NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2019

1. GENERAL INFORMATION

Kazakhtelecom JSC (the "Company" or "Kazakhtelecom") was established in June 1994 in accordance with the legislation of the Republic of Kazakhstan.

The Company is incorporated, domiciled and operates in the Republic of Kazakhstan. The legal address of the Company is: 12 Sauran str., Nur-Sultan, 010000, Republic of Kazakhstan.

The Company is controlled by the Government of the Republic of Kazakhstan through Sovereign Wealth Fund "Samruk-Kazyna" JSC ("Samruk-Kazyna" or the "Parent"), which owns 51% of the Company's controlling shares. Below is a list of the Company's shareholders as at 30 September 2019:

	At 30 September 2019 (unaudited)	At 31 December 2018 (audited)
Samruk-Kazyna	**51.0%**	51.0%
SKYLINE INVESTMENT COMPANY S.A.	**24.5%**	24.5%
ADR (The Bank of New York – depositor)	**9.2%**	9.2%
Alatau Capital Invest LLP	**3.7%**	3.7%
United Accumulative Pension Fund JSC	**3.4%**	3.4%
Deran Investment B.V.	**–**	2.0%
Other	**8.2%**	6.2%
	100%	100%

The Company is included in the register of natural monopolists in relation to transit traffic services provided to telecommunication operators, public switch telecommunication network ("PSTN"), connection services provided to third party telecommunication operators, and rental of phone channels to telecommunication operators for connection to PSTN.

The Company and its subsidiaries listed in *Note 2* (hereinafter collectively referred to as the "Group") have a significant share of the fixed line communication market, including local, long-distance intercity and international telecommunication services including CIS and non-CIS countries; and also leases out lines and provides data transfer services, as well as wireless communication.

2. BASIS FOR PREPARATION

The interim condensed consolidated financial statements for the nine months period ended 30 September 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 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.

Reclassification of comparative information

The interim condensed consolidated financial statements provide comparative information in respect of the previous period. Goodwill was reclassified as separate line in the consolidated statement of financial position as at 31 December 2018 to conform with the presentation adopted in the interim condensed consolidated statement of financial position as at 30 September 2019.

Foreign currency translation

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

2. BASIS FOR PREPARATION (continued)

Foreign currency translation (continued)

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.

Foreign exchange rates are presented in the following table:

	30 September 2019	31 December 2018
US dollar	**387.99**	384.20
Euro	**423.72**	439.37
Russian rouble	**5.98**	5.52

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

		Percentage ownership	
	Country of incorporation	30 September 2019 (unaudited)	31 December 2018 (audited)
Khan Tengri Holding B.V.	Netherlands	**100.00%**	–
KT-IX LLC	Russia	**100.00%**	100.00%
KT Cloud Lab LLP	Kazakhstan	**100.00%**	100.00%
Vostoktelecom LLP	Kazakhstan	**100.00%**	100.00%
Info-Net Wireless LLP	Kazakhstan	**100.00%**	100.00%
Nursat+ LLP	Kazakhstan	**100.00%**	100.00%
Kcell JSC	Kazakhstan	**75.00%**	75.00%
Nursat JSC	Kazakhstan	**–**	100.00%

On 28 June 2019, the Group has obtained control over Khan Tengri Holding B.V., in which the Group previously held investment in associate as described in *Note 4*.

Based on the decision of the board of directors of Kazakhtelecom JSC *On the Voluntary Liquidation of a Subsidiary of "Nursat JSC"* (dated 31 March 2017), the final liquidation balance sheet of Nursat JSC as of 31 December 2018 was approved on 6 February 2019. The certificate of the National Bank on cancellation of the issue of announced shares of Nursat JSC was received on 22 February 2019.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 16 Leases (continued)

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.

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').

In thousands of tenge	Adjustments
Non-current assets	
Right-of-use assets	71,929,617
Property and equipment	(42,229,062)
	29,700,555
Current assets	
Advances paid	(10,202)
	(10,202)
Total assets	**29,690,353**
Non-current liabilities	
Lease liabilities	27,303,654
Deferred tax liabilities	(154,337)
	27,149,317
Current liabilities	
Lease liabilities	3,168,590
Other payables	(123,063)
	3,045,527
Total liabilities	**30,194,844**
Total adjustment on equity	
Retained earnings	(372,725)
Non-controlling interests	(131,766)
	(504,491)

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

The Group has lease contracts for cell sites (land, space in cell tower or rooftop surface areas), equipment, buildings used for administrative or 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. Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liabilities. 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.

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)

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

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.

Leases previously classified as finance leases

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.

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 KZT 71,929,617 thousand were recognised and presented separately in the statement of financial position. This includes the lease assets recognised previously under finance leases of KZT 42,229,062 thousand that were reclassified from Property and equipment.
- Additional lease liabilities of KZT 30,472,244 thousand (included in Lease liabilities) were recognised.
- Advances paid of KZT 10,202 thousand and other payables of KZT 123,063 thousand related to previous operating leases were derecognised.
- Deferred tax liabilities decreased by KZT 154,337 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 (KZT 372,725 thousand) and non-controlling interest (KZT 131,766 thousand).

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

In thousands of tenge	
Operating lease commitments as at 31 December 2018	**7,928,218**
Weighted average incremental borrowing rate as at 1 January 2019	11.91%
Discounted operating lease commitments at 1 January 2019	**7,511,495**
Less	
Commitments relating to short-term leases	(1,419,969)
Add	
Commitments relating to leases previously classified as finance leases	22,729,325
Payments in optional extension periods not recognised as at 31 December 2018	24,380,718
Lease liabilities as at 1 January 2019	**53,201,569**

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)

(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.

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 motor vehicles, apartments for employees and some equipment. 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 three 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 plant and machinery due to the significance of these assets to its operations. These leases have a short non-cancellable period (i.e., three to five years) and there will be a significant negative effect on production if a replacement is not readily available. The renewal options for leases of motor vehicles were not included as part of the lease term because the Group has a policy of leasing motor vehicles for not more than five years and, hence, not exercising any renewal options.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 16 Leases (continued)

(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 constructions	Equipment	Total	Lease liabilities
At 1 January 2019	29,700,555	42,229,062	71,929,617	53,201,569
Additions	1,507,132	591,015	2,098,147	2,168,460
Acquisition of subsidiary *(Note 4)*	23,423,176	–	23,423,176	23,878,564
Depreciation expenses	(4,540,427)	(2,920,691)	(7,461,118)	–
Interest expenses *(Note 23)*	–	–	–	5,738,984
Payments	–	–	–	(14,294,100)
At 30 September 2019	50,090,436	39,899,386	89,989,822	70,693,477

The Group recognized rent expenses from short-term leases of KZT 1,210,583 thousand for the nine months ended 30 September 2019.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

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

IAS 12 Income Taxes (continued)

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 of 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.

