



Kcell JSC

Consolidated financial statements

*For the year ended 31 December 2021
together with independent auditor's report*

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Independent auditor's report

To the Shareholders and the Audit committee of the Board of directors of 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 2021, 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 2021 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), together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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.



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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 |
|-------------------------|---|
|-------------------------|---|

| | |
|-----------------------------------|--|
| <i>Revenue recognition</i> | |
|-----------------------------------|--|

Recognition and measurement of revenue from provision of telecommunication services was one of the matters of most significance in our audit due to the risk of improper revenue recognition as the billing systems employed by the Group are complex and automated processes. In addition, effect of accounting treatment of changing tariff structures and multi-element arrangements on revenue could be significant.

The selection and application of revenue recognition policies, including the application of IFRS 15 *Revenue from contracts with customers*, 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.

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 23 to the consolidated financial statements.

We have considered the relevant IT systems and the design of controls, and tested the operating effectiveness of controls over capturing and recording data in billing systems related to revenue recognition; authorisation of changes and accounting treatment of tariff rates input to the billing systems; and calculation of amounts billed to the customers.

We performed 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 timing of revenue recognition.

We analysed the key judgements and estimates, and the accounting policy for compliance with IFRS 15. We considered the disclosures related to revenue recognition in light of the requirements of IFRS 15.

| | |
|--|--|
| <i>Accounting for leases in accordance with of IFRS 16 Leases</i> | |
|--|--|

The Group has significant balances of right-of-use assets in the amount of 17 billion tenge and lease liabilities in the amount of 20 billion tenge.

We analysed the identified lease contracts and on a sample basis compared the input data used in the lease calculation with the lease contracts.



The accounting for right-of-use assets and lease liabilities in accordance with IFRS 16 *Leases* was one of the matters of most significance in 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.

The Group's disclosure in respect of the accounting policies on lease recognition and measurement in accordance with IFRS 16 is included in Note 3 to the consolidated financial statements and detailed lease disclosures are included in Note 16 to the consolidated financial statements.

We analysed management assumptions, specifically the assumptions in relation to 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 and compared with the management's calculations.

We considered the related disclosures provided in the Note 16 to the 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 *Property, plant and equipment* and IAS 38 *Intangible assets* 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 matters of most significance in our audit.

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 7 and Note 8, 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.

As part of audit procedures in relation to each element of capitalised costs we tested supporting documents on a sample basis and obtained understanding of 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 related disclosures provided in the Group's consolidated financial statements.

Accounting for government grants

In 2021 the Government approved the Rules for the assignment of frequency bands, radio frequencies, operation of radio-electronic means and high-frequency devices (“the Rules”), based on which the Group is eligible for government grant in the form of 90% reduction in the annual fee for use of radio frequencies from 1 January 2020 till 1 January 2025. As of 31 December 2021 amount of government grant received equal to 10,033 million tenge, of which 2,108 million tenge was released to the profit and loss for the year ended 31 December 2021. Grant is subject to conditions, namely financing of the projects related to broadband internet in rural and urban areas.

Management evaluates whether the relevant conditions attached to the grant are fulfilled at the balance sheet date and whether there is a reasonable assurance that the grant will be received in order to be recognized in accordance with IAS 20 *Accounting for government grants and disclosure of government assistance*.

We identified accounting for government grants as a key audit matter for our audit because amount of grant recognised is material to the consolidated financial statements, and recognition of grant and assessment of its recoverability are subject to significant judgement of the Management. The area of subjectivity and judgement include interpretation and satisfaction of conditions specified in the Rules and assessment of reasonable assurance that grant will be received.

The Group’s policy on the recognition of the government grants is included in Note 3 to the consolidated financial statements, and detailed disclosures of government grants are included in Note 22 to the consolidated financial statements.

We obtained understanding over government grant recognition process.

We considered documentation relating to the government grant received and analysed the conditions attached to the respective Rules and respective application and approval procedures.

We evaluated the information which was the basis for the Management's judgement about whether the conditions attached to the grant have been met and whether reasonable assurance has been obtained that the grant will be received.

We performed analytical procedures in respect to the amounts of financing of the projects related to broadband internet in rural and urban areas, obtained understanding of the nature of the expenditures and compared amounts of such expenses on a sample basis with supporting documents.

We assessed the disclosures provided in the Note 22 to the Group’s consolidated financial statements in respect of government grants.



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Other information included in the Group's 2021 Annual report

Other information consists of the information included in the Group's 2021 Annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2021 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.



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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.



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

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

Ernst & Young LLP

Paul Cohn
Audit Partner



Rustamzhan Sattarov
Auditor / General Director
Ernst & Young LLP

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

050060, Republic of Kazakhstan, Almaty
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9 February 2022



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 2021

| <i>In millions of tenge</i> | Notes | 31 December 2021 | 31 December 2020 |
|--|-------|---------------------|---------------------|
| Assets | | | |
| Non-current assets | | | |
| Property and equipment | 7 | 85,805 | 78,109 |
| Intangible assets | 8 | 42,284 | 39,730 |
| Advances paid for non-current assets | 7 | 1,930 | 293 |
| Right-of-use assets | 16 | 16,943 | 20,804 |
| Long-term trade receivables | 9 | 4,148 | 2,421 |
| Cost to obtain contracts | | 472 | 185 |
| Deferred tax assets | 29 | 1,720 | 1,937 |
| Total non-current assets | | 153,302 | 143,479 |
| Current assets | | | |
| Inventories | 10 | 6,582 | 9,362 |
| Trade receivables | 9 | 17,751 | 17,823 |
| Other current non-financial assets | 11 | 10,111 | 3,063 |
| Other current financial assets | 12 | 538 | 245 |
| Prepaid income tax | | 30 | 813 |
| Financial assets at amortized cost | 13 | - | 18,923 |
| Cash and cash equivalents | 14 | 51,402 | 23,023 |
| Total current assets | | 86,414 | 73,252 |
| Total assets | | 239,716 | 216,731 |
| Equity and liabilities | | | |
| Equity | | | |
| Share capital | 6 | 33,800 | 33,800 |
| Additional paid in capital | 15 | 1,260 | - |
| Retained earnings | | 63,211 | 48,283 |
| Total equity | | 98,271 | 82,083 |
| Non-current liabilities | | | |
| Borrowings: non-current portion | 15 | 48,283 | 49,933 |
| Long-term lease liabilities | 16 | 15,185 | 19,447 |
| Government grants: non-current portion | 22 | 5,688 | - |
| Asset retirement obligation | 20 | 4,204 | 4,007 |
| Financial guarantee obligation | 18 | - | 563 |
| Total non-current liabilities | | 73,360 | 73,950 |
| Current liabilities | | | |
| Borrowings: current portion | 15 | 11,699 | 23,354 |
| Short-term lease liabilities | 16 | 4,944 | 4,219 |
| Government grant: current portion | 22 | 2,237 | - |
| Trade payables | 17 | 35,705 | 22,353 |
| Financial guarantee obligation | 18 | 330 | - |
| Contract liabilities | 19 | 3,207 | 1,978 |
| Provisions | 21 | 3,817 | 4,502 |
| Due to employees | | 4,347 | 3,691 |
| Property tax payable | | 712 | 601 |
| Income tax payable | | 1,087 | - |
| Total current liabilities | | 68,085 | 60,698 |
| Total liabilities | | 141,445 | 134,648 |
| Total equity and liabilities | | 239,716 | 216,731 |

Chairman of the Management Board & Chief Executive Officer

Chief Financial Officer



The accounting policies and notes on pages 6 to 50 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

| <i>In millions of tenge</i> | Notes | 2021 | 2020 |
|--|--------|---------------|---------------|
| Revenue from contracts with customers | 23 | 194,081 | 174,684 |
| Income from government grants | 22 | 2,108 | - |
| Cost of sales | 24 | (125,867) | (119,133) |
| Gross profit | | 70,322 | 55,551 |
| General and administrative expenses | 25 | (14,137) | (10,426) |
| Selling expenses | 26 | (3,106) | (1,965) |
| Impairment of financial assets | 9, 12 | (2,106) | (1,547) |
| Impairment of property and equipment and intangible assets | 7, 8 | (588) | (5,227) |
| Reversal of tax and related fines and penalties provision | 21, 32 | 683 | 684 |
| Provisions for legal claims | 21 | - | (4,386) |
| Other operating income | 28 | 715 | 550 |
| Other operating expenses | 28 | (1,298) | (408) |
| Operating profit | | 50,485 | 32,826 |
| Finance costs | 27 | (10,326) | (11,753) |
| Finance income | 27 | 2,561 | 2,300 |
| Net foreign exchange gain | | 403 | 987 |
| Other non-operating income | | 79 | 262 |
| Profit before tax | | 43,202 | 24,622 |
| Income tax expenses | 29 | (10,696) | (7,044) |
| Profit for the year | | 32,506 | 17,578 |
| Other comprehensive income | | - | - |
| Total comprehensive income for the year, net of tax | | 32,506 | 17,578 |
| Earnings per share | | | |
| Basic and diluted, tenge | 6 | 162.53 | 87.89 |

