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Kcell

Kcell JSC

Consolidated financial statements

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

№ 210007 #

CONTENTS

Independent auditor’s report

Consolidated financial statements

Consolidated statement of financial position 1
Consolidated statement of comprehensive income 2
Consolidated statement of changes in equity 3
Consolidated statement of cash flows 4-5
Notes to the consolidated financial statements 6-51



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Independent auditor's report

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

Opinion

We have audited the consolidated financial statements of Kcell 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.

Key audit matter	How our audit addressed the key audit matter
<p>Revenue recognition</p> <p>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.</p> <p>The selection and application of revenue recognition policies, including the application of IFRS 15, involve a number of key judgements and estimates, and therefore revenue could be subject to misstatement, whether due to fraud or error, including untimely recognition.</p> <p>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 24 to the consolidated financial statements.</p>	<p>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; authorisation of changes and accounting treatment of tariff rates input to the billing systems; and calculation of amounts billed to the customers.</p> <p>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.</p> <p>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.</p>

Accounting for leases in accordance with of IFRS 16 Leases

The Group has significant balances of right-of-use assets in the amount of 21 billion tenge and lease liabilities in the amount of 24 billion tenge.

The accounting for right-of-use assets and lease liabilities in accordance with IFRS 16 is significant to our audit, as the balances recorded are material. In addition, the procedures of identification and processing all relevant data associated with the leases are 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 in accordance with IFRS 16 *Lease* is included in Note 3 to the consolidated financial statements, the effect of the IFRIC agenda decision on the Group accounting policy is disclosed in Note 4 to the consolidated financial statements and detailed lease disclosures are included in Note 18 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.

We challenged management assumptions, specifically the assumptions used to determine the discount rates and lease terms, including termination and renewal options.

We recalculated the right-of-use assets and lease liabilities by type 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 considered the appropriateness of the related disclosures provided in the Group's consolidated financial statements.

Costs capitalization

The Group capitalises significant internal labour costs and external costs in respect of major capital projects, including mobile network upgrades. There is risk in respect of valuation and allocation of assets, that costs which do not meet the criteria for capitalisation in accordance with IAS 16 and IAS 38 are capitalised or that assets continue to be recognized as non-current assets despite no longer meeting the relevant capitalisation criteria.

Due to the relative size of the Group's mobile network related property and equipment and intangible assets in the consolidated statement of financial position and the area of judgment around the application of capitalization criteria, we considered this as one of the key audit matters.

The Group's policy on the capitalisation of assets is included in Note 3 to the consolidated financial statements, and detailed property and equipment and intangible assets disclosures are included in Note 8 and Note 9, respectively, to the consolidated financial statements.

We obtained an understanding of the process around the property and equipment cycle and intangible assets cycle. We have considered the design and tested the operating effectiveness of related controls.

We analysed the appropriateness of costs capitalization policies of the Group.

We have carried out substantive testing in relation to each element of capitalised costs including inspecting supporting evidence for a sample of the capitalised costs and understanding the nature of the costs capitalised. We assessed the timeliness of the transfer of assets from the constructions-in-progress to the property and equipment and intangibles assets. In addition, we analysed assets recognized as non-current assets for compliance with capitalisation criteria.

We considered the appropriateness of the related disclosures provided in the Group consolidated financial statements.

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.
- ▶ 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.

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

Auditor qualification certificate
No. МФ - 0000060 dated 6 January 2012

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29 January 2021



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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

<i>In millions of tenge</i>	Notes	31 December 2020	31 December 2019 (restated)*	1 January 2019 (restated)*
Assets				
Non-current assets				
Property and equipment	8	78,109	82,283	88,437
Intangible assets	9	39,730	38,820	40,115
Advances paid for non-current assets		293	233	729
Right-of-use assets	18	20,804	24,976	27,816
Long-term trade receivables	10	2,421	1,118	3,010
Cost to obtain contracts		185	240	389
Other non-current assets		-	3	37
Deferred tax assets	30	1,937	1,378	-
Total non-current assets		143,479	149,051	160,533
Current assets				
Inventories	11	9,362	6,636	4,728
Trade receivables	10	17,823	15,647	13,787
Other current non-financial assets	12	3,063	6,704	5,276
Other current financial assets	13	245	1,371	1,011
Prepaid income tax		813	2,222	933
Financial assets at fair value through other comprehensive income	14	-	4,965	-
Financial assets at amortized cost	15	18,923	-	-
Cash and cash equivalents	16	23,023	8,825	6,029
Total current assets		73,252	46,370	31,764
Total assets		216,731	195,421	192,297
Equity and liabilities				
Share capital	7	33,800	33,800	33,800
Retained earnings		48,283	40,297	36,254
Total equity		82,083	74,097	70,054
Non-current liabilities				
Borrowings: non-current portion	17	49,933	55,548	14,936
Long-term lease liabilities	18	19,447	23,447	25,184
Asset retirement obligation	22	4,007	1,970	1,285
Financial guarantee obligation	20	563	-	-
Other non-current liabilities		-	-	77
Deferred tax liabilities	30	-	1,183	1,302
Total non-current liabilities		73,950	82,148	42,784
Current liabilities				
Borrowings: current portion	17	23,354	6,384	51,783
Trade payables	19	22,353	21,175	14,048
Contracts liabilities	21	1,978	4,149	3,772
Provisions	23	4,502	188	2,911
Due to employees		3,691	3,172	1,717
Short-term lease liabilities	18	4,219	3,606	3,642
Property tax payable		601	502	1,586
Total current liabilities		60,698	39,176	79,459
Total liabilities		134,648	121,324	122,243
Total equity and liabilities		216,731	195,421	192,297

* 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 4.

Acting Chairman of the Management Board & Chief Financial Officer

Yuri Kharlamov

The accounting policies and notes on pages 6 to 51 are an integral part of these consolidated financial statements.



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**For the year ended 31 December 2020**

<i>In millions of tenge</i>	Notes	2020	2019 (restated)*
Revenue from contracts with customers	24	174,684	156,657
Cost of sales	25	(119,133)	(108,928)
Gross profit		55,551	47,729
Penalty expenses	26	–	(14,552)
Provisions for legal claims	23	(4,386)	–
General and administrative expenses	27	(10,426)	(8,925)
Impairment of financial assets	10	(1,547)	(2,256)
Impairment of property and equipment and intangible assets	8, 9	(5,227)	(1,844)
Selling expenses	28	(1,965)	(2,887)
Reversal of tax and related fines and penalties provision	33	684	5,816
Other operating income		550	–
Other operating expenses		(408)	–
Operating profit		32,826	23,081
Finance costs	29	(11,753)	(11,895)
Finance income	29	2,300	1,415
Net foreign exchange gain/(loss)		987	(91)
Other non-operating income		262	317
Other non-operating expenses		–	(85)
Profit before tax		24,622	12,742
Income tax expenses	30	(7,044)	(2,727)
Profit for the year		17,578	10,015
Other comprehensive income		–	–
Total comprehensive income for the year, net of tax		17,578	10,015
Earnings per share			
Basic and diluted, tenge	7	87.89	50.08

* 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 4.

