-
Long-term trade receivables	2,628	2,628	-	4,345	4,345	-
Other current financial assets	361	361	-	800	800	-
Financial liabilities						
Borrowings	47,328	43,267	4,061	47,243	43,142	4,101
Trade payables	74,615	74,615	-	34,749	34,749	-
Due to employees	3,653	3,653	-	5,708	5,708	-
Total unrecognised change in unrealised fair value			4,061			4,165

23. COMMITMENTS AND CONTINGENT LIABILITIES

Operating environment

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

Protests in Kazakhstan

On 2 January 2022 protests started in Mangystau region of Kazakhstan related to significant increase in the liquified natural gas retail price. These protests spread to other cities and resulted in riots, damage to property and loss of life. On 5 January 2022 the government declared a state of emergency.

During the protests, six Kcell Stores located in Almaty and Almaty region, were looted and two large offices of the Group were attacked.

The Management of the Group formed operational headquarters due to state emergency announcement for timely decision making on operational issues for uninterrupted communication of subscribers and facilitate the Government with urgent actions.

Providing subscribers with continuous cellular communications was a priority of the Group and the Management decided to support its subscribers including small and medium sized businesses during the state of emergency. During the state of emergency declared throughout Kazakhstan, and until the end of January 2022, corporate clients of Kcell with a lack of balance on their account were not limited to communication and access to the Internet.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)****23. COMMITMENTS AND CONTINGENT LIABILITIES (continued)****Operating environment (continued)***Protests in Kazakhstan (continued)*

As a result of the above protests and state of emergency the President of Kazakhstan has made certain public announcements regarding possible measures including amendments to the tax legislation, introducing measures for financial stability, controlling and stabilizing the inflation rate and the tenge exchange rate.

On 10 January 2022 the National Security Committee of Kazakhstan reported that the situation in the country has stabilized and was under control. On 19 January 2022 the state emergency was lifted.

The Group incurred losses from those events in amount of 553 million tenge that represents robbery of inventories (goods for resale) and damage of stores, which was recognized within other operating expenses in the consolidated statement of comprehensive income for the year ended 31 December 2022.

Events in Ukraine and Coronavirus pandemic

The events in Ukraine has had a significant negative impact on the global economic outlook. In response to the offensive, extensive sanctions have been imposed on Russia that largely exclude the country from the international financial markets and significantly curtail trade in goods. These sanctions are intended to have a negative economic impact on the Russian Federation.

Due to geopolitical events around Ukraine and Russia, on 24 February 2022, oil prices exceeded \$100 per barrel. However, after some stabilization in global economy level, on 27 April 2022, oil prices decreased to \$79 per barrel. On 28 March 2022, the exchange rate of tenge against the US dollar began to strengthen gradually and stabilized to approximately 470 KZT per 1 USD, currently the exchange rate is 445 KZT per 1 USD. On 6th December 2022 the National Bank of the Republic of Kazakhstan decided to raise the base rate by 0.75 percentage points to 16.75% while maintaining the +/-1% band. According to the press release dated 10th April 2023, the base rate remains the same.

Possible future effects on the measurement of individual assets and liabilities due to war in Ukraine and coronavirus pandemic are being analyzed on an ongoing basis. It is not yet possible to assess with certainty how the Group will be indirectly affected, in particular by the impact on the global economy. The overall economic outlook has deteriorated significantly as a result of the extensive sanctions and limitations on trade in goods. Based on experience so far, the Group expects the events in Ukraine and coronavirus pandemic to only impact business to a limited extent going forward.

Capital commitments

The Group enters into contracts for the completion of construction projects and purchase of telecommunication equipment. As at 31 March 2023, the Group had contractual commitments for total 70,594 million tenge, excluding VAT (unaudited) (as at 31 December 2022: 17,811 million tenge, excluding VAT), which includes capital expenditures in respect to new technical regulation described below.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)****23. COMMITMENTS AND CONTINGENT LIABILITIES (continued)****Taxation**

Tax legislation and regulatory framework of the Republic of Kazakhstan are subject to constant changes and allow for different interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 80% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of the Republic of Kazakhstan multiplied by 1.25. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review.