Chairman of the Management Board & Chief Executive Officer

Chief Financial Officer



The accounting policies and notes on pages 6 to 50 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

| <i>In millions of tenge</i> | Share capital | Additional paid-in capital | Retained earnings | Total equity |
|--|---------------|----------------------------|-------------------|--------------|
| Balance at 1 January 2020 | 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 obligation (Note 18) | – | – | (592) | (592) |
| Dividends declared (Note 6) | – | – | (9,000) | (9,000) |
| At 31 December 2020 | 33,800 | – | 48,283 | 82,083 |
| Net profit for the year | – | – | 32,506 | 32,506 |
| Other comprehensive income | – | – | – | – |
| Total comprehensive income | – | – | 32,506 | 32,506 |
| Discount on loan received from Shareholders (Note 6) | – | 1,260 | – | 1,260 |
| Dividends declared (Note 6) | – | – | (17,578) | (17,578) |
| At 31 December 2021 | 33,800 | 1,260 | 63,211 | 98,271 |

Chairman of the Management Board & Chief Executive Officer

Chief Financial Officer



The accounting policies and notes on pages 6 to 50 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS**For the year ended 31 December 2021**

| <i>In millions of tenge</i> | Notes | 2021 | 2020 |
|---|--------------|-----------------|-----------------|
| Cash flows from operating activities | | | |
| Profit before tax | | 43,202 | 24,622 |
| Adjustments for: | | | |
| Impairment of financial assets | 9, 12 | 2,106 | 1,547 |
| Impairment of property and equipment and intangible assets | 7, 8 | 588 | 5,227 |
| Finance costs | 27 | 10,326 | 11,753 |
| Depreciation of property and equipment and right of use assets | 7, 16 | 20,157 | 19,792 |
| Amortization of intangible assets | 8 | 10,621 | 11,010 |
| Income from accounts payable write-off | 28 | (211) | (189) |
| Write-off of inventory to net realizable value | 10 | 179 | 654 |
| Loss on disposal of property and equipment | 28 | 1,134 | 273 |
| Finance income | 27 | (2,561) | (2,300) |
| Provisions for legal claims | 21 | - | 4,386 |
| Reversal of tax and related fines and penalties provision | 32 | (683) | (684) |
| Gain on cancellation of lease agreements | | (14) | (21) |
| Income from government grants | 22 | (2,108) | - |
| Net foreign exchange gain | | (403) | (987) |
| Operating cash flows before changes in operating assets and liabilities | | 82,333 | 75,083 |
| Change in inventories | | 2,601 | (3,272) |
| Change in trade receivables | | (3,285) | (4,762) |
| Change in other current non-financial assets | | (7,045) | 4,254 |
| Change in other current financial assets | | (522) | 1,129 |
| Change in cost to obtain contracts | | (287) | 54 |
| Change in trade payables | | 5,645 | (1,708) |
| Change in other current financial liabilities | | (334) | 114 |
| Change in contract liabilities | | 1,229 | (2,171) |
| Change in taxes payable other than income tax | | 9,145 | 100 |
| Cash flows generated from operations | | 89,480 | 68,821 |
| Income tax paid | | (7,609) | (7,378) |
| Interest received | | 2,406 | 1,719 |
| Interest paid | 31 | (10,221) | (10,903) |
| Net cash flows from operating activities | | 74,056 | 52,259 |
| Cash flows from investing activities | | | |
| Purchase of property and equipment | | (18,059) | (12,142) |
| Purchase of intangible assets | | (13,102) | (11,413) |
| Proceeds from disposal of property and equipment | | 96 | 161 |
| Proceeds from redemption of financial assets at amortized cost | 13 | 158,631 | 18,139 |
| Proceeds from redemption of financial assets at fair value through other comprehensive income | | - | 5,385 |
| Purchase of financial assets at amortised cost | 13 | (140,018) | (36,751) |
| Net cash flows used in investing activities | | (12,452) | (36,621) |

The accounting policies and notes on pages 6 to 50 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

| <i>In millions of tenge</i> | Notes | 2021 | 2020 |
|---|-------|-----------------|----------------|
| Cash flows from financing activities | | | |
| Proceeds from loans | 31 | 62,500 | 27,000 |
| Repayment of bonds issued | 15 | (21,754) | - |
| Repayment of loans | 31 | (52,500) | (16,130) |
| Repayment of principal portion of lease liabilities | 31 | (4,321) | (3,758) |
| Dividends paid | 6 | (17,578) | (9,000) |
| Net cash flows used in financing activities | | (33,653) | (1,888) |
| Net increase in cash and cash equivalents | | 27,951 | 13,750 |
| Effect of exchange rate changes on cash and cash equivalents held in foreign currency | | 428 | 448 |
| Cash and cash equivalents at the beginning of the year | | 23,023 | 8,825 |
| Cash and cash equivalents at the end of the year | 14 | 51,402 | 23,023 |

NON-CASH TRANSACTIONS

In 2021 the Group received government grants in the total amount of 10,033 million tenge represented by 90% reduction in the annual fee for use of radio frequencies.

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

In 2021, the Group paid an amount of 15,961 million tenge for property and equipment purchased in prior year (2020: 11,032 million tenge). Property and equipment in the amount of 21,736 million was purchased in 2021 but not paid as at 31 December 2021 (2020: 15,961 million tenge).

Chairman of the Management Board & Chief Executive Officer

Chief Financial Officer



The accounting policies and notes on pages 6 to 50 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**For the year ended 31 December 2021****1. GENERAL INFORMATION**

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

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

On 25 December 2010, the Committee of Communications, Informatization and Information under the Ministry of Investments and Development of the Republic of Kazakhstan signed an addendum to the existing GSM license, which provided the Group with a right to operate a 3G network. In December 2010, the Group launched 3G services in Nur-Sultan 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.

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.

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

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

As at 31 December 2021 and 2020 the Company is controlled by Kazakhtelecom JSC (“Parent”). Kazakhtelecom JSC is controlled by the Government of the Republic of Kazakhstan through Sovereign Wealth Fund “Samruk-Kazyna” JSC (“Samruk-Kazyna”) which owns 51% of Kazakhtelecom’s controlling shares.

On 30 September 2021 Kazakhtelecom sold 24% of shares of the Company on Kazakhstan Stock Exchange (KASE).

As at 31 December 2021 and 2020, the shareholders of the Company are presented as follow:

| | 31 December 2021 | 31 December 2020 |
|--------------------------------------|-----------------------------|---------------------|
| Kazakhtelecom JSC | 51.00% | 75.00% |
| PIONEER TECHNOLOGIES S.A.R.L. | 14.87% | – |
| First Heartland Jusan Bank JSC | 9.08% | – |
| Single accumulative pension fund JSC | 7.06% | – |
| Raiffeisenbank JSC | 1.54% | 11.60% |
| Other | 16.45% | 13.40% |
| | 100.00% | 100.00% |

As at 31 December 2021 and 2020, the Company has the following principal subsidiaries:

| | 31 December 2021 | 31 December 2020 |
|------------------|-----------------------------|---------------------|
| KazNet Media LLP | 100% | 100% |
| KT-Telecom LLP | – | 100% |

The accompanying consolidated financial statements include the financial statements of Kcell JSC and its subsidiary (further referred to as “the Group”). On 6 September 2021 the Company sold 100% shares in subsidiary KT-Telecom LLP to Kazakhtelecom JSC for consideration of 103 thousand tenge.

The consolidated financial statements were authorised for issue by Chairman of the Management Board, Chief Executive Officer of the Group on 9 February 2022.

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 Kazakhstani 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 2021. 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 2021. 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)***Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16*

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest.
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These amendments had no impact on the consolidated financial statements of the Group. The Group intends to use the practical expedients in future periods if they become applicable.

COVID-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16

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 was intended to apply until 30 June 2021, but as the impact of the COVID-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021. However, the Group has not received COVID-19-related rent concessions but plans to apply the practical expedient if it becomes applicable within allowed period of application.

Standards issued but not yet effective

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

IFRS 17 Insurance Contracts

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Standards issued but not yet effective (continued)***Amendments to IAS 1 Classification of Liabilities as Current or Non-current*

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Standards issued but not yet effective (continued)***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.