Acting Chairman of the Management Board & Chief Financial Officer



The accounting policies and notes on pages 6 to 51 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

<i>In millions of tenge</i>	Share capital	Retained earnings	Total equity
At 1 January 2019 (as previously reported)	33,800	33,626	67,426
Change in accounting policy and correction of errors (Note 4)	–	2,628	2,628
At 1 January 2019 (restated)*	33,800	36,254	70,054
Net profit for the year	–	10,015	10,015
Other comprehensive income	–	–	–
Total comprehensive income	–	10,015	10,015
Dividends declared (Note 7)	–	(5,972)	(5,972)
At 31 December 2019 (restated)*	33,800	40,297	74,097
Net profit for the year	–	17,578	17,578
Other comprehensive income	–	–	–
Total comprehensive income	–	17,578	17,578
Financial guarantee (Note 20)	–	(592)	(592)
Dividends declared (Note 7)	–	(9,000)	(9,000)
At 31 December 2020	33,800	48,283	82,083

* 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 4.

Acting Chairman of the Management Board & Chief Financial Officer



The accounting policies and notes on pages 6 to 51 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

<i>In millions of tenge</i>	Notes	2020	2019 (restated)*
Cash flows from operating activities			
Profit before tax		24,622	12,742
Adjustments for:			
Impairment of financial assets	10	1,547	2,256
Impairment of property and equipment and intangible assets	8, 9	5,227	1,844
Finance costs	29	11,753	11,895
Depreciation of property and equipment and right of use assets	8, 18	19,792	21,122
Amortization of intangible assets	9	11,010	9,390
Income from accounts payable write-off		(189)	–
Write-off of inventory to net realizable value	11	654	–
Loss on disposal of property and equipment		273	–
Finance income	29	(2,300)	(1,415)
Legal disputes expenses	23	4,386	–
Reversal of tax and related fines and penalties provision	33	(684)	(5,816)
Gain on cancellation of lease agreements		(21)	(10)
Net foreign exchange (gain)/loss		(987)	91
Operating cash flows before changes in operating assets and liabilities		75,083	52,099
Change in inventories		(3,272)	(1,908)
Change in trade receivables		(4,762)	(2,197)
Change in other current non-financial assets		4,254	(953)
Change in other current financial assets		1,129	(326)
Change in cost to obtain contracts		54	149
Change in trade payables		(1,708)	2,017
Change in other current non-financial liabilities			117
Change in other current financial liabilities		114	(70)
Change in contract liabilities		(2,171)	377
Change in taxes payable other than income tax		100	(1,115)
Cash flows generated from operations		68,821	48,190
Income tax paid		(7,378)	(3,313)
Interest received		1,719	404
Interest paid	32	(10,903)	(10,220)
Net cash flows from operating activities		52,259	35,061
Cash flows from investing activities			
Purchase of property and equipment		(12,142)	(8,832)
Purchase of intangible assets		(11,413)	(4,329)
Proceeds from disposal of property and equipment		161	–
Proceeds from redemption of financial assets at amortized cost	15	18,139	–
Proceeds from redemption of financial assets at fair value through other comprehensive income	14	5,385	–
Purchase of financial assets at amortised cost	15	(36,751)	–
Purchase of financial assets at fair value through other comprehensive income	14	–	(5,021)
Net cash flows used in investing activities		(36,621)	(18,182)

The accounting policies and notes on pages 6 to 51 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

<i>In millions of tenge</i>	Notes	2020	2019*
Cash flows from financing activities			
Proceeds from loans	32	27,000	20,000
Proceeds from bonds issued		–	17,025
Repayment of loans	32	(16,130)	(42,000)
Repayment of principal portion of lease liabilities	4, 32	(3,758)	(3,085)
Dividends paid	7	(9,000)	(5,972)
Net cash flows used in financing activities		(1,888)	(14,032)
Net increase in cash and cash equivalents		13,750	2,847
Effect of exchange rate changes on cash and cash equivalents held in foreign currency		448	(51)
Cash and cash equivalents at the beginning of the year		8,825	6,029
Cash and cash equivalents at the end of the year	16	23,023	8,825

* Certain amounts shown here do not correspond to the consolidated financial statements for year ended 31 December 2019, as they reflect the adjustments made, as detailed in Note 4.

Acting Chairman of the Management Board & Chief Financial Officer



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**For the year ended 31 December 2020****1. GENERAL INFORMATION**

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

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

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

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

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.

As at 31 December 2020 and 2019 the Company is controlled by Kazakhtelecom JSC. Kazakhtelecom JSC is controlled by the Government of the Republic of Kazakhstan through Sovereign Wealth Fund “Samruk-Kazyna” JSC (“Samruk-Kazyna”) which owns 51% of Kazakhtelecom’s controlling shares. As at 31 December 2020 and 31 December 2019, the shareholders of the Company are presented as follow:

	31 December 2020	31 December 2019
Kazakhtelecom JSC	75.00%	75.00%
Raiffeisenbank JSC	11.60%	11.82%
Other	13.40%	13.18%
	100.00%	100.00%

As at 31 December 2020 and 31 December 2019, the Company has the following principal subsidiaries:

	31 December 2020	31 December 2019
KazNet Media LLP	100%	100%
KT-Telecom LLP	100%	100%

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

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

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

The consolidated financial statements were authorised for issue by the acting Chairman of the Management Board on 29 January 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 millions, 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.

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 gains 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**New and amended standards and interpretations (continued)***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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

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.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Standards issued but not yet effective (continued)***Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 (continued)*

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

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.

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 the transaction first qualifies for recognition. 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Foreign currency translation (continued)***Transactions and balances (continued)*

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 rubles	5.62	6.16

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 is 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 Group classifies all other liabilities as non-current.

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

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 32*.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Fair value measurement (continued)**

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 Group.

External valuers are involved for valuation of significant assets, such as investment properties and unquoted financial assets, and significant liabilities, such as contingent consideration. Involvement of external valuers is determined annually by the Working Group after discussion with and approval by the Group’s Audit Committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuers are normally rotated every three years. The Working Group decides, after discussions with the Group’s external valuers, 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 Valuation Committee 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.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

Property and equipment

Property and equipment is 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 obligation (*Note 19*) 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 and constructions	10-50
Machinery	3-10
Equipment, tools and installations	2-8

Land is not depreciated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Property and equipment (continued)**

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.

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
Software and license	3-8
Other telecom licenses	10
Other	8-10

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Impairment of non-financial assets (continued)**

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.

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.

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.

Financial assets of the Group include cash and cash equivalents, trade and other accounts receivable, financial asset at fair value through other comprehensive income.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Subsequent measurement (continued)

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 and other receivables.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Financial assets (continued)*****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 and other accounts payable, loans and borrowings, lease liabilities and financial guarantees.

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 17*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial liabilities (continued)*****Subsequent measurement (continued)******Financial guarantees***

The Group has financial guarantee issued to the Parent. 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. The financial guarantee obligation issued to the Parent is initially recognized through equity. 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*. Further details are contained in *Note 20*.