Management believes that as at 31 March 2023 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 condensed interim consolidated financial statements or otherwise disclosed in these condensed interim consolidated financial statements.

Government grant related to frequency fee

The Group has submitted consolidated report on expenditures used to finance broadband projects access to the Internet in urban and rural areas included capital and operational costs that are necessary for the provision of broadband Internet access services in urban and rural settlements throughout the territory of the Republic of Kazakhstan. Management believes that there are no unfulfilled conditions or contingencies attached to these grants.

In case if, based on the results of the audited information, the fact of non-fulfilment by the telecom operator of obligations to allocate at least released funds from the reduction of the corresponding fee rate to finance broadband Internet access projects in urban and rural areas is confirmed, the authorized body in the field of communications not earlier than one year after of the year following the reporting year, recalculates the amount of the annual fee for the use of frequency fee for the reporting year, which should be proportional to the unfulfilled volume of financial obligations for this reporting year.

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 (new Technical Regulation of 27 July 2021 No. 85). 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").

As of 31 March 2023 the Group partially implemented modernization and expansion of license and port capacity for the total amount of 4,612 million tenge since 2018. The Group plans to complete expansion in full till 2025 and expect that total amount of capital expenditures in respect to modernization and expansion will be equaled to 8,025 million tenge.

Arbitration against Amdocs companies

Amdocs-Kazakhstan LLP and Amdocs Software Solutions LLC (jointly referred to as "Amdocs") was to develop, implement and deliver the Convergent Billing System to Kcell under Master Agreement dated April 2014 between TeliaSonera AB and Amdocs Software System Ltd ("Master Agreement"), and Supply Agreement, including Addendums (further as "Supply Agreement").

In November 2018, the Group notified the Supplier of termination of the Supply Agreement, except for the technical support services due to the quality of the Convergent Billing System and Amdoc's performance of contractual obligations were not consistent with the terms of the Supply Agreement and the Group's requirements. Moreover, there was delay in delivery and implementation of the OLC (On-line charging) system.

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

23. COMMITMENTS AND CONTINGENT LIABILITIES (continued)**Arbitration against Amdocs companies (continued)**

In May 2020, the Group notified the Supplier of its withdrawal from the technical support agreement as well. Amdocs did not agree with the Group's reasoning for termination of the Supply Agreement and withdrawal from the technical support agreement.

The contractual relationships between the Group and Amdocs are governed by and construed in accordance with Swedish law, and any dispute, controversy or claim arising out of that relationship should ultimately be settled in arbitration in Stockholm in accordance with the Rules of the Arbitration Institute of the Stockholm Chamber of Commerce ("International Arbitration").

On 18 December 2020, the Group applied to International Arbitration with a request to initiate arbitration proceedings against Amdocs. The total amount of the Group's asserted claims equaled to approximately 25.8 million EUR (equivalent to 12,823 million tenge).

The Group's request for arbitration was registered with the Arbitration Institute of the Stockholm Chamber of Commerce (hereinafter - "SCC") in December 2020. On 29 December 2020, SCC sent a notice to the Amdocs companies of commencement of arbitration and set a deadline for responding to the request for arbitration.

On 26 January 2021 the response from Amdocs JSC was received and Amdocs agreed to consider the dispute in SCC. In addition, Amdocs had submitted the counterclaim, at this point in the preliminary amount of 13.9 million USD (equivalent to 6.046 million tenge) and unpaid fees for extra work L2 and other out of scope service the amount of which was not calculated and payment related to allegedly the Group's delays in OLC and Phase 1 – the amount was not calculated.

On 16 and 23 April 2021 organizational sessions of arbitration tribunal were held, as a result of which the parties managed to agree on the procedural rules and schedule. It is planned that consideration of the case on the merits will take place during 5-16 September 2022, and the tribunal's decision will be granted in December 2022.

