Kcell JSC

Interim condensed consolidated financial statements (unaudited)

30 June 2019

CONTENTS

Building a better working world

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Report on review of interim condensed consolidated financial statements

To the Shareholders of
Kcell JSC

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Kcell JSC and its subsidiaries (together the "Group"), which comprise the interim condensed consolidated statement of financial position as at 30 June 2019, the related interim condensed consolidated statements of comprehensive income for the three and six-month periods then ended, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six-month period then ended and selected explanatory notes ("interim financial information"). Management is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

Other matter

The interim condensed consolidated financial statements of Kcell JSC and its subsidiaries for the six-month period ended 30 June 2018 were reviewed by another auditor who issued a report on review of those statements with an unmodified conclusion on 26 July 2018.

The consolidated financial statements of Kcell JSC and its subsidiaries for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on those statements on 28 February 2019.

Ernst & Young LLP

Paul Cohn
Audit Partner

Rustamzhan Sattarov
Auditor

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

Gulmira Turmagambetova
General Director
Ernst & Young LLP

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

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2 August 2019

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of tenge	Notes	30 June 2019 (unaudited)	31 December 2018 (audited)*,**
Assets			
Non-current assets			
Property and equipment	7	**79,979,978**	88,437,346
Intangible assets	8	**37,180,881**	40,114,996
Advances paid for non-current assets		**816,642**	729,048
Right-of-use assets	3	**22,951,321**	–
Other non-current assets		**2,653**	36,533
Long-term trade receivables	9	**1,327,375**	3,009,995
Cost to obtain contracts		**337,558**	388,802
Total non-current assets		**142,596,408**	132,716,720
Current assets			
Inventories		**5,146,878**	4,728,092
Trade receivables	9	**14,613,017**	13,787,025
Other current non-financial assets	10	**14,258,052**	8,801,068
Other current financial assets		**1,088,597**	1,010,707
Prepaid income tax		**30,319**	–
Cash and cash equivalents	11	**8,976,088**	6,029,042
Total current assets		**44,112,951**	34,355,934
Total assets		**186,709,359**	167,072,654
Equity and liabilities			
Share capital	6	**33,800,000**	33,800,000
Retained earnings		**26,841,512**	34,275,289
Total equity		**60,641,512**	68,075,289
Non-current liabilities			
Borrowings: non-current portion	12	**60,474,764**	14,935,969
Long-term lease liabilities	3	**21,381,140**	–
Deferred tax liabilities		**148,230**	1,503,915
Asset retirement obligation		**1,285,482**	1,285,482
Other non-current liabilities		**82,159**	76,560
Total non-current liabilities		**83,371,775**	17,801,926
Current liabilities			
Trade payables	13	**14,506,548**	14,047,602
Borrowings: current portion	12	**6,462,917**	51,782,817
Contracts liabilities	15	**7,121,136**	7,297,746
Other current non-financial liabilities	20	**818,372**	2,910,727
Other current financial liabilities	14	**8,833,879**	1,716,864
Short-term lease liabilities	3	**2,879,742**	–
Income tax payable		**1,614,442**	1,853,827
Taxes payable other than income tax		**459,036**	1,585,856
Total current liabilities		**42,696,072**	81,195,439
Total liabilities		**126,067,847**	98,997,365
Total equity and liabilities		**186,709,359**	167,072,654

* *The Group has initially applied IFRS 16 using the modified retrospective method. Under this method, the comparative information is not restated. See Note 3.*

** *Certain amounts shown here do not correspond to the consolidated financial statements for the year ended 31 December 2018, as they reflect the reclassifications and adjustments made, as detailed in Note 4.*

Chairman of the Management Board _______________ *Kaspars Kukelis*

Chief Financial Officer _______________ *Bunyod Ramatov*

The accounting policies and notes on pages 6 to 24 are an integral part of these interim condensed consolidated financial statements (unaudited).

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of tenge	Notes	For three months ended 30 June 2019 (unaudited)	For three months ended 30 June 2018 (unaudited)*,**	For six months ended 30 June 2019 (unaudited)	For six months ended 30 June 2018 (unaudited)*,**
Revenue from contract with customers	15	**37,869,282**	36,303,370	**73,049,206**	72,689,354
Cost of sales	16	**(26,759,254)**	(27,217,315)	**(52,783,416)**	(53,585,053)
Gross profit		**11,110,028**	9,086,055	**20,265,790**	19,104,301
Penalty expenses	14	–	–	**(14,551,865)**	–
General and administrative expenses		**(2,003,940)**	(4,801,702)	**(3,884,046)**	(7,449,938)
Impairment of financial assets	9	**(430,724)**	(627,827)	**(880,502)**	(1,693,731)
Impairment of property and equipment	7	**(1,844,104)**	–	**(1,844,104)**	–
Selling expenses		**(554,505)**	(794,084)	**(1,188,753)**	(1,489,374)
Reversal of tax and related fines and penalties provision		**5,068,826**	–	**5,068,826**	–
Operating profit		**11,345,581**	2,862,442	**2,985,346**	8,471,258
Finance costs		**(2,899,304)**	(2,245,022)	**(6,062,615)**	(4,574,612)
Finance income		**120,350**	233,877	**1,225,025**	351,169
Net foreign exchange gain		**9,807**	658	**14,881**	50,966
Other income		**153,779**	96,040	**158,367**	324,657
Other expenses		**(65,245)**	(51,451)	**(77,456)**	(107,944)
Profit/(loss) before tax		**8,664,968**	896,544	**(1,756,452)**	4,515,494
Income tax (expenses)/benefit	17	**(725,937)**	221,331	**944,075**	(1,038,270)
Profit/(loss) for the period		**7,939,031**	1,117,875	**(812,377)**	3,477,224
Other comprehensive income		–	–	–	–
Total comprehensive income/(loss) for the period, net of tax		**7,939,031**	1,117,875	**(812,377)**	3,477,224
Earnings per share					
Basic and diluted, tenge		**39.70**	5.59	**(4.06)**	17.39

* *The Group has initially applied IFRS 16 using the modified retrospective method. Under this method, the comparative information is not restated. See Note 3.*

** *Certain amounts shown here do not correspond to the interim condensed consolidated financial statements for the three months and six months ended 30 June 2018 as they reflect the reclassifications and adjustments made, as detailed in Note 4.*

Chairman of the Management Board — Kaspars Kukelis

Chief Financial Officer — Bunyod Ramatov

The accounting policies and notes on pages 6 to 24 are an integral part of these interim condensed consolidated financial statements (unaudited).