Definition of Accounting Estimates – Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

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

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

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements*, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Standards issued but not yet effective (continued)***Amendments to IFRS 17 Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 Comparative Information*

On 9 December 2021, the IASB issued an amendment to IFRS 17 *Insurance Contracts*, to add a transition option relating to comparative information presented on initial application of IFRS 17 and IFRS 9. This amendment follows from the Exposure Draft (ED) on Initial Application of IFRS 17 and IFRS 9 *Comparative Information*, published in July 2021, and subsequent redeliberations based on feedback from stakeholders.

The IASB decided to introduce this transition option, a classification overlay for financial assets in the comparative period, in response to concerns raised by stakeholders regarding accounting mismatches that could arise between financial assets and insurance contract liabilities in the comparative information when IFRS 17 and IFRS 9 *Financial Instruments* are first applied in 2023.

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

Amendments to IAS 12 Income Taxes: Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction

On 7 May 2021, the IASB issued *Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to IAS 12*. The Board amended the standard to reduce diversity in the way that entities account for deferred tax on transactions and events, such as leases and decommissioning obligations, that lead to the initial recognition of both an asset and a liability.

The Amendments narrow the scope of the initial recognition exception under IAS 12 *Income Taxes*, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The Amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability. The Amendments apply to annual reporting periods beginning on or after 1 January 2023, with earlier application permitted.

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

Foreign currency translation

The consolidated financial statements of the Group are presented in tenge, which is the functional currency of the Company and its subsidiary. Tenge is the currency of the primary economic environment in which the Company and its subsidiary 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).

Foreign exchange rates are presented in the following table:

| | 31 December 2021 | 31 December 2020 |
|----------------|-----------------------------|---------------------|
| US dollar | 431.8 | 420.71 |
| Euro | 489.1 | 516.13 |
| Russian rubles | 5.76 | 5.65 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**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 31*.

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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 20*) 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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) when:

- 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Financial assets (continued)***Derecognition (continued)**Financial assets carried at amortised cost (continued)*

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 15*.

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 18*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement (continued)

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)**Revenue from contracts with customers (continued)***Government grants*

Government grants are recognised where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Taxes (continued)***Current income tax (continued)*

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.

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

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

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

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

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

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

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires 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 31*.

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.

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

In 2021 the Group started optimization and modernization of network, swapping from old end of life equipment, expansion of capacity and coverage of network according to approved investment plan and strategy of the Group in order to achieve strategic goals to strengthen and form leading positions in the telecommunication markets of the Republic of Kazakhstan. The Group plans to dismantle certain base stations on locations earlier and install upgraded. Such business operation shall provide further savings on capital expenditures and provide a better competitive position in the market. Therefore, in 2021, the Group reassessed the remaining useful lives of certain telecommunication equipment that is subject for dismantling earlier than initially planned or otherwise would not be used once integration process is finalized. The Group performed reassessment from 1 December 2021, which resulted in decrease in remaining useful life of those assets by 3 years on average. The change in the remaining useful lives resulted in a total increase in depreciation expenses for the year ended 31 December 2021 in the amount of 15 million tenge. The effect of change in estimate for 2022-2025 approximated to 750 million tenge.

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.

In 2021, Kazakhtelecom JSC together with its subsidiaries, Kcell JSC and MTS LLP developed network integration plan as mentioned above. In accordance with integration plan, the Group reassessed maturity of decommissioning of certain telecommunication base stations across Kazakhstan and reflected effect on asset retirement obligation estimation. Impacts are disclosed in *Note 20*.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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 9*.

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 2021 provision for expected credit losses was created in the amount of 6,651 million tenge (as at 31 December 2020: 9,964 million tenge) (*Notes 9*). Changes in the economy, industry or specific customer conditions would have impact to these allowances 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 2021, net deferred tax assets of the Group were equal to 3,042 million tenge (at 31 December 2020: 1,937 million tenge). Further details are contained in *Note 29*.

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 31*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**5. 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.

6. SHARE CAPITAL AND EARNINGS PER SHARE

Share capital of the Group is as follows:

| | 31 December 2021 | | 31 December 2020 | |
|--------------------------------------|------------------|------------------|------------------|------------------|
| | Share | Number of shares | Share | Number of shares |
| Kazakhtelecom JSC | 51.00% | 102,000,000 | 75.00% | 150,000,000 |
| PIONEER TECHNOLOGIES S.A.R.L | 14.87% | 29,745,215 | - | - |
| First Heartland Jusan Bank JSC | 9.08% | 18,167,753 | - | - |
| Single accumulative pension fund JSC | 7.07% | 14,144,273 | - | - |
| Raiffeisenbank JSC | 1.54% | 3,070,664 | 11.60% | 23,209,124 |
| Other | 16.44% | 32,872,095 | 13.40% | 26,790,876 |
| | 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. In 2021 the Group obtained loans from First Heartland Jusan Bank JSC at interest rate lower than market rate and recognised discount in the amount of 1,260 million tenge as additional paid in capital (*Note 15*).

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

| <i>In millions of tenge</i> | 2021 | 2020 |
|--|---------------|--------------|
| Profit for the year attributable to equity shareholders | 32,506 | 17,578 |
| Weighted average number of ordinary shares | 200,000,000 | 200,000,000 |
| Earnings per share (Kazakhstani tenge), basic and diluted | 162.53 | 87.89 |

The Group has no dilutive or potentially dilutive securities outstanding.

During year ended 31 December 2021 and 2020, the Group declared and paid dividends in the amount of 17,578 million tenge and 9,000 million tenge, respectively. Dividends per share for the year ended 31 December 2021 were equal to 87.89 tenge (31 December 2020: 45 tenge).

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 2021 and 2020 is presented below.

| <i>In millions of tenge</i> | 31 December 2021 | 31 December 2020 |
|---|------------------|------------------|
| Net assets, excluding intangible assets | 55,987 | 42,353 |
| 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) | 279.94 | 211.77 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**7. PROPERTY AND EQUIPMENT**

Movements of property and equipment in 2021 and 2020 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 2020 | 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 20) | - | - | 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 | 39,069 | 17,258 | 314,709 |
| Additions | - | 130 | 117 | 1,676 | 22,525 | 24,448 |
| Provision for dismantling (Note 20) | - | - | 135 | - | - | 135 |
| Transfer between the groups | - | - | 9,529 | - | (9,529) | - |
| Disposals | (13) | (143) | (4,729) | (10) | (1,013) | (5,908) |
| At 31 December 2021 | 2,109 | 20,350 | 240,949 | 40,735 | 29,241 | 333,384 |
| Accumulated depreciation and impairment | | | | | | |
| At 1 January 2020 | - | (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) |
| Depreciation charge | - | (361) | (11,933) | (3,204) | - | (15,498) |
| Disposals | - | 114 | 4,554 | 10 | - | 4,678 |
| Impairment | - | - | (73) | (85) | (1) | (159) |
| At 31 December 2021 | - | (7,679) | (201,087) | (34,301) | (4,512) | (247,579) |
| Net book value | | | | | | |
| At 31 December 2020 | 2,122 | 12,931 | 42,262 | 8,047 | 12,747 | 78,109 |
| At 31 December 2021 | 2,109 | 12,671 | 39,862 | 6,434 | 24,729 | 85,805 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**7. PROPERTY AND EQUIPMENT (continued)**

As at 31 December 2021 and 2020, assets under construction are represented by equipment for installation for base transmission stations, mobile switch servers and other telecommunication equipment and service works.

As of 31 December 2021 the Group made prepayments for certain property and equipment mainly represented by equipment for base stations in the amount of 329 million tenge (31 December 2020: 293 million tenge).

As at 31 December 2021, the gross carrying value of property and equipment, which has been fully depreciated and still in use, was 173,272 million tenge (31 December 2020: 164,522 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 32*). 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 2021, 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 2021 the Group recognized an impairment loss in the amount of 158 million tenge (2020: 244 million tenge) for property and equipment and 1 million tenge for construction-in-progress (2020: 4,511 million tenge), 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.