In accordance with the procedural timetable, the next stage of the proceedings, the Group claimed below extended relief (90% increase of the initial amount):

- To declare that the Group's partial termination of the Delivery Contract by notice dated 22 November 2018 was valid and effective;
- To order the Respondents to pay – jointly and severally –59.773 million USD (equivalent to 26,001 million tenge) and to order payment of the pre-award and post-award interest on the above amounts and reimburse the Claimant its legal and other costs in relation to these proceedings.

On 5 November 2021, Amdocs filed extended counterclaims in the amount of 17.7 million USD (equivalent to 7,699 million tenge), plus interest applicable under Swedish law (8% per annum; from the date of incurrance of the obligation the dates may differ, depending on stated claims), including reimbursement of costs incurred by Amdocs in connection with the arbitration proceedings (fees to arbitrators, legal consultants and other costs incurred):

- To invalidate the partial termination of the Delivery Contract (Contract) initiated by the Group to recognize such termination as a breach of the Contract terms; to recognize that the Group is liable for damage associated with such a breach;
- Reimbursement of the arbitration fees paid by Amdocs from the date of the judgement until the date when the amount claimed is received in full, pursuant to Section 6 of the Swedish Interest Act and reimbursement of fees paid by Amdocs to their legal consultants and other costs associated with the arbitration from the date of the judgement until the date when the amount claimed is received in full, pursuant to Section 6 of the Swedish Interest Act.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)****23 COMMITMENTS AND CONTINGENT LIABILITIES (continued)****Arbitration against Amdocs companies (continued)**

On 1 March 2022 Kcell filed the response to Amdocs extended counterclaims and declined all claims submitted by the defendant. Kcell has also filed the additional claim, according to which shall the Tribunal decide that the Company is not entitled for contract price reduction, then Kcell claims the right for compensation of funds in the amount of 16 million USD (equivalent to 7,920 million tenge), overpaid for the supplied solution (BSS). The correspondent expert report with the estimate of supplied solution was prepared by the independent financial expert and submitted by Kcell to the Tribunal.

Amdocs response to Kcell claims was received on 24 May 2022. Amdocs made no new claims, confirmed the previously filed claims and agreed with Kcell that the Supply Agreement can be considered as a contract in US dollars and that any claims under it can only be expressed in US dollars.

On 21 June 2022, Kcell sent the final document with additional arguments and evidence (including testimony and responses to the arguments listed in Amdocs document dated 24 May 2022).

Kcell received a document from Amdocs on 15 July 2022 containing the final counterclaim amounts. In addition to the previously announced figures, Amdocs is claiming the payment of a 400 000 USD invoice dated 4 May 2018 under Additional Agreement #3 for the "Final delivery to UAT 20%" stage. So, before the hearing in September, Amdocs's claims amount to 18 million USD (equivalent to 8,657 million tenge) plus % (calculated at the rate of 8% according to the Swedish Interest Act. Depending on the date of obligation, it will be calculated and confirmed based on the hearing outcomes and stated in the arbitration award).

In-person hearings to consider mutual claims between Kcell JSC and Amdocs-Kazakhstan LLP and Amdocs Software Solutions LLC connected to the Supply Agreement were held from 5 to 16 September 2022 in Stockholm (Sweden). During the hearing, Kcell has made the following proposals, which were supported by Amdocs and the tribunal:

- If the tribunal satisfies, fully or partially, the claims of both parties, the offset principle will be applied;
- If the tribunal satisfies the claims filed in tenge, apply the exchange rate as of the date of the arbitration award and state those amounts in US dollars in the tribunal's decision.

At the request of the parties and with the Tribunal's approval, the date of filing of final claims by the parties was postponed to 31 October 2022, and the date of filing documents for the recovery of costs related to the arbitration proceedings was postponed to 11 November 2022.

In December 2022, the Tribunal requested additional time to prepare a decision, citing the technical complexity of the case. The SCC granted the requested postponement, setting 14 March 2023 as the deadline for the Award.

For three months ended 31 March 2023, the Group has accrued provision for arbitration against Amdocs in the amount of 3,722 million tenge (31 December 2022: 3,685 million tenge).

24. SUBSEQUENT EVENTS

There were no significant subsequent events after the reporting date.