4. BUSINESS COMBINATIONS

Acquisition of Khan Tengri Holding B.V.

On 29 February 2016, the Group acquired 51% share capital and 49.48% of voting shares in Khan Tengri Holding B.V., the company rendering GSM and LTE mobile telecommunication services in the Republic of Kazakhstan. Khan Tengri Holding B.V. is a private entity and not listed on the stock exchange. Khan Tengri Holding B.V. was an equity accounted associate for the Group till 28 June 2019 *(Note 8)*.

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

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

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

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

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

4. BUSINESS COMBINATIONS (continued)

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

On 25 February 2016, the Group provided a guarantee to associate organization Khan Tengri Holding B.V. under the credit facility from Development Bank of Kazakhstan JSC with a credit limit of up to KZT 10,008,780 thousand for the period until 19 December 2024. Guarantee issued in the amount of KZT 937,145 thousand was included into the consideration of business combination due to the acquisition of residual shares in associate of Khan Tengri Holding B.V.

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

Provisional fair value amounts of identified assets, liabilities and contingent liabilities of Khan Tengri Holding B.V. as at the date of acquisition comprised the following:

In thousands of tenge	Provisional fair value recognized on acquisition
Assets	
Property and equipment	99,771,598
Right-of-use assets	26,457,939
Intangible assets	112,272,032
Advances paid for non-current assets	2,061,017
Cash and cash equivalents	5,391,581
Deferred tax assets	14,945,272
Other non-current financial assets	77,640
Trade receivables	14,921,849
Inventories	909,245
Advances paid	2,439,609
Corporate income tax prepaid	614,125
Other current non-financial assets	2,023,828
Other current financial assets	887,739
Total assets	**282,773,474**
Liabilities	
Trade payables	(25,613,422)
Borrowings	(10,256,641)
Lease liabilities	(26,913,327)
Contract liabilities	(8,094,854)
Deferred tax liabilities	(24,003,371)
Asset retirement obligations	(4,826,230)
Other current financial liabilities	(2,460,538)
Other current non-financial liabilities	(1,193,897)
Total liabilities	**(103,362,280)**
Net identifiable assets at fair value	**179,411,194**
Consideration transferred for 49% interest acquired on 28 June 2019*	181,534,893
Acquisition-date fair value of initial 51% interest	99,211,623
	280,746,516
Acquisition-date fair values of identifiable net assets acquired	179,411,194
Guarantee issued to Mobile Telecom Service LLP	937,145
Goodwill	**100,398,177**
Analysis of cash flows on acquisition	
Net cash acquired with the subsidiary	5,391,581
Consideration transferred*	(181,534,893)
Net cash outflow	**(176,143,312)**

* *The consideration transferred for 49% interest acquired by the Group was KZT 181,534,893 thousand, including cash paid in the amount of KZT 101,118,483 thousand and loan provided to Mobile Telecom Service LLP in the amount of KZT 80,416,410 thousand.*

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. BUSINESS COMBINATIONS (continued)

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

Net assets recognized in the interim condensed consolidated financial statements as at 30 September 2019 are based on a preliminary assessment of their fair value, while the Group makes an independent assessment of assets owned by Khan Tengri Holding B.V. This estimate has not been completed at the time of issuing the interim condensed consolidated financial statements for the nine months period ended 30 September 2019.

At the date of the acquisition, the fair value of the trade receivables was KZT 14,921,849 thousand. The carrying amount of trade receivables is KZT 14,921,849 thousand.

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

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

The amount of goodwill equal to KZT 100,398,177 thousand and includes the cost of the expected synergistic effect from the acquisition. The entire amount of goodwill is allocated to the mobile telecommunications segment. It is expected that recognized goodwill will not be deductible for the purposes of the taxation either in full or in part.

During nine months period ended 30 September 2019, the Group recognized income from re-measurement of previously held interest in the equity-accounted associate in the amount of KZT 17,310,113 thousand as a result of remeasuring its existing interest in the equity-accounted associate amount of KZT 81,901,510 thousand at the date of obtaining control to its acquisition-date fair value of KZT 99,211,623 thousand.

If the companies were consolidated at the beginning of the year, the Group's revenues would be KZT 339,260,072 thousand, and profit before tax KZT 78,743,093 thousand.

5. SEGMENT INFORMATION

For management purposes, the Group represents business units based on the organizational structure of the Group and has reportable operating segments as follows:

- Rendering fixed-line telecommunication services to local, national long-distance and international by business units of Kazakhtelecom JSC, Vostoktelecom LLP and KT Cloud Lab LLP.
- Rendering mobile telecommunication services in GSM and LTE standards by business units of Khan Tengri Holding B.V. and Kcell JSC.

The Group completed the acquisition of the residual 49% of shares of Khan Tengri Holding B.V. and obtained 100% control over the entity in the late June 2019.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SEGMENT INFORMATION (continued)

The following tables disclose revenue and segment profit information for the Group's operating segments for the three and nine months ended 30 September 2019 and 2018.