8. INTANGIBLE ASSETS

Movements of intangible assets for 2021 and 2020 were as follows:

| <i>In millions of tenge</i> | Software and licenses | Intangible assets in development stage | Total |
|--|----------------------------------|---|-----------------|
| Cost | | | |
| At 1 January 2020 | 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 |
| Additions | 13,604 | - | 13,604 |
| Disposals | (2,640) | - | (2,640) |
| At 31 December 2021 | 118,986 | 472 | 119,458 |
| Accumulated amortization and impairment | | | |
| At 1 January 2020 | (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) |
| Amortisation charge | (10,621) | - | (10,621) |
| Disposals | 2,640 | - | 2,640 |
| Impairment | (429) | - | (429) |
| At 31 December 2021 | (76,702) | (472) | (77,174) |
| Net book value | | | |
| At 31 December 2020 | 39,730 | - | 39,730 |
| At 31 December 2021 | 42,284 | - | 42,284 |

As at 31 December 2021, the carrying amount of the 3G license was 1,333 million tenge (31 December 2020: 1,667 million tenge) and its remaining amortisation period was 4 years. As at 31 December 2021, the carrying amount of the 4G license was 15,744 million tenge (31 December 2020: 17,478 million tenge) and its remaining amortisation period was 9 years. As of 31 December 2021, the Group made prepayments for software upgrade for base stations in the amount of 1,601 million tenge (31 December 2020: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**8. INTANGIBLE ASSETS (continued)**

During 2021, the Group recognized an impairment loss of 429 million tenge, which represents part of billing system that was in non-operating condition (31 December 2020: 472 million tenge). Loss was recognized in the consolidated statement of comprehensive income as an operating expense.

As at 31 December 2021, the gross carrying value of intangible assets, which has been fully depreciated and still in use, was 42,175 million tenge (31 December 2020: 36,451 million tenge).

9. TRADE RECEIVABLES

As at 31 December 2021 and 2020, trade receivables comprised of the following:

| <i>In millions of tenge</i> | 31 December 2021 | 31 December 2020 |
|--|-----------------------------|---------------------|
| Trade receivable from subscribers | 23,262 | 27,412 |
| Trade receivable from interconnect services | 1,129 | 986 |
| Trade receivables from roaming operators | 173 | 170 |
| Trade receivables from dealers and distributors | 748 | 452 |
| Trade receivables from related parties (<i>Note 30</i>) | 3,238 | 1,188 |
| Less: allowance for expected credit losses | (6,651) | (9,964) |
| | 21,899 | 20,244 |
| Less: long-term portion of trade receivable from subscribers | (4,148) | (2,421) |
| | 17,751 | 17,823 |

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

| <i>In millions of tenge</i> | 2021 | 2020 |
|--|----------------|---------|
| Allowance for expected credit losses at the beginning of the year | (9,964) | (8,605) |
| Charge for the year | (1,914) | (1,547) |
| Write-offs for the year | 1,117 | 188 |
| Sales of trade receivables | 4,110 | - |
| Allowance for expected credit losses at the end of the year | (6,651) | (9,964) |

On 18 and 19 February 2021 the Group sold overdue receivables with gross value in the amount of 4,548 million tenge and net book value in the amount of 438 million tenge for 438 million tenge.

Below is information as of 31 December 2021 and 2020 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 | | | | | Over 180 days |
|--|---------------|----------------------|-------------------------|--------------------------|--------------------------|---------------------------|--------------------------|
| | | Current | 1 to 30 days | 31 to 60 days | 61 to 90 days | 91 to 180 days | |
| 31 December 2021 | | | | | | | |
| Estimated total gross book value for default | 28,550 | 18,422 | 1,825 | 903 | 580 | 922 | 5,898 |
| Expected credit loss rate | | 0.1% | 2% | 13% | 23% | 49% | 99.6% |
| Expected credit losses | 6,651 | 23 | 41 | 118 | 136 | 454 | 5,879 |

| <i>In millions of tenge</i> | Total | Days past due | | | | | Over 180 days |
|--|---------------|----------------------|-------------------------|--------------------------|--------------------------|---------------------------|--------------------------|
| | | Current | 1 to 30 days | 31 to 60 days | 61 to 90 days | 91 to 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 loss rate | | 0.1% | 2% | 12% | 23% | 53% | 99% |
| Expected credit losses | 9,964 | 17 | 25 | 55 | 62 | 289 | 9,516 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**9. TRADE RECEIVABLES (continued)**

As at 31 December 2021 and 2020 the Group's trade receivables were denominated in the following currencies:

| <i>In millions of tenge</i> | 31 December 2021 | 31 December 2020 |
|-----------------------------|-----------------------------|---------------------|
| Tenge | 21,726 | 20,074 |
| US dollars | 173 | 170 |
| | 21,899 | 20,244 |

10. INVENTORIES

As at 31 December 2021 and 2020, inventories comprised:

| <i>In millions of tenge</i> | 31 December 2021 | 31 December 2020 |
|--|-----------------------------|---------------------|
| Handsets and accessories (at lower of cost and net realizable value) | 5,898 | 8,523 |
| Start packages (at cost) | 207 | 255 |
| Marketing materials (at cost) | 70 | 150 |
| SIM-cards (at cost) | 85 | 77 |
| Other materials (at cost) | 322 | 357 |
| | 6,582 | 9,362 |

During 2021, the Group recognised as an expense 179 million tenge (2020: 654 million tenge) for inventories carried at net realisable value. This is recognised in general and administrative expenses.

11. OTHER CURRENT NON-FINANCIAL ASSETS

As at 31 December 2021 and 2020, other current non-financial assets comprised of the following:

| <i>In millions of tenge</i> | 31 December 2021 | 31 December 2020 |
|---------------------------------------|-----------------------------|---------------------|
| Advances paid | 3,120 | 1,548 |
| VAT recoverable | 3,578 | 397 |
| Prepaid taxes other than income taxes | 2,535 | 710 |
| Prepaid expenses | 878 | 408 |
| | 10,111 | 3,063 |

12. OTHER CURRENT FINANCIAL ASSETS

As at 31 December 2021 and 2020, other current financial assets comprised of the following:

| <i>In millions of tenge</i> | 31 December 2021 | 31 December 2020 |
|---|-----------------------------|---------------------|
| Other receivables | 394 | 94 |
| Due from employees | 336 | 151 |
| Less: allowance for expected credit losses due from employees | (192) | - |
| | 538 | 245 |

As at 31 December 2021 and 2020, other current non-financial assets were fully denominated in tenge.

During year ended 31 December 2021 the Group has accrued allowance for amounts due from employees in the amount of 192 million tenge (2020: nil).

13. FINANCIAL ASSETS AT AMORTIZED COST

As at 31 December 2020 financial assets at amortized cost in the amount of 18,923 million tenge, represented by short-term discount notes of National Bank of the Republic of Kazakhstan ("NBRK") denominated in tenge, were fully redeemed as of 31 December 2021. In 2021 and 2020, the Group acquired short term discount notes at purchase price 140,018 million tenge and 36,751 million tenge, respectively. In 2021 short term discount notes with nominal value in the amount of 158,631 million tenge and interest income in the amount of 1,369 million tenge was redeemed (2020: 18,139 million tenge and 761 million tenge, respectively).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**13. 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 2021 and 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 2021 | 31 December 2020 |
|-----------------------------|----------------------|--------------------------|----------------------|-------------------------|------------------|
| NB RK Note | 13 January 2021 | 8.92% | 10,000 | - | 9,969 |
| NB RK Note | 15 January 2021 | 9.41% | 4,000 | - | 3,984 |
| NB RK Note | 22 January 2021 | 9.85% | 3,000 | - | 2,982 |
| NB RK Note | 22 January 2021 | 9.85% | 2,000 | - | 1,988 |
| | | | | - | 18,923 |

14. CASH AND CASH EQUIVALENTS

As at 31 December 2021 and 2020, cash and cash equivalents comprised of the following:

| <i>In millions of tenge</i> | 31 December 2021 | 31 December 2020 |
|---|-------------------------|------------------|
| Bank deposits with original maturity of less than 90 days | 45,018 | 8,782 |
| Cash on current bank accounts | 6,380 | 14,202 |
| Cash on hand | 4 | 39 |
| | 51,402 | 23,023 |

As of 31 December 2021, short-term bank deposits represent overnight deposits in tenge in Altyn Bank JSC at interest rate 8.9% in the amount of 20,000 million tenge, in Jusan Bank JSC at interest rate 8.69% in the amount of 11,000 million tenge, in Halyk bank JSC at interest rate 7.5% in the amount of 700 million tenge and deposit in USD in Halyk Bank JSC at interest rate 0.1% in the amount of 13,318 million tenge, respectively. As of 31 December 2020, short-term bank deposits represented overnight deposits in tenge in Altyn Bank JSC at interest rate 8.5% in the amount of 8,782 million tenge.