Trade and other accounts payable

Liabilities for trade and other accounts payable 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.

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.

The right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term, as follows:

	Years
Buildings and constructions	5-15

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Leases (continued)***Group as a lessee (continued)**Lease liabilities*

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

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

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.

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 statement of profit or loss 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**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.

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.

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.

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

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

Data services include revenues from 3G and LTE internet, WAP services and other data services.

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

The Group may bundle services and products into one customer offering. Offerings may involve the delivery or performance of multiple products, services, or rights to use assets (multiple deliverables). In some cases, the arrangements include initial installation, initiation, or activation services and involve consideration in the form of a fixed fee or a fixed fee coupled with a continuing payment stream. 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Revenue from contracts with customers (continued)**

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

(i) Call out revenue

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

(ii) Interconnect revenues and costs

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

(iii) Data revenue

The data service is recognised when a service is used by a subscriber based on actual data volume traffic or passage of time (monthly subscription fee).

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

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

(v) Roaming fees charged to other wireless operators

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

(vi) Value added services

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

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 statements of financial position.

Costs to obtain a contract

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**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).

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.

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 an entity incurs in connection with the borrowing of funds.

Taxes*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 statement of profit or loss. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Taxes (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 utilized.

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 correlation to the underlying transaction either in OCI or directly in equity.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. 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 sand 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 interim condensed consolidated financial statements of the Group.

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

Effect of agenda decision on the Group accounting policy

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

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

The Group adopted the agenda decision and retrospectively recalculated lease contracts with governmental entities effective as at 1 January 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)**4. 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.

<i>In millions of tenge</i>	As previously reported	Change in accounting policy	Correction of errors	Note	As restated
Consolidated statement of financial position as at 31 December 2019					
Non-current assets					
Right-of-use assets	23,067	1,909	–	[1]	24,976
Total non-current assets	147,142	1,909	–		149,051
Current assets					
Prepaid income tax	30	–	2,192	[2]	2,222
Total current assets	44,178	–	2,192		46,370
Total assets	191,320	1,909	2,192		195,421
Equity					
Retained earnings	37,771	(261)	2,787	[1]	40,297
Total equity	71,571	(261)	2,787		74,097
Non-current liabilities					
Long-term lease liabilities	21,619	1,828	–	[1]	23,447
Deferred tax liabilities	1,248	(65)	–	[1]	1,183
Total non-current liabilities	80,385	1,763	–		82,148
Current liabilities					
Short term lease liabilities	3,199	407	–	[1]	3,606
Income tax payable	595	–	(595)	[2]	–
Total current liabilities	39,364	407	(595)		39,176
Total liabilities	119,749	2,170	(595)		121,324
Total equity and liabilities	191,320	1,909	2,192		195,421

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**4. 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.

<i>In millions of tenge</i>	As previously reported	Change in accounting policy	Correction of errors	Note	As restated
Consolidated statement of financial position as at 1 January 2019					
Non-current assets					
Right-of-use assets	24,070	3,746	-	[1]	27,816
Total non-current assets	156,787	3,746	-		160,533
Current assets					
Prepaid income tax	-	-	933	[2]	933
Total current assets	30,831	-	933		31,764
Total assets	187,618	3,746	933		192,297
Equity					
Retained earnings	33,626	(159)	2,787	[1]	36,254
Total equity	67,426	(159)	2,787		70,054
Non-current liabilities					
Long-term lease liabilities	22,192	2,992	-	[1]	25,184
Deferred tax liabilities	1,342	(40)	-	[1]	1,302
Total non-current liabilities	39,832	2,952	-		42,784
Current liabilities					
Short term lease liabilities	2,689	953	-	[1]	3,642
Income tax payable	1,854	-	(1,854)	[2]	-
Total current liabilities	80,360	953	(1,854)		79,459
Total liabilities	120,192	3,905	(1,854)		122,243
Total equity and liabilities	187,618	3,746	933		192,297

<i>In millions of tenge</i>	As previously reported	Change in accounting policy	Note	As restated
Consolidated statement of comprehensive income for the year ended 31 December 2019				
Cost of sales	(109,195)	267	[1]	(108,928)
Gross profit	47,462	267		47,729
Operating profit	22,814	267		23,081
Finance costs	(11,500)	(395)	[1]	(11,895)
Profit before income tax	12,870	(128)		12,742
Income tax expenses	(2,753)	26	[1]	(2,727)
Total comprehensive income for the year, net of tax	10,117	(102)		10,015

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**4. 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)*

<i>In millions of tenge</i>	As previously reported	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	12,870	(128)	[1]	12,742
Adjustments for:				
Finance costs	11,500	395	[1]	11,895
Depreciation of property and equipment and right of use assets	20,558	564	[1]	21,122
Operating cash flows before changes in operating assets and liabilities	51,268	831		52,099
Cash flows generated from operations	47,359	831		48,190
Interest paid	(9,825)	(395)	[1]	(10,220)
Net cash flows from operating activities	34,625	436		35,061
Repayment of principal portion of lease liabilities	(2,649)	(436)	[1]	(3,085)
Net cash flows used in financing activities	(13,596)	(436)		(14,032)
Net increase in cash and cash equivalents	2,847	-		2,847

[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 the Group revised the calculation of income tax recognized by the Group 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, the Group identified certain errors in calculation of income tax related to 2015-2018 periods. Identified errors are mainly related with delay in receipt of fiscal documents and long reconciliation process between the Group and its counterparties.

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

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of 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 32*.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)**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 reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

Leases – estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, 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 (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

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

Impairment exists when the carrying value 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 of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)**Judgements (continued)***Provision for expected credit losses*

The Group recognizes provision for expected credit losses for trade and other accounts receivable and funds in credit institutions (cash and cash equivalents, bank deposits).

For trade and other receivable, 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 Group 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 and contract assets is disclosed in *Note 10*.

For funds in credit institutions (cash and cash equivalent, 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.

Thus, as at 31 December 2020 provision for expected credit losses was created in the amount of 9,964 million tenge (as at 31 December 2019: 8,605 million tenge) (*Notes 10*). Changes in the economy, industry or specific customer conditions would have impact to these allowance recorded in the consolidated financial statements.

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 contract with customers set out in IFRS 15, industry practice and the Group's historical churn rate.

Deferred tax assets

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.

As at 31 December 2020, net deferred tax assets of the Group were equal to 1,937 million tenge (at 31 December 2019: 195 million tenge). Further details are contained in *Note 30*.

In 2019 the Group reconsidered the tax treatment of deductibility of doubtful debts from individuals, and derecognized deferred tax assets on the allowance on expected credit losses related to the trade receivables from individuals in the amount of 1,378 million tenge (*Note 30*).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)****Judgements (continued)***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. The 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 33*.