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of tenge	Share capital	Retained earnings	Total equity
Balance at 1 January 2018 (audited)	33,800,000	37,422,257	71,222,257
Net profit for the period (unaudited) (restated)**	–	3,477,224	3,477,224
Other comprehensive income (unaudited)	–	–	–
Total comprehensive income (unaudited) (restated)**	–	3,477,224	3,477,224
Dividends declared *(Note 6)*	–	(11,678,000)	(11,678,000)
At 30 June 2018 (unaudited) (restated)**	33,800,000	29,221,481	63,021,481
Balance at 1 January 2019 (audited)	33,800,000	34,275,289	68,075,289
Change in accounting policy due to application of IFRS 16 *(Note 3)**	–	(649,400)	(649,400)
Balance at 1 January 2019 (restated)	33,800,000	33,625,889	67,425,889
Net loss for the period (unaudited)	**–**	**(812,377)**	**(812,377)**
Other comprehensive income (unaudited)	**–**	**–**	**–**
Total comprehensive loss (unaudited)	–	**(812,377)**	**(812,377)**
Dividends declared *(Note 6)*	**–**	**(5,972,000)**	**(5,972,000)**
At 30 June 2019 (unaudited)	**33,800,000**	**26,841,512**	**60,641,512**

* *The Group has initially applied IFRS 16 using the modified retrospective method. Under this method, the comparative information is not restated. See Note 3.*

** *Certain amounts shown here do not correspond to the interim condensed consolidated financial statements for the three months and six months ended 30 June 2018 and consolidated financial statements for year ended 31 December 2018, as they reflect the reclassifications and adjustments made, as detailed in Note 4.*

Chairman of the Management Board — *Kaspars Kukelis*

Chief Financial Officer — *Bunyod Ramatov*

The accounting policies and notes on pages 6 to 24 are an integral part of these interim condensed consolidated financial statements (unaudited).

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands of tenge	Notes	**For six months ended 30 June 2019 (unaudited)**	For six months ended 30 June 2018 (unaudited)*,**
Cash flows from operating activities			
(Loss)/profit before tax		**(1,756,452)**	4,515,494
Adjustments for:			
Impairment of financial assets	9	**880,502**	1,693,731
Impairment of property and equipment	7	**1,844,104**	–
Reversal of tax and related fines and penalties provision		**(5,068,826)**	–
Finance costs		**6,062,615**	4,574,612
Depreciation of property and equipment and right of use assets (for six months ended 30 June 2018: Depreciation of property and equipment)		**10,683,179**	9,583,533
Amortization of intangible assets	8	**4,966,515**	3,257,037
Finance income		**(1,225,025)**	(351,169)
Net foreign exchange gain		**(14,881)**	(50,966)
Operating cash flows before changes in operating assets and liabilities		**16,371,731**	23,222,272
Change in inventories		**(418,786)**	(1,183,259)
Change in trade receivables		**28,548**	(4,265,959)
Change in other current non-financial assets		**(2,814,278)**	21,438
Change in other current financial assets		**(44,010)**	(648,392)
Change in cost to obtain contracts		**51,244**	(96,490)
Change in trade payables		**6,573,437**	(1,492,117)
Change in other current non-financial liabilities		**–**	511,614
Change in other current financial liabilities		**55,106**	1,817,640
Change in contract liabilities		**(176,610)**	(354,228)
Change in taxes payable other than income tax		**(1,157,139)**	624,020
Cash flows generated from operations		**18,469,243**	18,156,539
Income tax paid		**(488,648)**	(3,549,040)
Interest received		**228,532**	351,169
Interest paid		**(3,035,211)**	(4,450,268)
Net cash inflows from operating activities		**15,173,916**	10,508,400
Cash flows from investing activities			
Purchase of property and equipment		**(6,828,997)**	(6,661,127)
Purchase of intangible assets		**(2,591,032)**	(3,505,963)
Net cash flows used in investing activities		**(9,420,029)**	(10,167,090)

The accounting policies and notes on pages 6 to 24 are an integral part of these interim condensed consolidated financial statements (unaudited).

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of tenge	Notes	**For six months ended 30 June 2019 (unaudited)**	For six months ended 30 June 2018 (unaudited)*,**
Cash flows from financing activities			
Proceeds from loans		**15,000,000**	11,840,000
Proceeds from bonds issued		**17,024,647**	4,950,000
Repayment of loans		**(32,000,000)**	(22,000,000)
Repayment of lease liabilities		**(2,849,648)**	–
Net cash flows used in financing activities		**(2,825,001)**	(5,210,000)
Net increase/(decrease) in cash and cash equivalents		**2,928,886**	(4,868,690)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency		**18,160**	58,407
Cash and cash equivalents at the beginning of the period		**6,029,042**	12,659,844
Cash and cash equivalents at the end of the period		**8,976,088**	7,849,561

* *The Group has initially applied IFRS 16 using the modified retrospective method. Under this method, the comparative information is not restated. See Note 3.*

** *Certain amounts shown here do not consistent to the interim condensed consolidated financial statements for the six months ended 30 June 2018, as they reflect the reclassifications and adjustments made, as detailed in Note 4.*

Chairman of the Management Board ______ *Kaspars Kukelis*

Chief Financial Officer ______ *Bunyod Ramatov*

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months period ended 30 June 2019

1. GENERAL INFORMATION

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

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

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

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

On 21 December 2018, the 75 percent stake in the Company owned by Telia Company was sold directly to Kazakhtelecom JSC (the "Parent"). As of 30 June 2019 the Company is controlled by Kazakhtelecom JSC. Kazakhtelecom JSC is controlled by the Government of the Republic of Kazakhstan through Sovereign Wealth Fund "Samruk-Kazyna" JSC ("Samruk-Kazyna") which owns 51% of Kazakhtelecom's controlling shares.