As at 31 December 2021 and 2020, cash and cash equivalents were denominated in various currencies as follows:

| <i>In millions of tenge</i> | 31 December 2021 | 31 December 2020 |
|-----------------------------|-------------------------|------------------|
| Tenge | 34,133 | 9,398 |
| US dollars | 16,651 | 12,982 |
| Euro | 526 | 642 |
| Russian roubles | 91 | - |
| Other | 1 | 1 |
| | 51,402 | 23,023 |

15. BORROWINGS

As at 31 December 2021 and 2020, borrowings comprised of the following:

| <i>In millions of tenge</i> | Currency | Effective interest rate | Maturity date | 31 December 2021 | 31 December 2020 |
|---|-----------------|--------------------------------|----------------------|-------------------------|------------------|
| First Heartland Jusan Bank JSC (Note 30) | Tenge | 11.70% | 10 November 2024 | 39,871 | - |
| Bank of China Kazakhstan JSC | Tenge | 10.70% | 20 August 2024 | 13,105 | 11,059 |
| VTB Bank JSC | Tenge | 11.90% | 15 October 2023 | 7,006 | 6,005 |
| Eurasian Development Bank JSC | Tenge | 13.06% | 20 June 2024 | - | 18,129 |
| Halyk Bank of Kazakhstan JSC | Tenge | 11.20% | 21 April 2023 | - | 15,223 |
| Bonds | Tenge | 11.84% | 16 January 2021 | - | 22,871 |
| | | | | 59,982 | 73,287 |
| Less: non-current portion | | | | (48,283) | (49,933) |
| | | | | 11,699 | 23,354 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**15. BORROWINGS (continued)**

Borrowings are repayable as follows:

| <i>In millions of tenge</i> | 31 December 2021 | 31 December 2020 |
|--|-----------------------------|---------------------|
| Current portion of borrowings | 11,699 | 23,354 |
| Maturity between 1 and 2 years | 7,000 | 10,972 |
| Maturity between 2 and 5 years | 41,283 | 38,961 |
| Maturity over 5 years | - | - |
| Total non-current portion of borrowings | 48,283 | 49,933 |

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 2021 and 2020, there have been no breaches of the covenants. The Group has not entered into any hedging arrangements in respect of its interest rate exposures.

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 24 February 2021 the Group obtained two loans in the amount of 2,100 million tenge and 4,900 million tenge from Halyk Bank JSC within the same credit line agreement. On 11 November 2021, the Group fully repaid principal and interest in the amount of 22,000 million tenge and 2,358 million tenge, respectively, ahead of the schedule.

On 6 January 2021 the Group obtained a loan in the amount of 12,000 million tenge from Alfa Bank JSC with maturity till 5 January 2024 at interest rate 10.7% per annum. On 19 May 2021 the Group entered into an additional agreement to increase the credit limit from 14 billion tenge to 21 billion tenge, for a period until 19 May 2026, with an availability period until 19 May 2025 at interest rate of 10.7% per annum. On 11 November 2021 the Group fully repaid principal and interest in the amount of 12,000 million tenge and 1,102 million tenge, respectively, ahead of the schedule.

During 2019 and 2020, the Group obtained loan in the amount of 5,000 million and 6,000 million tenge, respectively, within credit line agreement with Bank of China Kazakhstan JSC with a repayment period of 36 months and a fixed interest rate of 10.5% per annum. On 14 October 2020 the Group has signed addendum to loan agreement with Bank of China JSC to decrease interest rate from 10.5% to 10.3% per annum under credit line agreement. The change in the interest rate does not represent a substantial modification in accordance with IFRS 9 and thus, it did not lead to the derecognition of the original liability. Consequently, in 2020 the Group recognized finance income in the amount of 33 million tenge as a result of change in the interest rate. The loan is secured by the financial guarantee provided by Kazakhtelecom JSC, the parent 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 2 June 2021 the Group obtained additional tranche in the amount of 2,000 million tenge from Bank of China JSC within the same credit line agreement.

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

On 20 May 2021 the Group has signed addendum to loan agreement with Eurasian Development Bank JSC to decrease interest rate from 11.5% to 11.19% per annum under credit line agreement. The change in the interest rate does not represent a substantial modification in accordance with IFRS 9 and thus, it did not lead to the derecognition of the original liability. In 2021, the Group fully repaid principal amount of the loan obtained from Eurasian Development Bank in the amount of 18,500 million tenge and interest in the amount of 762 million tenge.

On 21 February 2019, the Group undertook a bond placement at the Kazakhstan Stock Exchange, in which bonds to the value of 17,025 million tenge were placed with investors at a yield of 11.5% per annum and on 16 January 2018 a bond placement with the value of 4,950 million tenge at a yield of 11.5% per annum. On 26 January 2021, in accordance with schedule, the Group fully repaid bonds in the amount of 23,005 million tenge, including the principal portion in the amount of 21,754 million tenge and accrued interest in the amount of 1,251 million tenge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**15. BORROWINGS (continued)**

On 10 November 2021, the Group and First Heartland Jusan Bank JSC, one of the shareholders of the Company, signed a credit line agreement in the amount of 60,500 million tenge. On 11 November 2021 two tranches were received from First Heartland Jusan Bank JSC in the amount of 22,000 million tenge and 12,000 million tenge with an interest rate of 11% per annum and 10.7% per annum, respectively. Additionally, on 25 November 2021, third tranche was received from First Heartland Jusan Bank JSC in the amount of 6,500 million tenge with an interest rate of 11% per annum, with a maturity until 10 November 2024. At the date of initial recognition, the loan was recognized at fair value based on expected cash outflows at a market rate observable for similar instruments of 12.9% at the time the loan was issued. On initial recognition of all three tranches total discount in the amount of 1,260 million tenge was recognised within equity as the additional paid-in capital.

16. 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 year:

| <i>In millions of tenge</i> | Total |
|---------------------------------|-----------------|
| Cost | |
| At 1 January 2020 | 29,133 |
| Modification | 161 |
| Additions | 491 |
| Cancellation | (300) |
| At 31 December 2020 | 29,485 |
| Modification | 814 |
| Additions | 77 |
| Cancellation | (138) |
| At 31 December 2021 | 30,238 |
| Accumulated depreciation | |
| At 1 January 2020 | (4,157) |
| Depreciation charge | (4,564) |
| Cancellation | 40 |
| At 31 December 2020 | (8,681) |
| Depreciation charge | (4,659) |
| Cancellation | 45 |
| At 31 December 2021 | (13,295) |
| Net book value | |
| At 31 December 2020 | 20,804 |
| At 31 December 2021 | 16,943 |

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

| <i>In millions of tenge</i> | 31 December 2021 | 31 December 2020 |
|-------------------------------------|-----------------------------|---------------------|
| At the beginning of the year | 23,666 | 27,053 |
| Interest expenses (Note 27) | 2,772 | 3,150 |
| Payments | (7,093) | (6,908) |
| Additions | 77 | 491 |
| Modifications | 814 | 161 |
| Cancellation | (107) | (281) |
| At the end of the year | 20,129 | 23,666 |
| Long-term lease liabilities | 15,185 | 19,447 |
| Short-term lease liabilities | 4,944 | 4,219 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**16. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (continued)**

The following are the amounts recognised in profit or loss:

| <i>In millions of tenge</i> | 2021 | 2020 |
|--|--------------|-------|
| Depreciation expense of right-of-use assets | 4,659 | 4,564 |
| Interest expense on lease liabilities | 2,772 | 3,150 |
| Expenses related to short-term leases | 45 | 49 |
| Total amount recognised in profit or loss | 7,476 | 7,763 |

The Group had total cash outflows for leases of 7,138 million tenge in 2021 (2020: 6,957 million tenge).

17. TRADE PAYABLES

As at 31 December 2021 and 2020, trade payables comprised of the following:

| <i>In millions of tenge</i> | 31 December 2021 | 31 December 2020 |
|---|-----------------------------|---------------------|
| Trade payables to third parties | 32,603 | 21,259 |
| Trade payables to related parties (Note 30) | 3,102 | 1,094 |
| | 35,705 | 22,353 |

As at 31 December 2021 and 2020, the Group's trade payables were denominated in the following currencies:

| <i>In millions of tenge</i> | 31 December 2021 | 31 December 2020 |
|-----------------------------|-----------------------------|---------------------|
| Tenge | 33,119 | 21,043 |
| US dollars | 1,460 | 1,304 |
| Other currency | 1,126 | 6 |
| | 35,705 | 22,353 |

18. FINANCIAL GUARANTEE OBLIGATION

On 27 November 2020 the Group issued the financial guarantee on loan agreement of Kazakhtelecom JSC obtained from Development Bank of Kazakhstan JSC in the amount of 18,266 million tenge. The financial guarantee has maturity till 19 December 2024. The Group initially recognised the financial guarantee at fair value in the amount of 592 million tenge through retained earnings in equity. As at 31 December 2021 and 2020, 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 2021, financial guarantee obligation equaled to 330 million tenge, which represents the initial amount less the cumulative amount of income recognised in accordance with IFRS 15 (31 December 2020: 563 million tenge).