6. SEGMENT INFORMATION

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

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

7. SHARE CAPITAL AND EARNINGS PER SHARE

Share capital of the Group is as follows:

	31 December 2020		31 December 2019	
	Share	Number of shares	Share	Number of shares
Kazakhtelecom JSC	75.00%	150,000,000	75.00%	150,000,000
Raiffeisenbank JSC	11.60%	23,209,124	11.82%	23,641,857
Other	13.40%	26,790,876	13.18%	26,358,143
	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>	2020	2019
Profit for the period attributable to equity shareholders	17,578	10,015
Weighted average number of ordinary shares	200,000,000	200,000,000
Earnings per share (Kazakhstani tenge), basic and diluted	87.89	50.08

The Group has no dilutive or potentially dilutive securities outstanding.

Additional information disclosed in accordance with Kazakhstan Stock Exchange (KASE) requirements*The cost of ordinary shares calculated in accordance with the requirements of the KASE*

According to the requirements of the Kazakhstan Stock Exchange ("KASE"), the Group has calculated its cost per ordinary share, which was calculated based on the number of ordinary shares outstanding at the reporting date. The cost per ordinary share as at 31 December 2020 and 2019 is presented below.

<i>In millions of tenge</i>	31 December 2020	31 December 2019
Net assets, excluding intangible assets	42,353	35,277
Number of ordinary shares in issue	200,000,000	200,000,000
Cost of ordinary share, calculated in accordance with listing requirements of KASE (Kazakhstani tenge)	211.77	176.39

During year ended 31 December 2020 and 2019, the Group declared and paid dividends in the amount of 9,000 million tenge and 5,972 million tenge, respectively. Dividends per share for the year ended 31 December 2020 were equal to 45 tenge (31 December 2019: 29.86 tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**8. PROPERTY AND EQUIPMENT**

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

	<i>In millions of tenge</i>					
	Land	Buildings and construction	Machinery	Equipment, tools and installations	Assets under construction	Total
Cost						
At 1 January 2019	2,122	19,653	213,725	31,289	20,820	287,609
Additions	-	445	153	3,282	8,229	12,109
Provision for dismantling (Note 22)	-	-	542	-	-	542
Transfer between the groups	-	-	10,683	-	(10,683)	-
Disposals	-	-	-	(113)	-	(113)
At 31 December 2019	2,122	20,098	225,103	34,458	18,366	300,147
Additions	-	265	223	4,804	9,159	14,451
Provision for dismantling (Note 22)	-	-	1,899	-	-	1,899
Transfer between the groups	-	-	9,766	-	(9,766)	-
Disposals	-	-	(1,071)	(193)	(417)	(1,681)
Transfer to Inventory	-	-	(23)	-	(84)	(107)
At 31 December 2020	2,122	20,363	235,897	39,059	17,258	314,709
Accumulated depreciation and impairment						
As at 1 January 2019	-	(6,539)	(167,291)	(25,342)	-	(199,172)
Depreciation charge	-	(370)	(13,536)	(3,054)	-	(16,960)
Disposals	-	-	-	112	-	112
Impairment	-	-	(1,844)	-	-	(1,844)
At 31 December 2019	-	(6,909)	(182,671)	(28,284)	-	(217,864)
Depreciation charge	-	(358)	(11,944)	(2,926)	-	(15,228)
Disposals	-	-	1,059	188	-	1,247
Impairment	-	(165)	(79)	-	(4,511)	(4,755)
At 31 December 2020	-	(7,432)	(193,635)	(31,022)	(4,511)	(236,600)
Net book value						
At 31 December 2019	2,122	13,189	42,432	6,174	18,366	82,283
At 31 December 2020	2,122	12,931	42,262	8,047	12,747	78,109

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**8. PROPERTY AND EQUIPMENT (continued)**

As at 31 December 2020 and 2019, assets under construction are 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 164,522 million tenge (31 December 2019: 150,824 million tenge).

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 33). 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 impairment 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 244 million tenge (2019: 1,844 million tenge) for property and equipment and 4,511 million tenge for construction-in-progress (2019: nil), which represented the write-down of certain assets to the recoverable amount as a result of technological obsolescence and damage. Loss was recognized in the consolidated statement of comprehensive income as an operating expense.

9. INTANGIBLE ASSETS

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

<i>In millions of tenge</i>	Software and licenses	Intangible assets in progress	Total
Cost			
At 1 January 2019	88,402	1,190	89,592
Additions	8,094	–	8,094
Disposals	(678)	–	(678)
At 31 December 2019	95,818	1,190	97,008
Additions	12,392	–	12,392
Transfers	718	(718)	–
Disposals	(906)	–	(906)
At 31 December 2020	108,022	472	108,494
Accumulated amortization and impairment			
At 1 January 2019	(49,477)	–	(49,477)
Amortisation charge	(9,390)	–	(9,390)
Disposals	679	–	679
At 31 December 2019	(58,188)	–	(58,188)
Amortisation charge	(11,010)	–	(11,010)
Disposals	906	–	906
Impairment	–	(472)	(472)
At 31 December 2020	(68,292)	(472)	(68,764)
Net book value			
At 31 December 2019	37,630	1,190	38,820
At 31 December 2020	39,730	–	39,730

As at 31 December 2020, the carrying amount of the 3G license was 1,667 million tenge (31 December 2019: 2,000 million tenge) and its remaining amortisation period was 5 years. As at 31 December 2020, the carrying amount of the 4G license was 17,478 million tenge (31 December 2019: 19,211 million tenge) and its remaining amortisation period was 10 years.

During 2020, the Group recognized an impairment loss of 472 million tenge, which represented the write-down of billing system. Loss was recognized in the consolidated statement of comprehensive income as an operating expense.

As at 31 December 2020, the gross carrying value of intangible assets, which has been fully depreciated and still in use, was 36,451 million tenge (31 December 2019: 36,192 million tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**10. TRADE RECEIVABLES**

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

<i>In millions of tenge</i>	31 December 2020	31 December 2019
Trade receivable from subscribers	27,412	23,735
Trade receivable from interconnect services	986	407
Trade receivables from roaming operators	170	302
Trade receivables from dealers and distributors	452	39
Trade receivables from related parties (<i>Note 31</i>)	1,188	887
Less: allowance for expected credit losses	(9,964)	(8,605)
	20,244	16,765
Less: long-term portion of trade receivable from subscribers	(2,421)	(1,118)
	17,823	15,647

During the year movements in the allowance for expected credit losses were as follows:

<i>In millions of tenge</i>	2020	2019
Allowance for expected credit losses at the beginning of the year	(8,605)	(6,680)
Charge for the year	(1,547)	(2,256)
Write-offs for the year	188	331
Allowance for expected credit losses at the end of the year	(9,964)	(8,605)

Below is information as of 31 December 2020 and 2019 about the credit risk exposure on the Group's trade receivables using a provision matrix:

<i>In millions of tenge</i>	Total	Days past due					
		Current	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	Over 180 days
31 December 2020							
Estimated total gross book value for default	30,208	17,761	1,574	467	271	543	9,592
Expected credit losses	9,964	17	25	55	62	289	9,516

<i>In millions of tenge</i>	Total	Days past due					
		Current	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	Over 180 days
31 December 2019							
Estimated total gross book value for default	25,370	12,248	1,553	776	362	837	9,594
Expected credit losses	8,605	40	41	64	57	345	8,058

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

<i>In millions of tenge</i>	31 December 2020	31 December 2019
Tenge	20,074	16,463
US dollars	170	302
	20,244	16,765

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**11. INVENTORIES**

As at 31 December 2020 and 2019, inventories comprised:

<i>In millions of tenge</i>	31 December 2020	31 December 2019
Handsets and accessories (at lower of cost and net realizable value)	8,523	6,071
Start packages (at cost)	255	159
Marketing materials (at cost)	150	61
SIM-cards (at cost)	77	71
Other materials (at cost)	357	274
	9,362	6,636

During 2020, the Group recognised as an expense 654 million tenge (2019: nil) for inventories carried at net realisable value. This is recognised in general and administrative expenses.