As of 30 June 2019 and 31 December 2018, the shareholders of the Company are presented as follow:

	30 June 2019 (unaudited)	31 December 2018
Kazakhtelecom JSC	**75.00%**	75.00%
Raiffeisenbank JSC	**11.16%**	11.14%
Freedom Finance JSC	**5.03%**	5.68%
Other	**8.81%**	8.18%
	100.00%	100.00%

As of 30 June 2019 and 31 December 2018, the Company has the following principal subsidiaries:

	30 June 2019 (unaudited)	31 December 2018
KazNet Media LLP	**100%**	100%
KT-Telecom LLP	**100%**	100%

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

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

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

The interim condensed consolidated financial statements were authorised for issue on 2 August 2019 by the Chairman of the Management Board.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2018 and for the year then ended. The interim condensed consolidated financial statements are presented in Kazakhstan tenge, and all amounts are rounded to nearest thousands, except otherwise indicated.

Going concern

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

Foreign currency translation

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

The following table summarises the foreign currency exchange rates for tenge:

	30 June 2019	31 December 2018
US dollar	**380.53**	384.20
Euro	**433.08**	439.37
Russian rouble	**6.04**	5.52

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New and amended standards and interpretations

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 16 *Leases*. As required by IAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim condensed consolidated financial statements of the Group.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 16 Leases (continued)

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (‘short-term leases’), and lease contracts for which the underlying asset is low value (‘low-value assets’).

In thousands of tenge	**Adjustments**
Non-current assets	
Right-of-use assets	24,070,061
Total non-current assets	**24,070,061**
Total assets	**24,070,061**
Non-current liabilities	
Long-term lease liabilities	22,191,923
Deferred tax liabilities	(162,350)
Total non-current liabilities	**22,029,573**
Current liabilities	
Short-term lease liabilities	2,689,887
Total current liabilities	**2,689,887**
Total liabilities	**24,719,460**
Total adjustment on equity	
Retained earnings	(649,400)
	(649,400)

(a) Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of space for technical sites, buildings for administrative and technical purposes. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. As of date of initial application, the Group had not finance lease contracts. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under advances paid and other payables, respectively.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

<u>Leases previously accounted for as operating leases</u>

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 16 Leases (continued)

(a) Nature of the effect of adoption of IFRS 16 (continued)

Leases previously accounted for as operating leases (continued)

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Based on the foregoing, as at 1 January 2019:

- Right-of-use assets of 24,070,061 thousand tenge were recognised and presented separately in the statement of financial position;
- Additional lease liabilities of 24,881,810 thousand tenge (included in Lease liabilities) were recognised;
- Deferred tax liabilities decreased by 162,350 tenge thousand because of the deferred tax impact of the changes in assets and liabilities;
- The net effect of these adjustments had been adjusted to retained earnings 649,400 thousand tenge.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

In thousand tenge	
Operating lease commitments as at 31 December 2018	**7,100,319**
Weighted average incremental borrowing rate as at 1 January 2019	12.1%
Discounted operating lease commitments at 1 January 2019	**6,333,915**
Less: commitments relating to short-term lease	(1,401,020)
Add: payments in optional extension periods not recognised as at 31 December 2018	19,948,915
Lease liabilities as at 1 January 2019	**24,881,810**

(b) Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

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. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 16 Leases (continued)

(b) Summary of new accounting policies (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 a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if 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 in-substance fixed lease payments or a change in the assessment 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.

Significant judgement in determining the lease term of contracts with renewal options

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 the option, under some of its leases to lease the assets for additional terms of one to five years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. 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 (e.g., a change in business strategy).

The Group included the renewal period as part of the lease term for leases of space for technical sites due to the significance of these assets to its operations. These leases have a short non-cancellable period one year and there will be a significant negative effect on production if a replacement is not readily available. Most of the lease contracts are one year contracts, which are prolonged automatically.

(c) Amounts recognised in the statement of financial position and profit or loss

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use assets	
In thousands of tenge	**Buildings and construction**	**Lease liabilities**
As at 1 January 2019	24,070,061	24,881,810
Depreciation expenses	**(1,834,430)**	**–**
Interest expenses	**–**	**1,513,030**
Payments	**–**	**(2,849,648)**
Additions	**326,026**	**326,026**
Modifications	**389,664**	**389,664**
As at 30 June 2019	**22,951,321**	**24,260,882**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed. The interpretation did not have an impact on the interim condensed consolidated financial statements of the Group.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the interim condensed consolidated financial statements of the Group.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the interim condensed consolidated financial statements of the Group.

Amendments to IAS 19 Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

These amendments had no impact on the interim condensed consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the period.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

These amendments had no impact on the interim condensed consolidated financial statements as the Group does not have long-term interests in its associate and joint venture.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

Annual improvements 2015-2017 cycle (issued in December 2017)

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are not applicable to the Group.

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are not applicable to the Group.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

Since the Group’s current practice is in line with these amendments, they had no impact on the interim condensed consolidated financial statements of the Group.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted.

Since the Group’s current practice is in line with these amendments, they had no impact on the interim condensed consolidated financial statements of the Group.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. RESTATEMENT OF COMPARATIVE INFORMATION

Certain amounts in the interim condensed consolidated statement of financial position, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flow for the six months ended 30 June 2018 were adjusted to correct the newly identified errors and reclassified to conform with the presentation adopted in the interim condensed consolidated statements for six months ended 30 June 2019. The Group changed the presentation of its consolidated financial statements as new presentation provides information that is more relevant to users of the consolidated financial statements.