19. CONTRACT LIABILITIES

As at 31 December 2021 and 2020, trade contract liabilities comprised of the following:

| <i>In millions of tenge</i> | 2021 | 2020 |
|---|------------------|-----------|
| Contract liabilities as at 1 January | 1,978 | 4,149 |
| Deferred during the year | 159,344 | 107,352 |
| Recognised as revenue during the year | (158,115) | (109,523) |
| Contract liabilities as at 31 December | 3,207 | 1,978 |

20. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**20. ASSET RETIREMENT OBLIGATION (continued)****Decommissioning liabilities (continued)**

Movements in provision for decommissioning liabilities for the years ended 31 December 2021 and 2020 were as follows:

| <i>In millions of tenge</i> | 2021 | 2020 |
|--|--------------|-------|
| Provision for decommissioning liabilities as at 1 January | 4,007 | 1,970 |
| Change in estimate (Note 7) | 135 | 1,899 |
| Unwinding of discount (Note 27) | 194 | 138 |
| Provision for decommissioning liabilities as at 31 December | 4,336 | 4,007 |
| Current portion (Note 21) | 132 | - |
| Non-current portion | 4,204 | 4,007 |

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:

| | 2021 | 2020 |
|-------------------------------------|-------------------|----------|
| Discount rate | 7.03% | 6.83% |
| Inflation rate | 5.5% | 5.5% |
| Period of fulfillment of obligation | 1-10 years | 11 years |

In 2021, the Group approved network integration project with Parents and MTS LLP, according which the Group plans to decommission certain assets in 2022-2025.

21. PROVISIONS

In 2020 the Group accrued certain amount of provision 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 tenge, respectively. Portion of provision of fines and penalties in the amount of 683 million tenge was reversed in 2021 due to finalization of custom audit with actual amount of penalty in notice in the amount of 18 million tenge (Note 32).

| <i>In millions of tenge</i> | 31 December 2021 | 31 December 2020 |
|--|-----------------------------|---------------------|
| Legal claims on contractual obligation | 3,685 | 3,685 |
| Asset retirement obligation: current portion (Note 20) | 132 | - |
| Provision of fines and penalties (Note 32) | - | 701 |
| Other provision | - | 116 |
| | 3,817 | 4,502 |

Movements in provision for decommissioning liabilities for the years ended 31 December 2021 and 2020 were as follows:

| <i>In millions of tenge</i> | 2021 | 2020 |
|---|--------------|-------|
| Provision as at 1 January | 4,502 | 188 |
| Accrual of provisions for legal claim | - | 4,386 |
| Reclassification of short-term portion of decommissioning liabilities | 132 | - |
| Reversal of fines and penalties provision | (683) | - |
| Utilized during the year | (18) | - |
| Reversal of other provision (Note 28) | (116) | (72) |
| Provision as at 31 December | 3,817 | 4,502 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**22. GOVERNMENT GRANTS**

| <i>In millions of tenge</i> | 31 December 2021 | 31 December 2020 |
|---|-----------------------------|---------------------|
| Government grants as at 1 January | – | – |
| Received during the period | 10,033 | – |
| Released to the statement of profit or loss | (2,108) | – |
| Government grants as at 31 December | 7,925 | – |
| Government grants current portion | 2,237 | – |
| Government grants non-current portion | 5,688 | – |

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

The funds released as a result of reduction in the annual fee for use of radio frequencies for 2020 and 2021 in the amount of 4,725 million tenge and 5,308 million tenge, respectively, were used by the Group for the purchase and construction of certain items of property and equipment (mainly base stations). Government grants related to assets are recognized as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset. As of 31 December 2021 the balance of deferred income recognized was equal to 7,925 million tenge, and part of the government grants released to the profit and loss over the period necessary to match the related depreciation charges equal to 2,108 million tenge.

As of 31 December 2021 there are no unfulfilled conditions or contingencies attached to these grants.

23. REVENUE FROM CONTRACTS WITH CUSTOMERS

| <i>In millions of tenge</i> | 2021 | 2020 |
|-----------------------------|----------------|---------|
| Voice and other services | 78,060 | 73,852 |
| Data service | 67,970 | 58,446 |
| Sale of handsets | 39,027 | 34,634 |
| Value added services | 9,024 | 7,752 |
| | 194,081 | 174,684 |
| Over time | 155,054 | 140,050 |
| At a point of time | 39,027 | 34,634 |
| | 194,081 | 174,684 |

24. COST OF SALES

| <i>In millions of tenge</i> | 2021 | 2020 |
|---|----------------|---------|
| Cost of SIM-card, scratch card and handsets sales | 32,963 | 28,430 |
| Depreciation and amortization | 26,078 | 27,377 |
| Interconnect fees and expenses | 18,231 | 19,163 |
| Personnel costs | 11,274 | 11,090 |
| Transmission services | 10,245 | 9,998 |
| Repair and maintenance | 8,163 | 7,065 |
| Fees for use of frequency range | 6,931 | 6,310 |
| Electricity | 3,777 | 2,939 |
| Network sharing agreement | 2,829 | 919 |
| Mobile service tax | 2,169 | 1,960 |
| Security and safety | 350 | 284 |
| Materials | 219 | 284 |
| Rent expenses | 45 | 49 |
| Other | 2,593 | 3,265 |
| | 125,867 | 119,133 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**25. GENERAL AND ADMINISTRATIVE EXPENSES**

| <i>In millions of tenge</i> | 2021 | 2020 |
|---|---------------|-------------|
| Personnel costs | 4,542 | 3,633 |
| Depreciation and amortization | 4,700 | 3,425 |
| Consulting services | 2,473 | 430 |
| Taxes other than income tax | 1,175 | 898 |
| Repair and maintenance | 335 | 405 |
| Write-down of inventories to net realizable value | 179 | 654 |
| Business trips | 99 | 55 |
| Representative expenses | 97 | 104 |
| Trainings | 55 | 12 |
| Security and safety | 32 | 108 |
| Insurance | 28 | 26 |
| Inventories | 25 | 45 |
| Other | 397 | 631 |
| | 14,137 | 10,426 |

26. SELLING EXPENSES

| <i>In millions of tenge</i> | 2021 | 2020 |
|---|--------------|-------------|
| Marketing and advertising | 2,426 | 1,361 |
| Amortization of cost to obtain a contract | 285 | 253 |
| Commissions for dealers and cash collection | 192 | 42 |
| Other | 203 | 309 |
| | 3,106 | 1,965 |

27. FINANCE COSTS / FINANCE INCOME

| <i>In millions of tenge</i> | 2021 | 2020 |
|--|---------------|-------------|
| Finance costs | | |
| Interest expense on loans and bonds | 7,158 | 8,386 |
| Interest on lease liabilities (<i>Note 16</i>) | 2,772 | 3,150 |
| Unwinding of discount (provision for decommissioning liability) (<i>Note 20</i>) | 194 | 138 |
| Other | 202 | 79 |
| | 10,326 | 11,753 |
| Finance income | | |
| Interest income on financial assets at amortised cost | 1,058 | 1,072 |
| Interest income on cash balances and deposit | 979 | 817 |
| Recognition of discount on long-term loans | - | 148 |
| Penalty income from late payments for contract phones | 244 | - |
| Unwinding of issued financial guarantee | 233 | 29 |
| Other | 47 | 234 |
| | 2,561 | 2,300 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**28. OTHER OPERATING INCOME / OTHER OPERATING EXPENSES**

| <i>In millions of tenge</i> | 2021 | 2020 |
|--|--------------|------------|
| Other operating income | | |
| Income from frequency fee sharing | 170 | 250 |
| Income from accounts payable write-off | 211 | 189 |
| Income from reversal of provisions (Note 21) | 116 | 72 |
| Other | 218 | 39 |
| | 715 | 550 |
| Other operating expenses | | |
| Frequency fee sharing expenses | 135 | – |
| Loss on disposal of property and equipment | 1,134 | 273 |
| Other | 29 | 135 |
| | 1,298 | 408 |

29. INCOME TAX EXPENSES

| <i>In millions of tenge</i> | 2021 | 2020 |
|---|-----------------|----------------|
| Current income tax expense | (11,532) | (8,611) |
| Adjustments in respect of income tax of previous year | 1,053 | (175) |
| Deferred income tax benefit | (217) | 1,742 |
| | (10,696) | (7,044) |

The Group are subject to taxation in the Republic of Kazakhstan. Tax rate for the Group and its subsidiary was 20% in 2021 and 2020.