For the three months ended 30 September 2019 (unaudited):

In thousands of tenge	Fixed line	Mobile tele-communication services in GSM and LTE standards	Other	Eliminations and adjustments	Group
Revenue from contracts with customers					
Sales to external customers	48,514,464	69,950,737	110,244	–	118,575,445
Inter-segment	8,356,890	3,774,445	79,997	(12,211,332)	–
Total revenue from contracts with customers	56,871,354	73,725,182	190,241	(12,211,332)	118,575,445
Financial results					
Depreciation and amortisation	(10,301,274)	(16,816,172)	(20,699)	–	(27,138,145)
Finance costs	(8,803,238)	(4,898,735)	–	–	(13,701,973)
Finance income	330,402	234,095	–	–	564,497
Share in profits of associates	–	–	48,129	–	48,129
Impairment of fixed assets	–	–	–	–	–
Impairment losses on financial assets	524,901	(948,526)	(692)	–	(424,317)
Segment profit/(loss)	7,384,583	11,700,878	10,317	(74,515)	19,021,263

For the three months ended 30 September 2018 (unaudited):

In thousands of tenge	Fixed line	Mobile tele-communication services in GSM and LTE standards	Other	Eliminations and adjustments	Group
Revenue from contracts with customers					
Sales to external customers	57,783,238	–	152,536	–	57,935,774
Inter-segment	13,466	–	53,315	(66,781)	–
Total revenue from contracts with customers	57,796,704	–	205,851	(66,781)	57,935,774
Financial results					
Depreciation and amortisation	(9,316,576)	–	(28,224)	–	(9,344,800)
Finance costs	(1,297,536)	–	–	–	(1,297,536)
Finance income	755,482	–	543	–	756,025
Share in profit of associates	–	1,874,715	23,952	–	1,898,667
Impairment losses on financial assets	209,854	–	(38)	–	209,816
Segment profit/(loss)	23,575,381	1,874,715	(49,947)	–	25,400,149

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SEGMENT INFORMATION (continued)

For the nine months ended 30 September 2019 (unaudited):

In thousands of tenge	Fixed line	Mobile tele-communication services in GSM and LTE standards	Other	Eliminations and adjustments	Group
Revenue from contracts with customers					
Sales to external customers	155,884,208	142,339,020	351,349	–	298,574,577
Inter-segment	12,993,797	4,435,368	215,528	(17,644,693)	–
Total revenue from contracts with customers	168,878,005	146,774,388	566,877	(17,644,693)	298,574,577
Financial results					
Depreciation and amortization	(28,489,907)	(38,871,249)	(61,843)	–	(67,422,999)
Finance costs	(19,165,722)	(10,772,692)	–	–	(29,938,414)
Finance income	2,254,178	1,459,120	433	–	3,713,731
Share in profit of associates	–	5,830,925	175,743	–	6,006,668
Impairment of fixed assets	–	1,844,104	–	–	1,844,104
Impairment losses on financial assets	(959,868)	(1,829,028)	(567)	–	(2,789,463)
Segment profit	21,960,302	9,379,076	12,943	31,494,492	62,846,813

For the nine months ended 30 September 2018 (unaudited):

In thousands of tenge	Fixed line	Mobile tele-communication services in GSM and LTE standards	Other	Eliminations and adjustments	Group
Revenue from contracts with customers					
Sales to external customers	161,173,367	–	385,701	–	161,559,068
Inter-segment	13,466	–	160,173	(173,639)	–
Total revenue from contracts with customers	161,186,833	–	545,874	(173,639)	161,559,068
Financial results					
Depreciation and amortization	(28,431,631)	–	(85,059)	–	(28,516,690)
Finance costs	(3,767,905)	–	–	–	(3,767,905)
Finance income	2,842,398	–	1,778	–	2,844,176
Share in profit of associates	–	4,081,725	117,972	–	4,199,697
Impairment losses on financial assets	(4,159,763)	–	(38)	–	(4,159,801)
Segment profit/(loss)	49,041,612	4,081,725	(63,843)	(891,268)	52,168,226

5. SEGMENT INFORMATION (continued)

The following table presents assets and liabilities information for the Group's operating segments as at 30 September 2019 and 31 December 2018, respectively:

In thousands of tenge	Fixed line	Mobile tele-communication services in GSM and LTE standards	Other	Eliminations and adjustments	Group
Operating assets					
As at 30 September 2019 (unaudited)	**719,882,334**	**715,273,801**	**2,623,331**	**(375,861,013)**	**1,061,918,453**
As at 31 December 2018	551,021,413	407,842,367	2,218,590	(167,687,639)	793,394,731
Operating liabilities					
As at 30 September 2019 (unaudited)	**322,060,849**	**321,176,956**	**317,757**	**(35,946,278)**	**607,609,284**
As at 31 December 2018	247,072,042	132,647,334	260,773	(1,426,353)	378,553,796

6. PROPERTY AND EQUIPMENT

During the nine months period ended 30 September 2019, the Group acquired property and equipment for KZT 21,493,168 thousand (unaudited) (during the nine months period ended 30 September 2018: KZT 9,736,324 thousand (unaudited)). During the nine months period ended 30 September 2019, the Group disposed property and equipment with net book value of KZT 263,490 thousand (unaudited) (during the nine months period ended 30 September 2018: KZT 290,175 thousand (unaudited)).

Construction-in-progress is mainly represented by network construction and telecommunication equipment for installation.

During the nine months period ended 30 September 2019, the Group recognized depreciation expense amounting to KZT 47,319,594 thousand (unaudited) (during the nine months period ended 30 September 2018: KZT 26,353,249 thousand (unaudited)).

During the nine months period ended 30 September 2019, the impairment loss of KZT 1,844,104 thousand 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 interim condensed consolidated statement of comprehensive income as an operating expense. As at 30 September 2019, the recoverable amount of nil tenge was based on value in use and was determined at the individual asset level (during the nine months period ended 30 September 2018: nil).

As at 30 September 2019, the gross carrying value of property and equipment which has been fully depreciated and still in use was KZT 325,001,725 thousand (unaudited) (as at 31 December 2018: KZT 166,079,984 thousand).

As at 30 September 2019, advances paid for non-current assets in the amount of KZT 9,054,470 thousand (unaudited) predominantly represents advances provided as a part of the project «Provision of broadband access to rural settlements of the Republic of Kazakhstan on the technology of fiber-optic communication lines», and made for provision of services on installation of base stations, construction and delivery of fixed assets (as at 31 December 2018: KZT 765,088 thousand). Significant increase in advances paid for non-current assets was due to acquision of of Khan Tengri Holding B.V. *(Note 4)*.

7. INTANGIBLE ASSETS AND GOODWILL

During the nine months period ended 30 September 2019, the Group acquired intangible assets for KZT 4,061,335 thousand (unaudited) (during the nine months period ended 30 September 2018: KZT 85,723 thousand (unaudited)).

During the nine months period ended 30 September 2019, the Group recognized amortization expense amounting to KZT 15,577,589 thousand (unaudited) (during the nine months period ended 30 September 2018: KZT 2,184,653 thousand (unaudited)).