In thousand tenge	As originally presented	Adjustments	Reclassi-fications	Note	As adjusted
Consolidated statement of financial position as at 31 December 2018					
Non-current assets					
Property and equipment	88,675,636	–	(238,290)	[1]	88,437,346
Intangible assets	40,605,754	–	(490,758)	[1]	40,114,996
Advances paid for non-current assets	–	–	729,048	[1]	729,048
Total non-current assets	**132,716,720**	**–**	**–**		**132,716,720**
Current assets					
Trade and other receivables	22,580,797	–	(22,580,797)	[2], [3]	–
Trade receivables	–	–	13,787,025	[2]	13,787,025
Other current non-financial assets	–	–	8,801,068	[3]	8,801,068
Other current financial assets	–	–	1,010,707	[3]	1,010,707
Due from related parties	1,018,003	–	(1,018,003)	[2]	–
Total current assets	**34,355,934**	**–**	**–**		**34,355,934**
Current liabilities					
Trade and other payables	18,000,475	–	(18,000,475)	[4], [5]	–
Trade payables	–	–	14,047,602	[4]	14,047,602
Other current non-financial liabilities	–	–	2,910,727	[5]	2,910,727
Other current financial liabilities	–	–	1,716,864	[5]	1,716,864
Due to related parties	674,718	–	(674,718)	[4]	–
Total current liabilities	**81,195,439**	**–**	**–**		**81,195,439**
Interim condensed consolidated statement of comprehensive income for the six months ended 30 June 2018					
Cost of sales	(46,856,050)	(1,800,041)	(4,928,962)	[6], [9]	(53,585,053)
Gross profit	**25,833,304**	**(1,800,041)**	**(4,928,962)**		**19,104,301**
General and administrative expenses	(9,641,216)	(933,040)	3,124,318	[6], [8]	(7,449,938)
Impairment of financial assets	–	–	(1,693,731)	[6]	(1,693,731)
Selling and marketing expenses	(4,987,749)	–	3,498,375	[6]	(1,489,374)
Other income	648,120	–	(648,120)	[7]	–
Other expenses	(438,848)	–	438,848	[7]	–
Operating profit	**11,413,611**	**(2,733,081)**	**(209,272)**		**8,471,258**
Finance income	505,730	–	(154,561)	[7]	351,169
Finance costs	(4,670,766)	–	96,154	[7]	(4,574,612)
Net foreign exchange gain	–	–	50,966	[7]	50,966
Other income	–	–	324,657	[7]	324,657
Other expenses	–	–	(107,944)	[7]	(107,944)
Profit before income tax	**7,248,575**	**(2,733,081)**	**–**		**4,515,494**
Income tax expense	(875,767)	(162,503)	–	[8]	(1,038,270)
Profit and total comprehensive income for the period	**6,372,808**	**(2,895,584)**	**–**		**3,477,224**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. RESTATEMENT OF COMPARATIVE INFORMATION (continued)

In thousand tenge	As originally presented	Adjustments	Reclassi-fications	Note	As adjusted
Interim condensed consolidated statement of comprehensive income for the three months ended 30 June 2018					
Cost of sales	(23,862,547)	(954,749)	(2,400,019)	[6], [9]	(27,217,315)
Gross profit	**12,440,823**	**(954,749)**	**(2,400,019)**		**9,086,055**
General and administrative expenses	(5,533,092)	(466,520)	1,197,910	[6], [8]	(4,801,702)
Impairment of financial assets	–	–	(627,827)	[6]	(627,827)
Selling and marketing expenses	(2,624,020)	–	1,829,936	[6]	(794,084)
Other income	195,095	–	(195,095)	[7]	–
Other expenses	(311,486)	–	311,486	[7]	–
Operating profit	**4,167,320**	**(1,421,269)**	**116,391**		**2,862,442**
Finance income	377,410	–	(143,533)	[7]	233,877
Finance costs	(2,226,917)	–	(18,105)	[7]	(2,245,022)
Net foreign exchange gain	–	–	658	[7]	658
Other income	–	–	96,040	[7]	96,040
Other expenses	–	–	(51,451)	[7]	(51,451)
Profit before income tax	**2,317,813**	**(1,421,269)**	**–**		**896,544**
Income tax benefit	302,582	(81,251)	–	[8]	221,331
Profit and total comprehensive income for the period	**2,620,395**	**(1,502,520)**	**–**		**1,117,875**
Interim condensed consolidated statement of changes in equity for the six months ended 30 June 2018					
Retained earnings	**32,117,065***	**(2,895,584)**	**–**	[8], [9]	**29,221,481**
Interim condensed consolidated statement of cash flows for the six months ended 30 June 2018					
Profit for the year	6,372,808	(2,895,584)	(3,477,224)	[10]	–
Profit before tax	–	1,038,270	3,477,224	[10]	4,515,494
Adjustment for:					
Change in income tax	(2,673,273)	2,673,273	–	[8], [10]	–
Changes in working capital					
Change in trade and other receivables	(3,838,704)	–	3,838,704	[11]	–
Long-term receivable	(870,960)	–	870,960	[11]	–
Change in trade receivables	–	–	(4,265,959)	[11]	(4,265,959)
Change in other current non-financial assets	–	–	21,438	[11]	21,438
Change in other current financial assets	–	–	(648,392)	[11]	(648,392)
Change in taxes payable other than income tax	(94,325)	933,040	(214,695)	[8], [11]	624,020
Change in trade and other payables	(1,495,569)	1,800,041	(304,472)	[9], [11]	–
Change in trade payable	–	–	(1,492,117)	[11]	(1,492,117)
Change in other current non-financial liabilities	–	–	511,614	[11]	511,614
Change in other current financial liabilities	–	–	1,817,640	[11]	1,817,640
Due from related parties	(183,249)	–	183,249	[11]	–
Due to related parties	317,970	–	(317,970)	[11]	–
Income tax paid	–	(3,549,040)	–	[10]	(3,549,040)
Net cash flows from operating activities	**10,508,400**	**–**	**–**		**10,508,400**

* *Including effect of change in accounting policy due to application of IFRS 9 in the amount of 682,866 thousand tenge.*

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. RESTATEMENT OF COMPARATIVE INFORMATION (continued)

[1] Advances paid for non-current assets in the amount of 729,048 thousand tenge were presented as separate line in the interim condensed consolidated statement of financial position.