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 2021 and 2020 is set out below:

| <i>In millions of tenge</i> | 2021 | 2020 |
|--|---------------|---------------|
| Profit before taxation | 43,202 | 24,622 |
| Income tax at statutory income tax rate of 20% | 8,640 | 4,924 |
| Non-taxable income | (436) | (351) |
| Non-deductible expenses | 1,131 | 328 |
| Legal disputes expenses | – | 877 |
| Impairment of construction-in-progress | – | 997 |
| Change in unrecognised tax loss carry forward | 1,530 | – |
| Recognition of tax loss carry forward | (192) | (234) |
| Adjustments in respect of income tax of previous year | (1,053) | 175 |
| Adjustments in respect of deferred income tax of previous year | 1,076 | 328 |
| Total income tax expenses | 10,696 | 7,044 |

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 1,058 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**29. INCOME TAX EXPENSES (continued)**

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 2021 | 31 December 2020 | 2021 | 2020 |
| Deferred tax assets | | | | |
| Expected credit losses | 322 | 391 | (69) | 48 |
| Accrued bonuses to employees | 498 | 402 | 96 | 42 |
| Tax loss carry forward | 1,804 | 1,612 | 192 | 234 |
| Lease liabilities | 637 | 572 | 65 | 157 |
| Provision for unused vacation | 199 | 166 | 33 | 50 |
| Asset retirement obligation | 821 | 801 | 20 | 407 |
| Deferred services | 641 | 793 | (152) | 142 |
| Other | 142 | 148 | (6) | 15 |
| Government grants | 1,585 | – | 1,585 | – |
| Unrecognised deferred tax assets | (1,530) | – | (1,530) | – |
| Deferred tax assets | 5,119 | 4,885 | 234 | 1,095 |
| Deferred tax liabilities | | | | |
| Property and equipment and intangible asset | (3,351) | (2,854) | (497) | 536 |
| Other | (48) | (94) | 46 | 111 |
| Deferred tax liabilities | (3,399) | (2,948) | (451) | 647 |
| Deferred tax assets, net | 1,720 | 1,937 | | |
| Change in deferred tax assets/(liabilities), net | | | (217) | 1,742 |

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 utilised. During year ended 31 December 2021 the Group derecognised deferred tax assets related to tax loss carried forward in the amount of 1,530 million tenge.

As at 31 December 2021, the Group has not recognised deferred tax assets in relation to the temporary difference in the amount of 735 million tenge (as at 31 December 2020: 225 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.

30. 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 2021, the Group recognized an allowance for expected credit losses in the amount of 143 million tenge in respect of receivables from related parties (31 December 2020: 56 million tenge).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**30. RELATED PARTY DISCLOSURES (continued)**

Related party transactions were made on terms agreed between parties that may not necessarily be at market rate. Sales and purchases with related parties during 2021 and 2020, and the balances with related parties as at 31 December 2021 and 2020, were as follows:

| <i>In millions of tenge</i> | 2021 | 2020 |
|--|-------------|--------|
| Sales of goods and services | | |
| Entities of Samruk Kazyna group | 197 | 210 |
| Entities of Kazakhtelecom group | 13,942 | 12,351 |
| Government entities | 251 | 1,244 |
| Purchases of goods and services | | |
| Entities of Samruk Kazyna group | 447 | 445 |
| Entities of Kazakhtelecom group | 24,708 | 19,723 |
| Government entities | 92 | 77 |
| Finance expense | | |
| Other Shareholders | 588 | - |

| <i>In millions of tenge</i> | 31 December 2021 | 31 December 2020 |
|-----------------------------------|-----------------------------|---------------------|
| Trade receivables (Note 9) | | |
| Entities of Samruk Kazyna group | 36 | 43 |
| Entities of Kazakhtelecom group | 3,155 | 1,100 |
| Government entities | 47 | 45 |
| | 3,238 | 1,188 |

| | | |
|---------------------------------|--------------|-------|
| Trade payables (Note 17) | | |
| Entities of Samruk Kazyna group | 14 | 62 |
| Entities of Kazakhtelecom group | 3,050 | 1,018 |
| Government entities | 38 | 14 |
| | 3,102 | 1,094 |

| | | |
|-----------------------------|--------|---|
| Borrowings (Note 15) | | |
| Other Shareholders | 39,871 | - |

| | | |
|----------------------------------|--------|---|
| Cash and deposit accounts | | |
| Other Shareholders | 11,010 | - |

Compensation to key management personnel

For the years ended 31 December 2021 and 2020, the total compensation to key management personnel included in the accompanying consolidated statement of comprehensive income under general and administrative expenses was 1,218 million tenge and 1,073 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.

31. 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 2021 and 2020, comprise accruing reserve on expected credit losses for trade and other receivables in amount of 2,106 million tenge and 1,547 million tenge, respectively (Notes 9, 12).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**31. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES (continued)****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 2021 and 2020, 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> | 2021 | | 2020 | |
|-----------------------------|---|-----------------------------------|---|-----------------------------------|
| | Increase/ (decrease) in exchange rate | Effect on profit before tax | Increase/ (decrease) in exchange rate | Effect on profit before tax |
| US dollars | 13% | 1,997 | 14% | 1,659 |
| | -10% | (1,536) | -11% | (1,303) |

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. Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. The credit risk associated with trade receivables 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 *Notes 9 and 12*. The Group does not hold collateral as security.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**31. 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 | Rating | Cash balance | | Balance on deposit accounts | |
|---------------------------------|--------|--------|--------------|---------------|-----------------------------|--------------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Citibank Kazakhstan JSC | BB- | BBB+ | 174 | 2,886 | 1 | 1 |
| Jysan Bank JSC | B- | B- | 10 | – | 11,000 | – |
| Credit Suisse (Schweiz) AG | A+ | A+ | 1,839 | 1,057 | – | – |
| Halyk Bank Kazakhstan JSC | BB | BB | 3,747 | 8,861 | 14,017 | – |
| Altyn Bank JSC | BBB- | BBB- | 488 | 1,301 | 20,000 | 8,781 |
| Kaspi Bank JSC | BB- | BB- | 54 | 88 | – | – |
| Bank of China Kazakhstan JSC | BBB+ | BBB+ | – | 1 | – | – |
| SB Sberbank JSC | BBB- | BB+ | 38 | 8 | – | – |
| Bank CenterCredit JSC | B+ | B+ | 30 | – | – | – |
| Total | | | 6,380 | 14,202 | 45,018 | 8,782 |

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 2021 | | | | | | |
| Borrowings | – | 1,669 | 15,609 | 59,320 | – | 76,598 |
| Financial guarantee obligation* | – | 798 | 4,164 | 9,624 | – | 14,586 |
| Trade payables | – | 35,705 | – | – | – | 35,705 |
| Lease liabilities | – | 1,815 | 5,444 | 17,460 | 1,515 | 26,234 |
| Due to employees | – | 4,347 | – | – | – | 4,347 |
| | – | 44,334 | 25,217 | 86,404 | 1,515 | 157,470 |
| At 31 December 2020 | | | | | | |
| Borrowings | – | 24,398 | 4,258 | 56,244 | – | 84,900 |
| Financial guarantee obligation* | – | 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 |

* Based on the maximum amount that can be called for under the financial guarantee's contract (Note 18).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**31. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES (continued)****Cash flow risk**

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

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

Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to the holders of common shares, return equity to shareholders or issue new shares. No changes were made by the Group in the capital management objectives, policies or processes in 2021 and 2020.

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 2021 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 2021 | - | - | - | - |
| Short-term trade receivables | 31 December 2021 | - | - | 17,751 | 17,751 |
| Long-term trade receivables | 31 December 2021 | - | - | 3,115 | 3,115 |
| Other current financial assets | 31 December 2021 | - | - | 538 | 538 |
| Liabilities for which fair values are disclosed | | | | | |
| Borrowings | 31 December 2021 | - | - | 56,289 | 56,289 |
| Trade payables | 31 December 2021 | - | - | 35,705 | 35,705 |
| Financial guarantee obligation | 31 December 2021 | - | - | 564 | 564 |
| Due to employees | 31 December 2021 | - | - | 4,347 | 4,347 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**31. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES (continued)****Fair values (continued)**

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 |
| Financial guarantee obligation | 31 December 2020 | - | - | 563 | 563 |
| Due to employees | 31 December 2020 | - | - | 3,691 | 3,691 |

As at 31 December 2021 and 2020, the carrying amounts of the Group's financial assets and liabilities presented as follows:

| <i>In millions of tenge</i> | Carrying amount 31 December 2021 | Fair value 31 December 2021 | Unrecognised gain/(loss) | Carrying amount 31 December 2020 | Fair value 31 December 2020 | Unrecognised gain/(loss) |
|---|----------------------------------|-----------------------------|--------------------------|----------------------------------|-----------------------------|--------------------------|
| Financial assets | | | | | | |
| Cash and cash equivalents | 51,402 | 51,402 | - | 23,023 | 23,023 | - |
| Financial assets at amortized cost | - | - | - | 18,923 | 18,624 | (299) |
| Short-term trade receivables | 17,751 | 17,751 | - | 17,823 | 17,823 | - |
| Long-term trade receivables | 4,148 | 3,758 | (390) | 2,421 | 2,504 | 83 |
| Other current financial assets | 538 | 538 | - | 245 | 245 | - |
| Financial liabilities | | | | | | |
| Borrowings | 59,982 | 56,289 | 3,693 | 73,287 | 72,692 | 595 |
| Trade payables | 35,705 | 35,705 | - | 22,353 | 22,353 | - |
| Due to employees | 4,347 | 4,347 | - | 3,691 | 3,691 | - |
| Total unrecognised change in unrealised fair value | | | 3,303 | | | 379 |