12. OTHER CURRENT NON-FINANCIAL ASSETS

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

<i>In millions of tenge</i>	31 December 2020	31 December 2019
Advances paid	1,548	2,928
VAT recoverable	397	1,891
Prepaid taxes other than income taxes	710	1,883
Prepaid expenses	408	2
	3,063	6,704

13. OTHER CURRENT FINANCIAL ASSETS

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

<i>In millions of tenge</i>	31 December 2020	31 December 2019
Other receivables	94	914
Due from employees	151	336
Other	-	121
	245	1,371

As at 31 December 2020 and 2019, other current non-financial assets were fully denominated in tenge.

14. 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: 4,965 million tenge). The Group recognized the financial assets at fair value through other comprehensive income as the contractual cash flows were solely principal and interest and the financial assets were held within a business model for collecting contractual cash flows and selling financial assets. Nominal amount was 12,880,000 USD (equivalent to 5,021 million tenge 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 5,385 million tenge and 141 million tenge, respectively).

15. FINANCIAL ASSETS AT AMORTIZED COST

As at 31 December 2020 financial assets at amortized cost in the amount of 18,923 million tenge (31 December 2019: nil) were represented by short-term discount notes of National Bank of the Republic of Kazakhstan ("NBRK") denominated in tenge, which were acquired at purchase price 36,751 million tenge in June-December 2020. During 2020, short-term NBRK discount note was redeemed for a total amount of 18,139 million tenge of nominal value and interest income of 761 million tenge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**15. FINANCIAL ASSETS AT AMORTIZED COST (continued)**

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:

<i>In millions of tenge</i>	Maturity date	Yield to maturity	Nominal value	31 December 2020	31 December 2019
NBRK note	13 January 2021	8.92%	10,000	9,969	-
NBRK note	15 January 2021	9.41%	4,000	3,984	-
NBRK note	22 January 2021	9.85%	3,000	2,982	-
NBRK note	22 January 2021	9.85%	2,000	1,988	-
			19,000	18,923	-

16. CASH AND CASH EQUIVALENTS

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

<i>In millions of tenge</i>	31 December 2020	31 December 2019
Cash on current bank accounts	14,202	5,549
Bank deposits with original maturity of less than 90 days	8,782	3,256
Cash on hand	39	20
	23,023	8,825

As of 31 December 2020, short-term bank deposit for the amount of 8,781 million tenge represents overnight deposits in tenge placed in Altyn Bank JSC at interest rate 8.5% and 658 thousand tenge overnight deposits in tenge placed in Citibank Kazakhstan JSC at interest rate 6.5%.

As at 31 December 2020 and 2019, cash and cash equivalents were denominated in various currencies as follows:

<i>In millions of tenge</i>	31 December 2020	31 December 2019
US dollars	12,982	3,767
Tenge	9,398	4,923
Euro	642	111
Russian roubles	-	18
Other	1	6
	23,023	8,825

17. BORROWINGS

As at 31 December 2020 and 2019, borrowings comprised of the following:

<i>In millions of tenge</i>	Currency	Effective interest rate	Maturity date	31 December 2020	31 December 2019
Bonds	Tenge	11.84%	16 January 2021	22,871	22,828
Eurasian Development Bank JSC	Tenge	13.06%	20 June 2024	18,129	28,956
Halyk Bank of Kazakhstan JSC	Tenge	11.20%	21 April 2023	15,223	-
Bank of China Kazakhstan JSC	Tenge	10.70%	20 August 2022	11,059	5,060
VTB Bank JSC	Tenge	11.90%	15 October 2023	6,005	5,088
				73,287	61,932
Less: non-current portion				(49,933)	(55,548)
				23,354	6,384

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**17. BORROWINGS (continued)**

Borrowings are repayable as follows:

<i>In millions of tenge</i>	31 December 2020	31 December 2019
Current portion of borrowings	23,354	6,384
Maturity between 1 and 2 years	10,972	21,706
Maturity between 2 and 5 years	38,961	33,842
Maturity over 5 years	–	–
Total non-current portion of borrowings	49,933	55,548

The Group's borrowings are denominated in Kazakhstani tenge and represent unsecured loans and bonds. 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 December 2020 and 2019, there have been no breaches of the covenants.

As at 31 December 2020 current portion of borrowings includes principal amount and interest accrued of bonds in the amount of 22,649 million tenge and interest accrued of other borrowings in the amount of 705 million tenge.

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

On 21 February 2019, the Group undertook a bond placement at the Kazakhstan Stock Exchange, in which bonds in the amount of 17,025 million tenge were placed with investors at a yield of 11.5% and on 16 January 2018 a bond placement with the value of 4,950 million tenge.

On 3 February 2020, the Group fully repaid loan obtained from VTB Bank JSC in the amount of 5,133 million tenge, including principal and interest accrued in the amount of 5,000 million tenge and 133 million tenge, respectively. On 15 October 2020 the Group signed credit line agreement with VTB Bank JSC for the amount of 6,000 million tenge at interest rate of 10.7% per annum.

On 16 March 2020, the Group obtained additional loan in the amount of 4,500 million tenge 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 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 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 company. 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 consolidated financial statements.

On 23 April 2020, the Group obtained loan in the amount of 15,000 million tenge within credit line agreement with Halyk Bank of Kazakhstan JSC with a maturity of 36 months and a fixed 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 115 million tenge as a result of change in the interest rate.

On 21 September 2020 and 4 December 2020, the Group repaid principal amount of the loan obtained from Eurasian Development Bank in the amount of 3,630 million tenge and 1,500 million tenge ahead of schedule.

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 11.9% per annum.