[2] Trade receivables in the amount of 12,769,022 thousand tenge were reclassified from trade and other receivables and presented as separate line in the interim condensed consolidated statement of financial position. Additionally, trade receivables from related parties in the amount of 1,018,003 thousand tenge were reclassified from due from related parties to trade receivables.

[3] Other current non-financial assets, including VAT recoverable, prepaid other taxes, advances to suppliers, prepaid expenses and in the amount of 6,674,090 thousand tenge, 1,201,942 thousand tenge, 513,529 thousand tenge and 411,507 thousand tenge, respectively, were reclassified from trade and other receivables and presented as a separate line in the interim condensed consolidated statement of financial position. Additionally, other receivables in the amount of 1,010,707 thousand tenge were reclassified from trade and other receivables to other current financial assets.

[4] Trade payables in the amount of 13,372,884 thousand tenge were reclassified from trade and other payables and presented as separate line in the interim condensed consolidated statement of financial position. Additionally, trade payables to related parties in the amount of 674,718 thousand tenge were reclassified from due to related parties to trade payables.

[5] Accrued salaries and bonuses to employees in the amount of 1,716,864 thousand tenge were reclassified from trade and other payables to other current financial liabilities. Additionally, other payables in the amount of 2,910,727 thousand tenge were reclassified from trade and other payables to other current non-financial liabilities.

[6] For the six months ended 30 June 2018 expenses related to operating activities of the Group, including mainly salary of personnel, rent expenses of Kcell stores and mobile service tax, in the total amount of 4,928,962 thousand tenge from general and administrative expenses and selling and marketing expenses were reclassified to cost of sales (three months ended 30 June 2018: 2,400,019 thousand tenge). Impairment of financial assets in the amount of 1,693,731 thousand tenge was reclassified from general and administrative expenses and presented as a separate line in the consolidated statement of comprehensive income (three months ended 30 June 2018: 627,827 thousand tenge).

[7] For the six months ended 30 June 2018 foreign exchange gain and losses were reclassified from other income and expenses in the amount of 323,463 thousand tenge and 330,904 thousand tenge, respectively, and from finance income and costs in the amount of 154,561 thousand tenge and 96,154 thousand tenge, respectively, and were presented as separate line 'net foreign exchange gain' in the interim condensed statements of comprehensive income. (three months ended 30 June 2018: foreign exchange gain and losses were reclassified from other income and expenses in the amount of 99,055 thousand tenge and 260,035 thousand tenge, respectively, and from finance income in the amount of 161,638 thousand tenge). Additionally, other income and expenses in the amount of 324,657 thousand tenge and 107,944 thousand tenge, respectively, were presented separately (three months ended 30 June 2018: 96,040 thousand tenge and 51,451 thousand tenge, respectively).

[8] In first half of 2018 the management of the Group identified certain errors related to the accrual of current income tax and personal income tax. The Group accrued additional current income tax and personal income tax in the total amount of 162,503 thousand tenge and 933,040 thousand tenge, respectively (three months ended 30 June 2018: 81,251 thousand tenge and 466,520 thousand tenge, respectively).

[9] In first half of 2018 the management of the Group identified, that the Group erroneously did not recognize expenses related to interconnect fees due to certain third party suppliers. The Group accrued interconnect fees expenses in the total amount of 1,800,041 thousand tenge for the six months ended 30 June 2018 (three months ended 30 June 2018: 954,749 thousand tenge).

[10] In consolidated statement of cash flows the Group changed the starting point for determination of cash flows from operating activity from profit for the year to profit before tax. Additionally, the Group presented the income tax paid in the amount of 3,549,040 thousand tenge in accordance with the requirements of IAS 7 *Statements of Cash Flows*.

[11] In accordance with corrections and reclassifications made in the interim condensed consolidated statement of comprehensive income, and in the interim condensed consolidated statement of financial position, the Group made respective corrections and reclassification in the interim condensed consolidated statement of cash flow.

The changes did not have an impact on the Group's investing and financing cash flows. All the disclosure amounts within the comparative information were changed respectively.

NOTES TO THE INTERIM CONDENSED 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:

	30 June 2019		31 December 2018	
	Share	**Number of shares**	Share	Number of shares
Kazakhtelecom JSC	**75.00%**	**150,000,000**	75.00%	150,000,000
Raiffeisenbank JSC	**11.16%**	**22,329,757**	11.14%	22,282,367
Freedom Finance JSC	**5.03%**	**10,069,848**	5.68%	11,353,659
Other	**8.81%**	**17,600,395**	8.18%	16,363,974

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. On 21 December 2018, the 75% stake in the Company owned by Fintur and TeliaSonera Kazakhstan was sold directly to Kazakhtelecom JSC.

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

	For the three months ended 30 June		**For the six months ended 30 June**	
	2019 (unaudited)	2018 (unaudited)	**2019 (unaudited)**	2018 (unaudited)
Profit/(loss) for the period attributable to equity shareholders	**7,939,031**	1,117,873	**(812,377)**	3,477,224
Weighted average number of ordinary shares	**200,000,000**	200,000,000	**200,000,000**	200,000,000
Earnings/(loss) per share (Kazakhstani tenge), basic and diluted	**39.70**	5.59	**(4.06)**	17.39

The Group has no dilutive or potentially dilutive securities outstanding.

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

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

According to the requirements of the Kazakhstan Stock Exchange ("KASE"), the Group has calculated its cost per ordinary share, which was calculated based on the number of ordinary shares outstanding at the reporting date. The cost per ordinary share as at 30 June 2019 and 31 December 2018 is presented below.

	30 June 2019	31 December 2018
Net assets, excluding intangible assets	**23,460,631**	27,960,293
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)	**117.30**	139.80

During the six months ended 30 June 2019 and 2018, the Group declared dividends payable in the amount of 5,972,000 thousand tenge and 11,678,000 thousand tenge, respectively.