During the nine months period ended 30 September 2019, the Group recognized goodwill amounting to KZT 100,398,177 thousand (unaudited) as a result of acquisition of Khan Tengri Holding B.V. *(Note 4)*.

As at 30 September 2019 the gross carrying value of intangible assets, which have been fully amortized and still in use was KZT 43,996,996 thousand (unaudited) (as at 31 December 2018: KZT 10,408,974 thousand). Licenses and trademarks, software and other include intangible assets acquired as a result of business combination.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. INVESTMENTS IN ASSOCIATES

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

			30 September 2019 (unaudited)		31 December 2018 (audited)	
In thousands of tenge	Primary activities	Country of incorporation	Carrying amount	Ownership share	Carrying amount	Ownership share
QazCloud LLP	IT services	Kazakhstan	**1,974,382**	**49%**	1,598,639	49%
Khan Tengri Holding B.V.	Telecommunication services	Netherlands	**–**	**–**	76,070,585	51%
			1,974,382		77,669,224	

Movements in investments in associates for the nine months ended 30 September 2019 and 2018 are as follows:

In thousands of tenge	Khan Tengri Holding B.V.	QazCloud LLP	Total
At 31 December 2017 (audited)	68,327,015	919,125	69,246,140
Additional contribution to the charter capital of an associate	–	563,000	563,000
Share in profits of associates	4,081,725	117,972	4,199,697
Share in other comprehensive income of associates	–	–	–
Dividends declared	–	–	–
At 30 September 2018 (unaudited)	72,408,740	1,600,097	74,008,837
At 31 December 2018 (audited)	76,070,585	1,598,639	77,669,224
Additional contribution to the charter capital of an associate	**–**	**200,000**	**200,000**
Share in profits of associates	**5,830,925**	**175,743**	**6,006,668**
Share in other comprehensive income of associates	**–**	**–**	**–**
Dividends declared	**–**	**–**	**–**
Derecognition of investment in associate *(Note 4)*	**(81,901,510)**	**–**	**(81,901,510)**
At 30 September 2019 (unaudited)	**–**	**1,974,382**	**1,974,382**

Investments in Khan Tengri Holding B.V.

As described in *Note 4* the Group obtained control over in Khan Tengri Holding B.V. and since the date of control Khan Tengri Holding B.V. is consolidated. The Group's interest in Khan Tengri Holding B.V. was accounted for in the interim condensed consolidated financial statements using the equity method till the date of obtaining control.

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

In thousands of tenge	30 September 2019 (unaudited)	31 December 2018 (audited)
Current assets	**–**	23,058,916
Non-current assets	**–**	155,086,820
Current liabilities	**–**	(38,288,604)
Non-current liabilities	**–**	(104,123,963)
Equity	**–**	35,733,169
Share of the Group in equity – 51%	**–**	18,223,916
Goodwill	**–**	57,846,669
Carrying amount of investment of the Group	**–**	76,070,585

8. INVESTMENTS IN ASSOCIATES (continued)

Investments in Khan Tengri Holding B.V. (continued)

In thousands of tenge	For three months ended 30 September 2019 (unaudited)	For three months ended 30 September 2018 (unaudited)
Revenue from contracts with customers	–	31,609,509
Operating expenses	–	(26,592,088)
Non-operating expenses	–	(2,193,770)
Profit before tax	–	2,823,651
Income tax benefit	–	852,262
Profit for the period	–	3,675,913
Total comprehensive income for the period	–	3,675,913
Share of the Group in profit for the period	–	1,874,716

In thousands of tenge	For nine months ended 30 September 2019 (unaudited)	For nine months ended 30 September 2018 (unaudited)
Revenue from contracts with customers	**67,183,065**	87,300,086
Operating expenses	**(48,041,633)**	(74,184,029)
Non-operating expenses	**(5,716,533)**	(7,012,887)
Profit before tax	**13,424,899**	6,103,170
Income tax (expenses)/benefit	**(1,991,712)**	1,900,213
Profit for the period	**11,433,187**	8,003,383
Total comprehensive income for the period	**11,433,187**	8,003,383
Share of the Group in profit for the period	**5,830,925**	4,081,725

Investments in QazCloud LLP

Based on the decision of the Board of Directors of Kazakhtelecom JSC, on 17 of August 2016, Kazakhtelecom JSC and Samruk-Kazyna Business Service LLP signed the agreement of purchase and sale of 51% interest of Kazakhtelecom JSC in the charter capital of Kazakhtelecom Industrial Enterprises Services LLP.

On 4 October 2017, Kazakhtelecom Industrial Enterprises Services LLP was re-registered with name being changed to QazCloud LLP.

On 25 July 2017, the Board of Directors of Kazakhtelecom JSC approved a decision to make an additional investment contribution to the charter capital of QazCloud LLP in the amount of KZT 1,973,960 thousand.

On 15 November 2017, 27 April 2018 and 29 April 2019, the Group made contributions to the charter capital of QazCloud LLP, in the amount of KZT 986,980 thousand, KZT 563,000 thousand and KZT 200,000 thousand, respectively. The additional contributions to the charter capital of QazCloud LLP did not lead to the change in share of interest of the Group as the second participant, Samruk-Kazyna Business Service LLP, also made the contributions to the charter capital of QazCloud LLP according to its share.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. INVESTMENTS IN ASSOCIATES (continued)

Investments in QazCloud LLP (continued)

The table below provides summarized financial information on individually insignificant associate, QazCloud LLP:

In thousands of tenge	For three months ended 30 September 2019 (unaudited)	2018 (unaudited)
Revenue from contracts with customers	902,044	1,028,170
Operating expenses	(772,725)	(956,076)
Non-operating expenses	(6,537)	(10,993)
Profit before tax	122,782	61,101
Income tax expense	(24,560)	(12,220)
Profit for the period	98,222	48,881
Total comprehensive income for the period	98,222	48,881
Share of the Group in profit for the period	48,129	23,952

In thousands of tenge	For nine months ended 30 September 2019 (unaudited)	2018 (unaudited)
Revenue from contracts with customers	2,378,370	2,108,009
Operating expenses	(1,905,796)	(1,855,672)
Non-operating (expenses)/profit	(24,246)	41,530
Profit before tax	448,328	293,867
Income tax expense	(89,669)	(53,108)
Profit for the period	358,659	240,759
Total comprehensive income for the period	358,659	240,759
Share of the Group in profit for the period	175,743	117,972

9. IMPAIRMENT TESTING

Goodwill is tested by the Group for impairment annually as at 31 December and when circumstances indicate the carrying value may be impaired. The Group's impairment test for goodwill is based on value-in-use calculations. The key assumptions used to determine the recoverable amount for the different cash generating units were disclosed in the annual consolidated financial statements for the year ended 31 December 2018.