On 8 December 2020 the Group has obtained additional loan in the amount of 1,500 million tenge from Bank of China.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**18. 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 and lease liabilities recognised and the movements during the period:

<i>In millions of tenge</i>	Total
Cost	
At 1 January 2019	27,816
Modification	535
Additions	801
Cancellation	(19)
At 31 December 2019	29,133
Modification	161
Additions	491
Cancellation	(300)
At 31 December 2020	29,485
Accumulated depreciation	
At 1 January 2019	-
Depreciation charge	(4,162)
Cancellation	5
At 31 December 2019	(4,157)
Depreciation charge	(4,564)
Cancellation	40
At 31 December 2020	(8,681)
Net book value	
At 31 December 2019	24,976
At 31 December 2020	20,804

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

<i>In millions of tenge</i>	31 December 2020	31 December 2019
At the beginning of the period	27,053	28,826
Interest expenses (Note 29)	3,150	3,309
Payments	(6,908)	(6,394)
Additions	491	802
Modifications	161	535
Cancellation	(281)	(25)
At the end of the period	23,666	27,053
Long-term lease liabilities	19,447	23,447
Short-term lease liabilities	4,219	3,606

The following are the amounts recognised in profit or loss:

<i>In millions of tenge</i>	2020	2019
Depreciation expense of right-of-use assets	4,564	4,162
Interest expense on lease liabilities	3,150	3,309
Expenses related to short-term leases	49	197
Total amount recognised in profit or loss	7,763	7,668

The Group had total cash outflows for leases of 6,957 thousand tenge in 2020 (2019: 6,591 million tenge). The Group did not have non-cash additions to right-of-use assets and lease liabilities in 2020 (2019: 2,080 million tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**19. TRADE PAYABLES**

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

<i>In millions of tenge</i>	31 December 2020	31 December 2019
Trade payables to third parties	21,259	20,043
Trade payables to related parties (<i>Note 31</i>)	1,094	1,132
	22,353	21,175

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

<i>In millions of tenge</i>	31 December 2020	31 December 2019
Tenge	21,043	17,293
US dollars	1,304	3,813
Other currency	6	69
	22,353	21,175

20. FINANCIAL GUARANTEE OBLIGATION

On 27 November 2020 the Group issued the financial guarantee on loan agreement of Kazakhtelecom JSC obtained from Eurasian Bank of Development 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 December 2019: nil). At the reporting date, 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 of 31 December 2020 financial guarantee obligation equaled to 563 million tenge, which represents the initial amount less the cumulative amount of income recognised in accordance with IFRS 15.

21. CONTRACT LIABILITIES

As at 31 December 2020 and 2019, trade contract liabilities comprised of the following:

<i>In millions of tenge</i>	2020	2019
Contract liabilities as at 1 January	4,149	3,772
Deferred during the year	107,352	106,270
Recognised as revenue during the year	(109,523)	(105,893)
Contract liabilities as at 31 December	1,978	4,149

22. ASSET RETIREMENT OBLIGATION**Decommissioning liabilities**

Provision for decommissioning liabilities 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 decommissioning liability.

Movements in provision for decommissioning liabilities for the years ended 31 December 2020 and 2019 were as follows:

<i>In millions of tenge</i>	2020	2019
Provision for decommissioning liabilities as at 1 January	1,970	1,285
Additional provisions (<i>Note 8</i>)	1,899	542
Unwinding of discount (<i>Note 29</i>)	138	143
Provision for decommissioning liabilities as at 31 December	4,007	1,970

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**22. ASSET RETIREMENT OBLIGATION (continued)****Decommissioning liabilities (continued)**

The provision was determined at the end of the reporting period using the projected inflation rate for the expected period of the fulfilment of obligation, and the discount rate at the end of the year which is presented below:

	2020	2019
Discount rate	6.83%	6.98%
Inflation rate	5.5%	5.5%
Period of fulfillment of obligation	11 years	12 years

23. PROVISIONS

In 2020 the Group accrued certain amount of payable amount related to legal claims on contractual obligation and fines and penalties that Management considers as probable in the amount of 3,685 million tenge and 701 million, respectively.

<i>In millions of tenge</i>	31 December 2020	31 December 2019
Legal claims on contractual obligation	3,685	-
Provision of fines and penalties (Note 33)	701	-
Other liabilities	116	188
	4,502	188

24. REVENUE FROM CONTRACTS WITH CUSTOMERS

<i>In millions of tenge</i>	2020	2019
Voice and other services	73,852	78,689
Data service	58,446	51,430
Sale of handsets	34,634	19,093
Value added services	7,752	7,445
	174,684	156,657
Over time	140,050	137,564
At a point of time	34,634	19,093
	174,684	156,657

25. COST OF SALES

<i>In millions of tenge</i>	2020	2019
Cost of SIM-card, scratch card and handsets sales	28,430	16,450
Depreciation and amortization	27,377	27,037
Interconnect fees and expenses	19,163	24,729
Personnel costs	11,090	9,392
Transmission services	9,998	9,197
Repair and maintenance	7,065	7,552
Fees for use of frequency range	6,310	5,578
Electricity	2,939	3,511
Mobile service tax	1,960	1,846
Network sharing agreement	919	180
Security and safety	284	391
Materials	284	281
Rent expenses	49	197
Other	3,265	2,587
	119,133	108,928

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**26. PENALTY EXPENSES**

On 12 April 2019, the Group received from Kar-Tel LLP a notice on termination of the Network Sharing Agreement (hereinafter referred to as the “Agreement”), since there was a change in the Group’s controlling shareholder in December 2018, which represents, in accordance with the Agreement, a breach of conditions of the Agreement, giving the right to the second party to terminate the Agreement and request payment of termination fine, determined in accordance with the methodology specified in the Agreement. The Group received from Kar-Tel LLP an invoice for payment of a termination fine in the amount of 14,552 million tenge. The Group repaid the termination fine in full in September 2019.

27. GENERAL AND ADMINISTRATIVE EXPENSES

<i>In millions of tenge</i>	2020	2019
Personnel costs	3,633	2,885
Depreciation and amortization	3,425	3,475
Taxes other than income tax	898	1,124
Write-down of inventories to net realizable value	654	–
Consulting services	430	451
Repair and maintenance	405	321
Security and safety	108	28
Representative expenses	104	102
Business trips	55	51
Inventories	45	30
Insurance	26	24
Trainings	12	33
Other	631	401
	10,426	8,925

28. SELLING EXPENSES

<i>In millions of tenge</i>	2020	2019
Marketing and advertising	1,361	1,849
Amortization of cost to obtain a contract	253	338
Commissions for dealers and cash collection	42	205
Other	309	495
	1,965	2,887

29. FINANCE COSTS/FINANCE INCOME

<i>In millions of tenge</i>	2020	2019
Finance costs		
Interest expense on loans	8,386	8,358
Interest on lease liabilities (Note 18)	3,150	3,309
Unwinding of discount (provision for decommissioning liability) (Note 22)	138	143
Other	79	85
	11,753	11,895
Finance income		
Interest income on financial assets at amortised cost (Note 15)	1,072	–
Interest income on cash balances and deposit	817	404
Recognition of discount on long-term loans (Note 32)	148	904
Unwinding of issued financial guarantee	29	–
Other	234	107
	2,300	1,415

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**30. INCOME TAX EXPENSES**

<i>In millions of tenge</i>	2020	2019
Current income tax expense	(8,611)	(4,300)
Adjustments in respect of income tax of previous year	(175)	76
Deferred income tax benefit	1,742	1,497
	(7,044)	(2,727)

The Group are subject to taxation in the Republic of Kazakhstan. Tax rate for the Group and subsidiaries was 20% in 2020 and 2019.