7. PROPERTY AND EQUIPMENT

During the six months period ended 30 June 2019, additions to property and equipment totaled to 2,231,180 thousand tenge (during six months period ended 30 June 2018: 6,920,194 thousand tenge).

During the six months period ended 30 June 2019, the Group sold property and equipment with gross book value of 52,924 thousand tenge, net book value nil (during six months period ended 30 June 2018: nil thousand tenge).

During the six months period ended 30 June 2019, transfer from construction-in-progress to property and equipment amounted to 4,291,767 thousand tenge (during six months period ended 30 June 2018: 3,877,664 thousand tenge).

During the six months period ended 30 June 2019, the Group recognized depreciation expense in the amount of 8,848,749 thousand tenge (during six months ended 30 June 2018: 9,583,533 thousand tenge).

During the six months period ended 30 June 2019, the impairment loss of 1,844,104 thousand tenge represented the write-down of certain property and equipment 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. As at 30 June 2019, the recoverable amount of nil tenge was based on value in use and was determined at the individual asset level (during six months ended 30 June 2018: nil).

As at 30 June 2019, the gross carrying value of property and equipment which has been fully depreciated and still in use was 135,301,050 thousand tenge (as at 31 December 2018: 125,217,497 thousand tenge).

8. INTANGIBLE ASSETS

During the six months ended 30 June 2019, the Group acquired intangible assets in the amount of 2,032,400 thousand tenge (during six months ended 30 June 2018: 1,253,750 thousand tenge).

During the six months ended 30 June 2019, the Group disposed fully amortized intangible assets with the gross amount of 677,778 thousand tenge and accumulated depreciation of 677,778 thousand tenge (during six months ended 30 June 2018: nil).

During the six months ended 30 June 2019, the Group recognized amortization expense in the amount of 4,966,515 thousand tenge (during six months ended 30 June 2018: 3,257,037 thousand tenge).

As at 30 June 2019, the carrying amount of 3G license was 2,166,667 thousand tenge (31 December 2018: 2,333,333 thousand tenge) and its remaining amortization period was 6.5 years. As at 30 June 2019, the carrying amount of the 4G license was 20,077,777 thousand tenge (31 December 2018: 20,944,444 thousand tenge) and its remaining amortization period was 11.5 years.

As at 30 June 2019, the gross carrying value of intangible assets, which have been fully amortized and still in use was 28,819,720 thousand tenge (31 December 2018: 27,630,351 thousand tenge).

9. TRADE RECEIVABLES

As at 30 June 2019 and 31 December 2018, trade receivables comprised of the following:

In thousands of tenge	**30 June 2019 (unaudited)**	31 December 2018
Trade receivable from subscribers	**21,063,683**	21,400,065
Trade receivable from interconnect services	**716,703**	330,859
Trade receivables from roaming operators	**162,108**	456,470
Trade receivables from dealers and distributors	**9,119**	629,826
Trade receivables from related parties	**1,218,621**	659,913
Less: allowance for expected credit losses	**(7,229,842)**	(6,680,113)
	15,940,392	16,797,020
Less: long-term portion of trade receivable from subscribers	**(1,327,375)**	(3,009,995)
	14,613,017	13,787,025

9. TRADE RECEIVABLES (continued)

During the six months ended 30 June movements in the allowance for expected credit losses were as follows:

	For six months ended	
In thousands of tenge	**30 June 2019 (unaudited)**	30 June 2018 (unaudited)
Allowance for expected credit losses at the beginning of the period	**(6,680,113)**	(5,642,354)
Charge for the period	**(880,502)**	(1,693,731)
Write-offs for the period	**330,773**	578,570
Allowance for expected credit losses at the end of the period	**(7,229,842)**	(6,757,515)

10. OTHER CURRENT NON-FINANCIAL ASSETS

As at 30 June 2019 and 31 December 2018, other current non-financial assets comprised of the following:

In thousands of tenge	**30 June 2019 (unaudited)**	31 December 2018
Prepaid taxes other than income taxes	**6,575,106**	1,201,942
VAT recoverable	**5,751,518**	6,674,090
Advances paid	**1,861,170**	513,529
Prepaid expenses	**70,258**	411,507
	14,258,052	8,801,068

11. CASH AND CASH EQUIVALENTS

As at 30 June 2019 and 31 December 2018, cash and cash equivalents comprised of the following:

In thousands of tenge	**30 June 2019 (unaudited)**	31 December 2018
Cash on current bank accounts	**6,407,179**	5,883,718
Bank deposits with original maturity of less than 90 days	**2,487,414**	–
Cash in transit	**62,910**	132,134
Cash on hand	**18,585**	13,190
	8,976,088	6,029,042

As of 30 June 2019, short-term bank deposits are represented in tenge and placed in Altyn Bank JSC and Citibank Kazakhstan JSC, at interest rates of 7.9% and 7%, with maturity till August 2019 and July 2019, respectively.

As at 30 June 2019 and 31 December 2018, cash and cash equivalents were denominated in various currencies as follows:

In thousands of tenge	**30 June 2019 (unaudited)**	31 December 2018
Tenge	**4,524,705**	5,259,475
US dollars	**4,447,764**	746,612
Russian rubles	**316**	1,253
Other	**3,303**	21,702
	8,976,088	6,029,042

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. BORROWINGS

As at 30 June 2019 and 31 December 2018, borrowings comprised of the following:

	Currency	Nominal interest rate	Maturity date	30 June 2019 (unaudited)	31 December 2018
Eurasian Development Bank	Tenge	11.5%	20 May 2024	**28,894,630**	29,749,590
Halyk Bank of Kazakhstan JSC	Tenge	11%	12 May 2022	**10,146,667**	21,688,817
SB Alfabank JSC	Tenge	12%	7 June 2019	**–**	10,086,666
VTB Bank JSC	Tenge	10.9%	1 February 2020	**5,089,589**	–
Bonds	Tenge	11.5%	16 January 2021	**22,806,795**	5,193,713
				66,937,681	66,718,786
Less: non-current portion				**(60,474,764)**	(14,935,969)
				6,462,917	51,782,817

The Group's borrowings are denominated in Kazakhstani tenge. The Group has not entered into any hedging arrangements in respect of its interest rate exposures.