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)**31. 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 2021 were as follows:

| <i>In millions of tenge</i> | 1 January 2021 | Loan obtained | New leases | Principal repaid | Interest accrued | Interest paid | Reclassification | Modifications | Cancellation of leases | Discount recognized | 31 December 2021 |
|------------------------------|----------------|---------------|------------|------------------|------------------|-----------------|------------------|---------------|------------------------|---------------------|------------------|
| Borrowings: | | | | | | | | | | | |
| non-current portion | 49,933 | 62,500 | - | (52,500) | 610 | - | (11,000) | - | - | (1,260) | 48,283 |
| Borrowings: current portion | 23,354 | - | - | (21,754) | 6,548 | (7,449) | 11,000 | - | - | - | 11,699 |
| Long-term lease liabilities | 19,447 | - | 77 | - | - | - | (5,153) | 814 | - | - | 15,185 |
| Short-term lease liabilities | 4,219 | - | - | (4,321) | 2,772 | (2,772) | 5,153 | - | (107) | - | 4,944 |
| Total | 96,953 | 62,500 | 77 | (78,575) | 9,930 | (10,221) | - | 814 | (107) | (1,260) | 80,111 |

Changes in liabilities due to 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 | 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 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

32. 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

The coronavirus pandemic left its mark on 2020 and continues to have impact in 2021, requiring businesses to limit or suspend operations and implement restrictions. On 1 July 2021, Ministry of Healthcare performed PCR screening and the Delta strain of COVID-19 was found in all regions and cities of Nur-Sultan, Almaty, Shymkent. Thus, on 1 July 2021 chief state sanitary doctor of the Republic of Kazakhstan introduced new decree, which obliges Akims of regions, cities of Almaty, Nur-Sultan, Shymkent, NPP "Atameken" (as agreed), national companies, heads of organizations, individuals and legal entities, regardless of the form of ownership, operating in the territory of the Republic of Kazakhstan to organize preventive vaccinations of employees with the first component by 10 August 2021 and with the second component of the COVID-19 by 1 September 2021 (except for those who have permanent medical contraindications and have recovered from COVID-19 during the last three months). Admission to full-time work of those organizations for unvaccinated employees is limited.

In November 2021 Omicron strain was first reported by World Health Organization (WHO) identified in from South Africa. Omicron multiplies around 70 times faster than previous strains, however less fatal. Omicron first was identified in Kazakhstan in the beginning of January 2022, which lead to average daily COVID-19 cases to 10,000. The Government put additional restrictions to stem the spread of the virus. Currently, only those who have been vaccinated can enter public areas such as shopping malls, entertainment venues, and indoor sports facilities.

The measures taken to contain the virus have adversely affected operations activity and disrupted many businesses resulting in significant economic downturn in the markets. As the outbreak continues to progress and evolve, it is extremely challenging to predict the full extent and duration of its impact on the Group's businesses.

Whilst the Group's business model is more resilient than many others, it is not immune to the challenges. The Group is experiencing a direct impact on roaming revenues from lower international travel and also expect economic pressures to impact customer revenues over time. However, there is significant increases in data volumes and further improvements in loyalty, as customers place greater value on the quality, speed and reliability of the Group's networks.

The Group's investments in the network infrastructure have paid off throughout the pandemic: networks were running stably even under substantially higher loads. The Group fulfilled its responsibility as an employer by introducing comprehensive rules and protective and supportive measures to help employees work from home while continuing to safeguard service for customers in parallel. At sites and in stores, the Group rolled out strict hygiene and safety measures with the support of hygiene experts. Based on information available as at 31 December 2021, the management of the Group believes that there were no impairment indicators of its long-term assets. While it is impossible to quantify the long-term impact of the coronavirus pandemic, the Group expects to see appreciable effects on the economy as a whole, while on the other, the pandemic has given a boost to the digitalization trend, which would contribute strengthen the role of the companies in telecommunications and IT sector, and will give impetus to the development of technologies and communication networks.

Capital commitments

The Group generally enters into contracts for the completion of construction projects and purchase of equipment. As at 31 December 2021, the Group had contractual commitments totaling 21,016 million tenge, excluding VAT (as at 31 December 2020: 4,375 million tenge, excluding VAT), which includes capital expenditures in respect to new technical regulation in the amount of 7,586 million tenge (as of 31 December 2020: 3,490 million tenge) described below.

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)

32. COMMITMENTS AND CONTINGENT LIABILITIES (continued)**Taxation (continued)**

Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2021. Management believes that as at 31 December 2021 its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained, except as provided for or otherwise disclosed in these interim condensed consolidated financial statements.

Tax risks assessment

In the beginning of 2020, the Group performed recalculation of the tax risk provisions recognized by the Group in previous years. Accordingly, for the year ended 31 December 2020, the Group recognised reversal of provision on VAT and personal income tax in the amount of 257 million tenge and 211 million tenge, respectively. In addition, 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 recognised due to expiration of the limitation period.

Also, for the year ended 31 December 2020 the Group recognized reserve on CIT expenses in the amount of 175 million tenge in the consolidated statement of comprehensive income.

New technical regulations

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

As of 31 December 2021 the Group partially implemented modernization and expansion of license and port capacity for the total amount of 4,390 million tenge. The Group plans to complete expansion in full in 2022 and expect that total amount of capital expenditures in respect to modernization and expansion will be equaled to 7,586 million tenge.

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 fines and penalties in the amount of 701 million tenge (*Note 21*).

On 22 April 2021 the custom audit was resumed, and a preliminary report was issued. According to the report, the Group was charged additional VAT charge in the amount of 39 million tenge and late payment penalty in the amount of 18 million tenge. The preliminary report was reviewed by the Group.

On 29 April 2021 CCD sent a formal letter regarding the on-site customs audit performed and a notice of audit findings, instructing the Group to pay 57 million tenge and to amend the customs declarations. In pursuance of the notice, the Group paid additional tax charge and late payment penalty and amended the customs declarations.

On 28 May 2021, the Group sent a letter to the customs authority informing about fulfillment of the requirements stated in the notice. During the year ended 31 December 2021 the Group reversed unutilized part of provision in the amount of 683 million tenge, respectively (*Note 21*).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**32. COMMITMENTS AND CONTINGENT LIABILITIES (continued)****Arbitration against Amdocs companies**

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

In November 2018, the Group notified the Supplier of termination of the Supply Agreement, except for the technical support services due to the quality of the Convergent Billing System and Amdoc’s performance of contractual obligations were not consistent with the terms of the Supply Agreement and the Group’s requirements. Moreover, there was delay in delivery and implementation of the OLC (On-line charging) system. In May 2020, the Group notified the Supplier of its withdrawal from the technical support agreement as well. Amdocs did not agree with the Group’s reasoning for termination of the Supply Agreement and withdrawal from the technical support agreement.

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

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

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

On 26 January 2021 the response from Amdocs JSC was received and Amdocs agreed to consider the dispute in SCC. In addition, Amdocs had submitted the counterclaim, at this point in the preliminary amount of 13.9 million USD (equivalent to 6,046 million tenge) and unpaid fees for extra work L2 and other out of scope service the amount of which was not calculated and payment related to allegedly the Group’s delays in OLC and Phase 1 – the amount was not calculated.

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

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

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

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

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

The Group plans to provide response to the above counterclaims by 15 February 2022. Currently, the parties are requesting documents supporting the events that underlie their claims.

At year ended 31 December 2021 and 2020, the Group has accrued provision for arbitration against Amdocs companies in the amount of 3,685 million tenge (31 December 2020: 3,685 million tenge) (*Note 21*). As at year ended 31 December 2021 the Management cannot reliably estimate the probability and amount of additional provision.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33. SUBSEQUENT EVENTS

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

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

During the protests, six Kcell Stores located in Almaty and Almaty region, were looted and two large offices of the Group were attacked. The Management of the Group currently assessing impact and preliminary damage estimate is around 700 million tenge.

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

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

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

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

On 19 January 2022 the Group has acquired notes of NBRK in the amount of 19,854 million tenge with maturity on till 16 February 2022.