The Group considers the relationship between its market capitalisation and its book value, among other factors, when reviewing for indicators of impairment.

As at 30 September 2019 there were no indicators for impairment of all CGUs, including those CGUs to which goodwill was allocated, therefore, management has not updated any of impairment calculations.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. OTHER NON-CURRENT FINANCIAL ASSETS

As at 30 September 2019 and 31 December 2018 other non-current financial assets comprised:

In thousands of tenge	**30 September 2019 (unaudited)**	31 December 2018 (audited)
Loans to employees	**2,613,286**	2,760,145
Long-term accounts receivable (A)	**839,947**	6,669,328
Cash restricted in use	**2,653**	–
Other	**277,869**	220,396
	3,733,755	9,649,869
Less: allowance for expected credit losses	**(135)**	(135)
	3,733,620	9,649,734

Loans to employees are interest free loans provided for the period from 1 to 15 years. These loans were discounted as at the issue date using market interest rates of 12.2% per annum to 19.1% (2018: from 12.2% to 22% per annum). Repayment of long-term loans to employees is made through withholding of amounts due from employees' salaries. Loans are secured by employees' real estate properties.

(A) As at 31 December 2018, the long-term receivables represent amounts due from Mobile Telecom Service LLP in the amount of KZT 3,659,333 thousand. On 29 February 2016 the Group and Mobile Telecom Service LLP agreed to extend the maturity of the Company's receivables from Mobile Telecom Service LLP until 2031. These receivables were discounted at the date of restructuring using 10% rate. Hovewer, as the Group obtained control over Khan Tenrgi Holding B.V. as described in *Note 4*, as at 30 September 2019 the related outstanding amount was fully eliminated.

As at 30 September 2019, the long-term receivables represented by special agreements with customers for the purchase of contract phones for KZT 839,947 thousand (as at 31 December 2018: KZT 3,009,995 thousand).

11. TRADE RECEIVABLES

As at 30 September 2019 and 31 December 2018, trade receivables comprised:

In thousands of tenge	**30 September 2019 (unaudited)**	31 December 2018 (audited)
Trade receivables	**51,074,624**	55,348,456
	51,074,624	55,348,456
Less: allowance for expected credit losses	**(4,806,369)**	(3,175,108)
	46,268,255	52,173,348

Movements in the allowance for expected credit losses were as follows for the nine months ended 30 September:

In thousands of tenge	**30 September 2019 (unaudited)**	30 September 2018 (unaudited)
Allowance for expected credit losses at the beginning of the period	**(3,175,108)**	(3,146,484)
Charge for the period	**(2,168,395)**	(817,880)
Write-off for the period	**537,134**	364,320
Allowance for expected credit losses at the end of the period	**(4,806,369)**	(3,600,044)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. OTHER CURRENT FINANCIAL ASSETS

As at 30 September 2019 and 31 December 2018 other current financial assets comprised:

In thousands of tenge	**30 September 2019 (unaudited)**	31 December 2018 (audited)
Purchase of treasury	**5,047,745**	–
Bank deposits	**3,419,848**	3,684,443
Loans to employees	**1,821,301**	2,132,007
Restricted cash	**438,812**	438,812
Due from employees	**158,529**	228,993
Other accounts receivable	**3,457,695**	2,421,526
	14,343,930	8,905,781
Less: allowance for expected credit losses	**(4,220,676)**	(4,220,670)
	10,123,254	4,685,111

As at 30 September 2019, the Group does not have bank deposits with initial maturity of more than 3 (three) months but less than 12 (twelve) months.

On 24 May 2019, the Group placed cash on the restricted cash account denominated in US dollar in the amount of KZT 997,730 thousand under the loan agreement concluded with Halyk Bank Kazakhstan JSC in May 2019. On 23 August 2019 the pledge was completely return.

As at 30 September 2019, the allowance for expected credit losses includes an allowance in the amount of KZT 3,399,500 thousand accrued on a deposit placed in Eximbank Kazakhstan JSC due to the liquidation of the bank.

As at 30 September 2019 financial assets at fair value through other comprehensive income in the amount of 5,047,745 thousand tenge were represented by investments in US treasury bills acquired in August 2019. The Group recognized the financial assets at fair value through other comprehensive income as the contractual cash flows are solely principal and interest and the financial assets is held within a business model for collecting contractual cash flows and selling financial assets. Nominal amount is 12,880,000 USD (equivalent to 5,026,049 thousand tenge at the date of acquisition), with maturity till August 2020 and annual coupon rate at 1.7%. Fair values of the equity shares are determined by reference to published price quotations in an active market (Level 1).

Changes in allowance for expected credit losses were as follows at 30 September 2019 and 30 September 2018:

In thousands of tenge	**30 September 2019 (unaudited)**	30 September 2018 (unaudited)
Allowance for expected credit losses at the beginning of the period	**(4,220,670)**	(1,281,945)
Charge for the period	**(1,423)**	(3,191,131)
Write-off for the period	**1,417**	24,075
Allowance for expected credit losses at the end of the period	**(4,220,676)**	(4,449,001)

13. CASH AND CASH EQUIVALENTS

For the purpose of the interim condensed statement of cash flows, cash and cash equivalents are comprised of the following:

In thousands of tenge	30 September 2019 (unaudited)	31 December 2018 (audited)
Cash on current bank accounts	**47,430,677**	45,763,434
Deposits with less than 90 days' maturity from the date of opening	**3,356,079**	72,802
Cash on hand	**40,112**	20,621
	50,826,868	45,856,857
Less: allowance for expected credit losses	**(506,038)**	(506,765)
	50,320,830	45,350,092
Cash on current bank accounts attributable to disposed group *(Note 26)*	**487,725**	–
Total cash and cash equivalents	**50,808,555**	45,350,092

Cash on current bank accounts earn interest at the rates ranging from 0.1% to 8.0% per annum (at 31 December 2018: from 0.1% to 8.5% per annum).