As at 30 June 2019 current portion of borrowings includes principal amount of VTB Bank JSC loan in the amount of 5,000,000 thousand tenge, interest accrued on loans and bonds in the amount of 1,462,917 thousand tenge.

On 21 February 2019, the Group undertook a bond placement at the Kazakhstan Stock Exchange, in which bonds to the value of 17,024,648 thousand tenge were placed with investors at a yield of 11.5% and on 16 January 2018 a bond placement with the value of 4,950,000 thousand tenge. This was the first placement in the programme, which the Group had announced on 14 December 2017, aimed at expanding and diversifying the Group's funding sources, increasing the average term of the Group's financial liabilities and decreasing its funding costs.

13. TRADE PAYABLES

As at 30 June 2019 and 31 December 2018, trade payables comprised of the following:

In thousands of tenge	30 June 2019 (unaudited)	31 December 2018
Trade payables to third parties	**9,771,017**	13,372,884
Trade payables to related parties	**4,735,531**	674,718
	14,506,548	14,047,602

14. OTHER CURRENT FINANCIAL LIABILITIES

As at 30 June 2019 and 31 December 2018, other current financial liabilities comprised of the following:

In thousands of tenge	30 June 2019 (unaudited)	31 December 2018
Accrued salaries and bonuses to employees	**2,491,341**	1,716,864
Dividends payable	**5,972,000**	–
Other payables	**370,538**	–
	8,833,879	1,716,864

On 12 April 2019, the Group received from Kar-Tel LLP a notice on termination of the Network Sharing Agreement (hereinafter referred to as the "Agreement"), since there was a change in the Group's controlling shareholder in December 2018, which represents, in accordance with the Agreement, a breach of conditions of the Agreement, giving the right to the second party to terminate the Agreement and request payment of termination fine, determined in accordance with the methodology specified in the Agreement. The Group received from Kar-Tel LLP an invoice for payment of a termination fine in the amount of 14,551,865 thousand tenge. The Group repaid the termination fine in full in June 2019.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. REVENUE FROM CONTRACTS WITH CUSTOMERS

	For three months ended 30 June		For six months ended 30 June	
In thousands of tenge	**2019 (unaudited)**	2018 (unaudited)	**2019 (unaudited)**	2018 (unaudited)
Voice and other services	**20,014,053**	19,258,178	**37,864,558**	37,778,450
Data service	**12,442,812**	10,873,136	**24,265,154**	22,386,932
Value added services	**1,731,999**	1,915,880	**3,712,924**	4,130,623
Sale of handsets	**3,680,418**	4,256,176	**7,206,570**	8,393,349
	37,869,282	36,303,370	**73,049,206**	72,689,354
Services transferred over time	**34,188,864**	32,047,194	**65,842,636**	64,296,005
Goods transferred at a point of time	**3,680,418**	4,256,176	**7,206,570**	8,393,349
	37,869,282	36,303,370	**73,049,206**	72,689,354

As at 30 June 2019 and 31 December 2018, the contract liabilities in the amount of 7,121,136 thousand tenge and 7,297,746 thousand tenge, were represented by deferred revenue.

16. COST OF SALES

	For three months ended 30 June		For six months ended 30 June	
In thousands of tenge	**2019 (unaudited)**	2018 (unaudited)	**2019 (unaudited)**	2018 (unaudited)
Depreciation and amortization	**7,063,754**	5,725,742	**13,975,968**	10,978,513
Interconnect fees and expenses	**6,345,356**	6,215,717	**12,075,032**	12,056,542
Cost of SIM-card, scratch card, start package sales and handsets	**3,799,369**	3,358,643	**6,715,965**	6,839,292
Transmission services	**2,293,036**	2,395,680	**4,629,039**	4,799,245
Personnel costs	**1,717,976**	2,561,713	**4,226,526**	4,990,862
Repair and maintenance	**1,658,370**	1,822,615	**3,398,501**	3,487,623
Fees for use of frequency range	**1,389,868**	1,293,887	**2,738,787**	2,579,379
Electricity	**890,796**	902,954	**1,861,245**	1,802,946
Mobile tax	**461,576**	476,730	**923,150**	955,625
Rental of base stations	**291,163**	1,495,537	**562,243**	2,973,471
Security and safety	**95,113**	58,126	**196,558**	117,018
Materials	**39,155**	28,592	**97,507**	60,081
Other	**713,722**	881,379	**1,382,895**	1,944,456
	26,759,254	27,217,315	**52,783,416**	53,585,053

17. INCOME TAX EXPENSES

	For three months ended 30 June		For six months ended 30 June	
In thousands of tenge	**2019 (unaudited)**	2018 (unaudited)	**2019 (unaudited)**	2018 (unaudited)
Current income tax expense	**249,263**	1,572,618	**249,260**	3,335,388
Deferred income tax expense/(benefit)	**476,674**	(1,793,949)	**(1,193,335)**	(2,297,118)
	725,937	(221,331)	**(944,075)**	1,038,270

18. 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. RELATED PARTY DISCLOSURES (continued)

Each financial year the Group examines the financial position of the related parties and the markets in which the related parties operate to conclude whether accounts receivable from related parties shall be impaired. No impairment of accounts receivable from related parties was recognised based on such analysis as at 30 June 2019 and 31 December 2018.

The related parties list for the six months 2019 is different in comparison with related parties list for the six months 2018 due to change in control of the Group. On 21 December 2018, the 75 percent stake in the Group owned by Telia Company was sold directly to Kazakhtelecom JSC. Kazakhtelecom JSC is controlled by the Government of the Republic of Kazakhstan through Sovereign Wealth Fund "Samruk-Kazyna" JSC ("Samruk-Kazyna") which owns 51% of Kazakhtelecom's controlling shares *(Note 1)*. Governmental entities include entities under common control and associates of the Government of the Republic of Kazakhstan.