A reconciliation of income tax expenses applicable to profit before taxation at the statutory rate, with the current corporate income tax expenses for the years ended 31 December 2020 and 31 December 2019 is set out below:

<i>In millions of tenge</i>	2020	2019
Profit before taxation	24,622	12,742
Income tax at statutory income tax rate of 20%	4,924	2,548
Non-taxable income	(351)	(1,163)
Non-deductible expenses	328	1,020
Legal disputes expenses	877	–
Impairment of construction-in-progress	997	–
Recognition of tax loss carry forward	(234)	(1,378)
Derecognition of deferred tax assets of expected credit losses	–	1,150
Adjustments in respect of income tax of previous year	175	(76)
Adjustments in respect of deferred income tax of previous year	328	626
Total income tax expenses	7,044	2,727

Non-taxable income is mainly represented by income from reversal of tax and related fines and penalties provision in the amount of 684 million tenge and interest income on NBRK notes in the amount of 1,072 million tenge. Non-deductible expenses mainly represented by representative expenses, taxes at own expenses, and other expenses which are in accordance with Tax Code of the Republic of Kazakhstan are non-deductible.

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

<i>In millions of tenge</i>	Consolidated statement of financial position		Consolidated statement of comprehensive income	
	31 December 2020	31 December 2019	2020	2019
Deferred tax assets				
Expected credit losses	391	343	48	(993)
Accrued bonuses to employees	402	360	42	290
Tax loss carry forward	1,612	1,378	234	1,378
Lease liabilities	572	415	157	188
Provision for unused vacation	166	116	50	(2)
Asset retirement obligation	801	394	407	137
Deferred services	793	651	142	30
Other	148	133	15	109
Deferred tax assets	4,885	3,790	1,095	1,137
Deferred tax liabilities				
Property and equipment and intangible asset	(2,854)	(3,390)	536	413
Other	(94)	(205)	111	(79)
Deferred tax liabilities	(2,948)	(3,595)	647	334
Deferred tax assets/(liabilities), net	1,937	195	1,742	1,471

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. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**30. INCOME TAX EXPENSES (continued)**

As at 31 December 2020, the Group has not recognised deferred tax assets in relation to the temporary difference in the amount of 225 million tenge (as at 31 December 2019: 813 million tenge) related to investments in subsidiaries as 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.

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

<i>In millions of tenge</i>	2020	2019
Deferred tax assets	1,937	1,378
Deferred tax liabilities	-	(1,183)
	1,937	195

31. 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 December 2020, the Group recognized an allowance for expected credit losses in the amount of 56 million tenge in respect of receivables from related parties (31 December 2019: 98 million tenge).

Related party transactions were made on terms agreed between parties that may not necessarily be at market rate. Sales and purchases with related parties during 2020 and 2019, and the balances with related parties as at 31 December 2020 and 2019, were as follows:

<i>In millions of tenge</i>	2020	2019
Sales of goods and services		
Entities of Samruk Kazyna group	210	197
Entities of Kazakhtelecom group	12,351	11,674
Government entities	1,244	303
Purchases of goods and services		
Entities of Samruk Kazyna group	445	745
Entities of Kazakhtelecom group	19,723	18,988
Government entities	77	26
	31 December 2020	31 December 2019
<i>In millions of tenge</i>		
Trade receivables (Note 10)		
Entities of Samruk Kazyna group	43	65
Entities of Kazakhtelecom group	1,100	816
Government entities	45	6
Trade payables (Note 19)		
Entities of Samruk Kazyna group	62	156
Entities of Kazakhtelecom group	1,018	975
Government entities	14	1

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 249 million tenge and 118 million tenge, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**32. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES**

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

Impairment losses on financial assets

Impairment losses on financial assets for the year ended 31 December 2020 and 2019, comprise accruing reserve on expected credit losses for trade receivables in amount 1,547 million tenge and 2,256 million tenge, respectively (*Note 10*).

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.

The majority of the Group's purchases of property, plant and equipment and inventories, as well as certain services such as roaming are denominated in US dollars, the Group's consolidated statement of financial position can be affected significantly by movement in the US dollar / tenge exchange rates.

The following table demonstrates the sensitivity to a reasonably possible change 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.

<i>In millions of tenge</i>	2020		2019	
	Increase/ (decrease) in exchange rate	Effect on profit before tax	Increase/ (decrease) in exchange rate	Effect on profit before tax
US dollars	14%	1,659	12%	626
	-11%	(1,303)	-9%	(470)

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

Financial instruments in which the Group's credit risk is concentrated are primarily trade 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 three years 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 *Note 10*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**32. 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.

<i>In millions of tenge</i>	Rating 2020	Rating 2019	Cash balance		Balance on deposit accounts	
			2020	2019	2020	2019
Citibank Kazakhstan JSC	BBB+	A+	2,886	3,120	1	139
Altyn Bank JSC	BBB-	BBB-	1,301	35	8,781	3,117
Credit Suisse (Schweiz) AG	A+	A+	1,057	466	-	-
Halyk Bank Kazakhstan JSC	BB	BB	8,861	1,316	-	-
Kaspi Bank JSC	BB-	BB-	88	514	-	-
SB Sberbank JSC	BB+	B	8	96	-	-
Halyk Finance JSC	BB	BB	-	1	-	-
Bank of China Kazakhstan JSC	BBB+	A+	1	1	-	-
Total			14,202	5,549	8,782	3,256

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

<i>In millions of tenge</i>	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	-	24,398	4,258	56,244	-	84,900
Financial guarantees*	-	852	3,593	14,586	-	19,031
Trade payables	-	22,353	-	-	-	22,353
Lease liabilities	-	1,592	4,780	19,706	3,597	29,675
Due to employees	-	3,691	-	-	-	3,691
	-	52,886	12,631	90,536	3,597	159,650
At 31 December 2019						
Borrowings	-	7,384	4,253	70,368	-	82,005
Trade payables	-	21,175	-	-	-	21,175
Lease liabilities	-	1,456	4,372	22,920	4,619	33,367
Due to employees	-	3,172	-	-	-	3,172
	-	33,187	8,625	93,288	4,619	139,719

* Based on the maximum amount that can be called for under the financial guarantee's contract (Note 20).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**32. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES (continued)****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.

Fair values

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

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

<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 2020	18,624	–	–	18,624
Short-term trade receivables	31 December 2020	–	–	17,823	17,823
Long-term trade receivables	31 December 2020	–	–	2,504	2,504
Other current financial assets	31 December 2020	–	–	245	245
Liabilities for which fair values are disclosed					
Borrowings	31 December 2020	–	–	72,692	72,692
Trade payables	31 December 2020	–	–	22,353	22,353
Due to employees	31 December 2020	–	–	3,691	3,691

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 follow:

<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 measured at fair value					
Financial assets at fair value through other comprehensive income	31 December 2019	4,965	–	–	4,965
Assets for which fair values are disclosed					
Short-term trade receivables	31 December 2019	–	–	15,647	15,647
Long-term trade receivables	31 December 2019	–	–	1,147	1,147
Other current financial assets	31 December 2019	–	–	1,371	1,371
Liabilities for which fair values are disclosed					
Borrowings	31 December 2019	–	–	61,778	61,778
Trade payables	31 December 2019	–	–	21,175	21,175
Due to employees	31 December 2019	–	–	3,172	3,172