As at 30 September 2019 and 31 December 2018 cash and cash equivalents were denominated in the following currencies:

In thousands of tenge	30 September 2019 (unaudited)	31 December 2018 (audited)
US dollars	**38,508,733**	29,886,154
Tenge	**10,124,439**	15,314,144
Euro	**1,592,456**	21,541
Russian roubles	**85,350**	128,024
Other	**9,852**	229
	50,320,830	45,350,092

Movements in the allowance for expected credit losses were as follows for the periods ended 30 September 2019 and 30 September 2018:

In thousands of tenge	30 September 2019 (unaudited)	30 September 2018 (unaudited)
Allowance for expected credit losses at the beginning of the period	**(506,765)**	(20,240)
Reversal/(charge for the period)	**727**	(533,746)
Allowance for expected credit losses at the end of the period	**(506,038)**	(553,986)

14. EQUITY

Authorised and issued shares

	Number of shares		In thousands of tenge		
	Common shares	Preferred non-voting shares	Common shares	Preferred non-voting shares	Total issued shares
At 31 December 2017	10,922,876	1,213,653	10,922,876	1,213,653	12,136,529
At 31 December 2018	10,922,876	1,213,653	10,922,876	1,213,653	12,136,529
At 30 September 2019	**10,922,876**	**1,213,653**	**10,922,876**	**1,213,653**	**12,136,529**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. EQUITY (continued)

Treasury shares

	Number of shares		In thousands of tenge		
	Common shares	Preferred non-voting shares	Common shares	Preferred non-voting shares	Total
At 31 December 2017 (audited)	215,553	893,097	2,966,250	3,498,124	6,464,374
Treasury shares reacquired	–	–	–	–	–
Sale of treasury shares	–	–	–	–	–
At 31 December 2018 (audited)	215,553	893,097	2,966,250	3,498,124	6,464,374
Treasury shares reacquired	**1,299**	**21,771**	**86,367**	**514,873**	**601,240**
Sale of treasury shares	–	–	–	–	–
At 30 September 2019 (unaudited)	**216,852**	**914,868**	**3,052,617**	**4,012,997**	**7,065,614**

Shares issued less reacquired shares

As at 30 September 2019, number of common and preferred shares issued net of reacquired shares was 10,706,024 and 298,785 shares, respectively (31 December 2018: 10,707,323 and 320,556 shares, respectively).

In the period from 13 December 2018 to 8 January 2019, the Group received applications from non-controlling shareholders demanding the Group to repurchase their shares in connection with their disagreement with the decision of the Board of Directors of the Group, adopted on 12 December 2018, to conclude a major transaction on acquisition of 75% of shares of Kcell JSC. In total, 34,911 common and 21,962 preference shares were presented for repurchase (taking into account the withdrawal of a number of applications). In April, May and July 2019, the Group repurchased 21,771 preferred shares and 1,299 common shares at a price of KZT 26,377 per preferred shares and of KZT 66,487 per common shares for the amount of KZT 660,616 thousand from non-controlling shareholders.

Preferred shares

Holders of preferred shares are entitled to receive annual cumulative dividends of 300 tenge per share, and not less than the amount of the dividends per share paid to holders of common shares. Payment of preferred shares dividends does not require a resolution of Kazakhtelecom JSC shareholders meeting. The discounted value of future cash flows of annual cumulative dividends is recorded as a financial liability as at 30 September 2019 in the amount of KZT 814,868 thousand (31 December 2018: KZT 874,244 thousand). This liability has been included in non-current liabilities as a debt component of preferred shares. As at 30 September 2019 the debt component of preferred shares decreased by KZT 59,376 thousand as a result of repurchased 21,771 preferred shares in April and May 2019. Preferred shareholders receive the right to vote if the general meeting of shareholders considers decisions restricting rights of preferred shareholders, decisions on reorganization or liquidation of the Company and if dividends on preferred shares are not paid within 3 (three) months after a specified payment date.

Dividends

The preferred shares earn a non-discretionary dividend of 300 tenge per share in accordance with the Company's charter documents. Preferred shares are considered to be compound financial instruments, and accordingly the liability and equity components are presented separately in the interim condensed consolidated statement of financial position. Dividends in the amount of KZT 67,771 thousand were accrued as at 30 September 2019 (at 30 September 2018: KZT 72,125 thousand) and are recorded as interest expenses in the interim condensed consolidated statement of comprehensive income.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. EQUITY (continued)

Dividends (continued)

Movements in dividends payable for the nine months ended 30 September were as follow:

In thousands of tenge	30 September 2019 (unaudited)	30 September 2018 (unaudited)
Dividends payable at the beginning of the year	**2,033,495**	1,628,625
Dividends declared on common shares	**9,855,107**	17,086,639
Dividends declared on preferred shares in excess of the obligatory amount	**154,202**	415,373
Interest on debt component of preferred shares	**67,771**	72,125
Withholding tax	**(1,649,411)**	(319,565)
Dividends paid on common and preferred shares	**(8,746,703)**	(16,909,725)
Other	**–**	122,491
Dividends payable at the end of the period *(Note 16)*	**1,714,461**	2,095,963

For the nine months ended 30 September 2019 the Group paid withholding tax on dividends in the amount of KZT 1,649,411 thousand (nine months ended 30 September 2018: KZT 319,565 thousand).

Other reserves

According to the Company's Charter, the Company created a reserve capital equal to 15% of the authorized share capital. This reserve capital was created through appropriation of the retained earnings. There were no movements in the reserve capital at 30 September 2019 and at 31 December 2018.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of financial statements of the subsidiaries, whose functional currency is not tenge and whose financial statements are included in these interim condensed consolidated financial statements in accordance with the accounting policy disclosed in *Note 2*.