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 six months ended 30 June 2019 and 2018, and the balances with related parties as at 30 June 2019 and 31 December 2018, were as follows:

	For three months ended 30 June		**For six months ended 30 June**	
In thousands of tenge	**2019 (unaudited)**	2018 (unaudited)	**2019 (unaudited)**	2018 (unaudited)
Sales of goods and services				
Entities of Telia Company group (previous shareholder)	**–**	24,860	**–**	158,563
Entities of Samruk Kazyna group	**55,203**	–	**106,384**	–
Entities of Kazaktelecom group	**2,443,081**	–	**5,135,832**	–
Government entities	**64,205**	–	**75,944**	–
Purchases of goods and services				
Entities of Telia Company group (previous shareholder)	**–**	396,636	**–**	1,003,761
Entities of Samruk Kazyna group	**154,971**	–	**334,266**	–
Entities of Kazaktelecom group	**4,624,587**	–	**9,229,790**	–
Government entities	**11,642**	–	**16,504**	–

In thousands of tenge	**30 June 2019 (unaudited)**	31 December 2018
Trade receivables		
Entities of Samruk Kazyna group	**191,070**	452,534
Entities of Kazaktelecom group	**961,809**	199,106
Government entities	**65,742**	8,273
Trade payables		
Entities of Samruk Kazyna group	**47,582**	14,823
Entities of Kazaktelecom group	**4,687,584**	658,622
Government entities	**365**	1,273

19. FINANCIAL INSTRUMENTS

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.

As at 30 June 2019 and 31 December 2018, the carrying amounts of the Group's financial assets and liabilities presented as follows:

In thousands of tenge	**Carrying amount 30 June 2019**	**Fair value 30 June 2019**	**Unrecog-nised gain/ (loss)**	Carrying amount 31 December 2018	Fair value 31 December 2018	Unrecog-nised gain/ (loss)
Financial assets						
Cash and cash equivalents	**8,976,088**	**8,976,088**	**–**	6,029,042	6,029,042	–
Short-term trade receivables	**14,613,017**	**14,613,017**	**–**	13,787,025	13,787,025	–
Long-term trade receivables	**1,327,375**	**1,354,626**	**27,251**	3,009,995	3,009,995	–
Financial liabilities						–
Borrowings	**66,937,681**	**66,805,223**	**132,458**	66,718,786	66,718,786	–
Trade payables	**14,506,548**	**14,506,548**	**–**	14,047,602	14,047,602	–
Total unrecognised change in unrealised fair value			**159,709**			–

20. 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.

Capital commitments

The Group generally enters into contracts for the completion of construction projects and purchase of equipment. As at 30 June 2019, the Group had contractual commitments totaling 6,364,867 thousand tenge, excluding VAT (unaudited) (as at 31 December 2018: 4,295,229 thousand tenge, excluding VAT).

Taxation

Tax legislation and regulatory framework of the Republic of Kazakhstan are subject to constant changes and allow for different interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50-80% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of the Republic of Kazakhstan multiplied by 1.25. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review.

Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 30 June 2019. Management believes that as at 30 June 2019 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.

In July 2017, the Kazakhstan tax authority completed its comprehensive tax audit for the period of 2012-2015. Based on the results of the tax audit, the tax authority made an accrual of additional taxes and fines and penalties in the total amount of 9,008,002 thousand tenge, of which 5,789,678 thousand tenge is for unpaid taxes and 3,218,324 thousand tenge represents fines and penalties. The Group did not agree with some results of tax audit and filed an appeal.

20. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Taxation (continued)

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

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

- Additional charge on withholding tax for services provided by non-resident legal entities in the amount of 2,196,555 thousand tenge;
- Additional VAT on software technical support services provided by non-resident legal entities in the amount of 779,916 thousand tenge;
- Related fines and penalties in the amount of 2,092,355 thousand tenge.

The resolution of the Supreme Court of the Republic of Kazakhstan represents adjusting subsequent event. Thus, the Group recognized income from reversal of the tax and related fines and penalties provision in the total amount of 5,068,826 thousand tenge in the interim condensed consolidated statement of comprehensive income for the three and six months ended 30 June 2019. As the Group has already paid withholding tax for services provided by non-resident legal entities in the amount of 2,196,555 thousand tenge and additional VAT charge in the amount of 779,916 thousand tenge, the Group recognised these prepaid taxes and expects to offset against future taxes accrual. Fines and penalties in the amount of 2,092,355 thousand tenge was not paid as of 30 June 2019, and the Group had recognized provision on the full amount of the fines and penalties in previous year. Thus, the Group recognized the reversal of the provision on fines and penalties for the total amount of 2,092,355 thousand tenge.

New technical regulations

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

Cases related to the abuse of dominant position

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

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

The Group did not agree with the order issued by the Committee. On 3 July 2019, the Group appealed to the Court. The management of the Group believes that the appeal will be successful and assesses the probability of outflow of economic benefits as remote.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. SEASONALITY OF OPERATIONS

The Group's services are impacted by seasonal trends throughout the year. Revenue and operating profits in the second half of year are usually expected to be higher than in the first six months. Higher revenue during the period from July to September is mainly attributable to increased demand for telecom services during the peak holiday season. Higher revenue also occurs in the months of December, due to increased demand for telecom services and equipment from subscribers.

This information is provided to allow for a better understanding of the Group's results; however, management has concluded that these impacts on the results are not "highly seasonal" as considered by IAS 34.

22. SUBSEQUENT EVENTS

On 23 July 2019, the Supreme Court of the Republic of Kazakhstan partially satisfied the appeal of the Group related to dispute on the tax results of comprehensive tax audit for the period of 2012-2015 for the total amount of 5,068,826 thousand tenge *(Note 20)*.

On 25 July 2019, Kcell JSC concluded an agreement on the provision of a revolving credit line with AB Bank of China Kazakhstan JSC in the amount of 9,500,000 thousand tenge with a maturity of 36 months and a fixed interest rate of 10.5% per annum. Kazakhtelecom JSC, the parent, provided a guarantee to Kcell JSC under this credit facility with AB Bank of China Kazakhstan JSC.