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**32. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES (continued)****Fair values (continued)**

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

<i>In millions of tenge</i>	Carrying amount 31 December 2020	Fair value 31 December 2020	Unrecognised gain/(loss)	Carrying amount 31 December 2019	Fair value 31 December 2019	Unrecognised gain/(loss)
Financial assets						
Cash and cash equivalents	23,023	23,023	–	8,825	8,825	–
Financial assets at fair value through other comprehensive income	–	–	–	4,965	4,965	–
Financial assets at amortized cost	18,923	18,624	(299)			
Short-term trade receivables	17,823	17,823	–	15,647	15,647	–
Long-term trade receivables	2,421	2,504	83	1,118	1,147	28
Other current financial assets	245	245	–	1,371	1,371	–
Financial liabilities						
Borrowings	73,287	72,692	595	61,932	61,778	(154)
Trade payables	22,353	22,353	–	21,175	21,175	–
Due to employees	3,691	3,691	–	3,172	3,172	–
Total unrecognised change in unrealised fair value	161,766	160,955	379	118,205	118,080	(126)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

32. 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:

<i>In millions of tenge</i>	1 January 2020	Loan obtained	New leases	Principal repaid	Interest accrued	Interest paid	Reclassification	Modifications	Cancellation of leases	Commission recognized	Discount recognized	31 December 2020
Borrowings: non-current portion	55,548	27,000	-	(11,130)	-	-	(21,337)	-	-	-	(148)	49,933
Borrowings: current portion	6,384	-	-	(5,000)	8,386	(7,753)	21,337	-	-	-	-	23,354
Long-term lease liabilities	23,447	-	491	-	-	-	(4,371)	161	(281)	-	-	19,447
Short-term lease liabilities	3,606	-	-	(3,758)	3,150	(3,150)	4,371	-	-	-	-	4,219
Total	88,985	27,000	491	(19,888)	11,536	(10,903)	-	161	(281)	-	(148)	96,953

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

<i>In millions of tenge</i>	1 January 2019*	Loan obtained	New leases	Principal repaid	Interest accrued	Interest paid	Reclassification	Modifications	Cancellation of leases	Commission recognized	Discount recognized	31 December 2019*
Borrowings: non-current portion	14,936	32,025	-	-	8,358	(6,911)	8,399	-	-	(355)	(904)	55,548
Borrowings: current portion	51,783	5,000	-	(42,000)	-	-	(8,399)	-	-	-	-	6,384
Long-term lease liabilities	25,184	-	802	-	-	-	(3,049)	534	(24)	-	-	23,447
Short-term lease liabilities	3,642	-	-	(3,085)	3,309	(3,309)	3,049	-	-	-	-	3,606
Total	95,545	37,025	802	(45,085)	11,667	(10,220)	-	534	(24)	(355)	(904)	88,985

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33. 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.

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 analysing 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 equipment. As at 31 December 2020, the Group had contractual commitments totaling 4,375 million tenge, excluding VAT (as at 31 December 2019: 5,213 million tenge, excluding VAT).

Taxation

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33. COMMITMENTS AND CONTINGENT LIABILITIES (continued)**Taxation (continued)***Tax audit for 2012 – 3rd quarter 2015*

In July 2017, the Kazakhstan tax authority completed its comprehensive tax audit for the period of 2012 – 3rd quarter 2015. Based on the results of the tax audit, the tax authority made an accrual of additional taxes and fines and penalties in the total amount of 9,008 million tenge, of which 5,790 million tenge is for unpaid taxes and 3,218 million tenge represents fines and penalties. The Group did not agree with some results of tax audit and filed an appeal.

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

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

- Additional charge on withholding tax for services provided by non-resident legal entities in the amount of 2,197 million tenge;
- Additional VAT on software technical support services provided by non-resident legal entities in the amount of 780 million tenge;
- Related fines and penalties in the amount of 2,839 million tenge.

For the year ended 31 December 2019, the Group recognised income from reversal of tax and related penalties provision in the amount of 5,816 million 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 216 million tenge 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 257 million tenge and 211 million tenge, respectively.

New technical regulations

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33. COMMITMENTS AND CONTINGENT LIABILITIES (continued)**Cases related to the abuse of dominant position (continued)***Tariffication of Kcell's mobile internet services (continued)*

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

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

On 25 October 2019, Specialised Inter-district Economic Court of Almaty issued the resolution to cancel administrative proceedings due to the lack of an offense. However, the Committee had the right to appeal within 180 days after announcement of the resolution. On 14 April 2020, the Committee appealed the decision of Specialised Inter-district Economic Court of Almaty. On 4 May 2020 the administrative proceedings were finalized after the decision of the Supreme Court of RK to reject the Committee's appeal due to lack of offence. The decision of Supreme Court of RK (as the superior level of authority) is final decision, that essentially not subject to revision.

Billing cycle of mobile phone plans

On 27 December 2019, the Company received a notification from the Committee on Regulation and Protection of Competition of the Ministry of National Economy of the Republic of Kazakhstan ("Committee") prescribing that the Group should bring its existing and legacy mobile phone plans in line with Rules for provision of mobile services ("Rules"), namely to set a calendar month as default billing cycle, as follows from the definition of the term "accounting period". According to the Committee, by establishing a one-day, a weekly, a 28-day or a 30-day billing cycle on mobile phone plans the Group breaches article 174.1 of the Business Code of the Republic of Kazakhstan. The Committee also sees the reduction of billing cycle as possible abuse of the dominant position through violation of the rights of consumers. On 15 July 2020 the Company received a copy of the Committee's Order on conducting an investigation. In the course of the investigation, the Company has provided the relevant data and information requested by the Committee. On 7 September 2020 the Company received Investigation Report stating that there were no violations of the legislation in the actions of the mobile operator. The investigation in relation to the Company's activity was terminated.

Kcell Solution tax legal case

In 2018, tax authorities initiated tax audit in respect to Kcell Solutions LLP (Kcell Solutions) with regard to CIT and VAT. According to the result of audit tax, generated tax losses carried forward and recognized VAT input by Kcell Solutions in 2013-2017 have been reduced by the total amount of 427 million tenge and 165 million tenge respectively.

Kcell Solutions disputed the results of the tax authority in Judicial Board for Civil Cases of Almaty City Court. On 29 January 2020, Judicial Board for Civil Cases of Almaty City Court dismissed the appeal of Kcell Solutions. Kcell Solutions did not agree with results and filed an appeal to the Supreme Court of the Republic of Kazakhstan. Based on resolution of the Supreme Court of the Republic of Kazakhstan dated 25 August 2020, the Kcell Solutions's appeal was fully satisfied, thus previously reduced tax losses carried forward and VAT input in the amount of 427 million tenge and 165 million tenge, 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 427 million tenge and 108 million tenge, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33. COMMITMENTS AND CONTINGENT LIABILITIES (continued)**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 701 million tenge (*Note 23*).

34. SUBSEQUENT EVENTS

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

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

On 27 January 2021 the Group additionally acquired notes of the National Bank of Republic of Kazakhstan in the amount of 2,980 million tenge.