Earnings per share

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

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

In thousands of tenge	For three months ended 30 September		For nine months ended 30 September	
	2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (unaudited)
Net profit	**13,416,485**	20,517,524	**48,859,767**	40,412,081
Interest on preferred shares	**21,865**	24,042	**67,771**	72,125
Net profit for calculating of basic and diluted earnings per share	**13,438,350**	20,541,566	**48,927,538**	40,484,206
Weighted average number of common and preferred shares for calculation of basic earnings per share	**11,010,577**	11,027,879	**11,010,577**	11,027,879
Basic and diluted earnings per share, tenge	**1,220.49**	1,862.69	**4,443.69**	3,671.08

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. EQUITY (continued)

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

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

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

In thousands of tenge	**30 September 2019 (unaudited)**	31 December 2018 (audited)
Total assets	**1,061,918,453**	793,394,731
Less: intangible assets *(Note 7)*	**377,449,006**	176,542,542
Less: total liabilities	**607,609,284**	378,553,796
Less: preferred shares issued net of reacquired shares	**298,785**	320,556
Net assets for calculation of cost of ordinary share in accordance with listing requirements of KASE	**76,561,378**	237,977,837
Number of ordinary shares	**10,706,024**	10,707,323
Cost of ordinary share, calculated in accordance with listing requirements of KASE (in tenge)	**7,151**	22,226

Another requirement for disclosure is the amount of the dividends payable to owners of preferred non-voting shares, preferred non-voting shares in the equity and debt component of preferred non-voting shares, divided by number of preferred non-voting shares. At the same time, according to the methodology of KASE, the dividend payable on preferred shares, which are not paid due to the lack of up-to-date information about the shareholders, their payment details, are not taken into account. As at 30 September 2019, this indicator amounted to 3,727 tenge (as at 31 December 2018: 3,727 tenge).

15. BORROWINGS

As at 30 September 2019 and 31 December 2018, borrowings comprised:

In thousands of tenge	**Weighted average interest rate**	**30 September 2019 (unaudited)**	Weighted average interest rate	31 December 2018 (audited)
Bonds with a fixed interest rate of 7.5% to 11.5% per annum	**11.50%**	**205,855,728**	11.50%	106,661,234
Borrowings with a fixed interest rate of 7% to 12% per annum	**11.10%**	**159,521,140**	10.61%	86,791,306
		365,376,868		193,452,540

On 6 November and 12 December 2018, the Group made a listing of coupon bonds on the stock exchange of the International Financial Center Astana (AIX) for amount of KZT 100,000,000 thousand at a rate of 11.5% and maturity in November 2024. The nominal value of one bond is one thousand tenge. Bonds on these issues were purchased by the Parent company.

In accordance with the terms of the sale and purchase agreements on coupon bonds concluded with the Parent, the Group undertakes to provide collateral sufficient to cover the total amount of the agreements before 31 December 2019 or the primary/secondary public offering of shares of Company on the stock market, depending on what comes last. Assets to be transferred as collateral are not determined at the reporting date.

On 22 May 2019, the Group and Halyk Bank JSC entered into credit facility agreement with the credit line limit in the amount of KZT 90,000,000 thousand and effective interest rate equal to 12.2%. The maturity of the loan is 21 May 2027. The loan was given for the purpose of refinancing the loan of Mobile Telecom Service LLP.

On 19 June 2019, the Group placed bonds on the Kazakhstan Stock Exchange JSC for amount of KZT 80,000,000 thousand at a rate of 11.5% and maturity in June 2026. The nominal value of one bond is one thousand tenge.

As at 30 September 2019 and 31 December 2018, borrowings were denominated in tenge.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. BORROWINGS (continued)

Borrowings are repayable as follows:

In thousands of tenge	30 September 2019 (unaudited)	31 December 2018 (audited)
Current portion of borrowings	**29,946,483**	57,614,129
Maturity between 1 and 2 years	**42,593,302**	7,392,518
Maturity between 2 and 5 years	**92,661,755**	23,780,192
Maturity over 5 years	**200,175,328**	104,665,701
Total non-current portion of borrowings	**335,430,385**	135,838,411
Total borrowings	**365,376,868**	193,452,540

As at 30 September 2019 and 31 December 2018, debt securities issued and loans amounted to:

Bonds	Maturity date	Nominal interest rate	30 September 2019 (unaudited)	31 December 2018 (audited)
Local bonds of Kazakhtelecom JSC (KTCB.1024 и KTCB2.1024)	1 November 2024	11.50%	**100,958,333**	101,461,458
Local bonds of Kazakhtelecom JSC (KZTKb3)	19 June 2026	11.50%	**82,484,942**	–
Local bonds of Kcell JSC (KCELb1)	16 January 2021	11.50%	**22,406,277**	5,193,713
Local bonds of Kazakhtelecom JSC (KZTKb3)	26 December 2019	7.50%	**6,176**	6,063
Total			**205,855,728**	106,661,234

Borrowings	Maturity date	Nominal interest rate	30 September 2019 (unaudited)	31 December 2018 (audited)
Halyk Bank Kazakhstan JSC	21 May 2027	12.00%	**81,722,088**	–
Development Bank of Kazakhstan JSC	19 December 2024	7%-9%	**30,597,519**	25,266,233
Eurasian Development Bank	20 May 2024	11.50%	**28,912,735**	29,749,590
Bank of China SB Kazakhstan JSC	12 May 2022	10.50%	**5,059,792**	–
Halyk Bank Kazakhstan JSC	16 July 2021	11.50%	**5,131,389**	9,976,714
Halyk Bank Kazakhstan JSC	2 September 2020	10.75%	**3,008,740**	–
VTB Bank JSC	1 February 2020	10.90%	**5,088,877**	–
Halyk Bank Kazakhstan JSC	2 December 2019	11.50%	–	7,818,525
Halyk Bank Kazakhstan JSC	20 September 2019	11.50%	–	3,893,578
Alfa Bank JSC	7 June 2019	12.00%	–	10,086,666
Total			**159,521,140**	86,791,306

As at 30 September 2019, the Parent is a guarantor of the Group's credit facility in the amount of KZT 22,325,519 thousand received from Development Bank of Kazakhstan JSC (as at 31 December 2018: KZT 24,961,627 thousand).

As at 30 September 2019 and at 31 December 2018, the Group's borrowings are not collateralized by any property other than the above-mentioned guarantee.

16. OTHER NON-CURRENT AND CURRENT FINANCIAL LIABILITIES

Other non-current financial liabilities

As at 30 September 2019 and 31 December 2018 other non-current financial liabilities comprised :

In thousands of tenge	30 September 2019 (unaudited)	31 December 2018 (audited)
Non-current accounts payable	**1,367**	78,147
Guarantee issued	**–**	915,558
	1,367	993,705

Other current financial liabilities

As at 30 September 2019 and 31 December 2018 other current financial liabilities comprised:

In thousands of tenge	30 September 2019 (unaudited)	31 December 2018 (audited)
Payables to employees	**10,159,891**	11,100,616
Dividends payable *(Note 14)*	**1,714,461**	2,033,495
Guarantees issued	**–**	43,174
Payables to Khan Tengri Holding B.V.	**–**	4,842,282
Other	**1,576,480**	834,387
	13,450,832	18,853,954

Guarantee issued

On 25 February 2016, the Group provided a guarantee to associate organization Khan Tengri Holding B.V. under the credit facility from Development Bank of Kazakhstan JSC with a credit limit of up to KZT 10,008,780 thousand for the period until 19 December 2024. As at 31 December 2018, guarantee issued represents an estimated reserve for expected credit losses on liabilities of Khan Tengri Holding B.V. As at 30 September 2019, guarantee issued was included into the consideration of business combination due to the acquisition of residual shares in associate of Khan Tengri Holding B.V. *(Note 4)*.

Payables to Khan Tengri Holding B.V.

As at 31 December 2018 payables to Khan Tengri Holding B.V. represented amount of additional contribution by the Group to Khan Tengri Holding B.V. as in accordance with the share-purchase agreement of 51% share of Khan Tengri Holding B.V. concluded between the Group and Tele2 in February 2016. On 20 May 2019, Khan Tengri Holding B.V., Kazakhtelecom JSC and Tele2 Sverige AB had concluded mutual settlement agreement. In accordance with the agreement, payables to Khan Tengri Holding B.V. were netted against trade receivables from Mobile Telecom Service LLP in the amount of KZT 4,842,282 thousand.

As at 30 September 2019 and 31 December 2018, other current financial liabilities was not interest bearing and the balances were mainly denominated in tenge.

17. NON-CURRENT AND CURRENT CONTRACT LIABILITIES

Non-current contract liabilities

As at 30 September 2019 and 31 December 2018 non-current contract liabilities comprised:

In thousands of tenge	30 September 2019 (unaudited)	31 December 2018 (audited)
Contract liabilities from operators	**2,983,964**	3,425,567
Contract liabilities for connection of subscribers	**958,474**	1,163,051
Other contract liabilities	**1,383,780**	1,110,683
	5,326,218	5,699,301

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. NON-CURRENT AND CURRENT CONTRACT LIABILITIES (continued)

Current contract liabilities

As at 30 September 2019 and 31 December 2018 current contract liabilities comprised:

In thousands of tenge	30 September 2019 (unaudited)	31 December 2018 (audited)
Advances received	**19,273,083**	10,734,219
Contract liabilities from operators	**901,887**	902,722
Contract liabilities for connection of subscribers	**423,125**	471,924
Other contract liabilities	**532,904**	558,860
	21,130,999	12,667,725

Advances received represents the obligations of the Group to provide services like telecommunications services, internet services, IP-TV to customers. The customers can be divided to three major groups: individuals, private firms and legal firms under government sector.

18. OTHER CURRENT NON-FINANCIAL LIABILITIES

Other current non-financial liabilities

As at 30 September 2019 and 31 December 2018 other current non-financial liabilities comprised:

In thousands of tenge	30 September 2019 (unaudited)	31 December 2018 (audited)
Taxes payable other than income tax	**5,747,430**	6,305,705
Payable to pension funds	**440,775**	561,920
Asset retirement obligations	**259,217**	–
Other	**221,502**	249,025
	6,668,924	7,116,650

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

On 12 April 2019, Kcell JSC, the subsidiary of Kazakhtelecom JSC, received from Kar-Tel LLP a notice on termination of the Network Sharing Agreement (hereinafter referred to as the "Agreement"), since there was a change in Kcell JSC's controlling shareholder in December 2018, which represents, in accordance with the Agreement, a breach of conditions of the Agreement, giving the right to the second party to terminate the Agreement and request payment of termination fine, determined in accordance with the methodology specified in the Agreement. Kcell JSC received from Kar-Tel LLP an invoice for payment of a termination fine in the amount of KZT 14,551,865 thousand. Under the terms of the sale-purchase agreement of 75% stake in Kcell JSC, Telia Company and Fintur Holding B.V. guaranteed to the Group repayment of their respective shares in 75% of the termination fine. However, in July 2019 after the negotiations with Telia Company and Fintur Holding B.V., the amount of indemnification assets was reconsidered from KZT 10,913,899 thousand to KZT 10,171,475 thousand.

On 10 June 2019, the Group repaid the termination fine in full. On 25 July 2019, Telia Company and Fintur Holding B.V. repaid KZT 6,157,326 thousand and KZT 4,014,149 thousand, respectively, to Kazakhtelecom JSC and totally reimbursed 75% share of fine paid by Kcell JSC to Kar-Tel LLP for termination of the Network Sharing Agreement.

20. REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue from contracts with customers for the three and nine months ended 30 September comprised:

	For the three months ended 30 September 2019			
In thousands of tenge	**Fixed line**	**Mobile connection**	**Other**	**Total**
Data transfer services	**25,321,980**	**18,000,046**	**3,586**	**43,325,612**
Rendering of fixed line and wireless phone services	**10,047,257**	**44,699,211**	–	**54,746,468**
Rent of channels	**875,562**	–	–	**875,562**
Interconnect	**3,911,286**	**2,242,946**	–	**6,154,232**
Sale of equipment and mobile devices	–	**4,909,746**	–	**4,909,746**
Other	**8,358,383**	**98,784**	**106,658**	**8,563,825**
	48,514,468	**69,950,733**	**110,244**	**118,575,445**
Services transferred over time	**48,514,468**	**65,040,987**	**110,244**	**113,665,699**
Goods transferred at a point of time	–	**4,909,746**	–	**4,909,746**
	48,514,468	**69,950,733**	**110,244**	**118,575,445**
B2C*	**26,235,509**	**58,311,689**	–	**84,547,198**
B2B**	**13,429,319**	**5,840,638**	**110,244**	**19,380,201**
B2O***	**15,999**	**5,719,303**	–	**5,735,302**
B2G****	**8,833,641**	**79,103**	–	**8,912,744**
	48,514,468	**69,950,733**	**110,244**	**118,575,445**

	For the three months ended 30 September 2018		
In thousands of tenge	Fixed line	Other	Total
Data transfer services	27,985,476	–	27,985,476
Rendering of fixed line and wireless phone services	11,428,205	–	11,428,205
Rent of channels	4,652,066	–	4,652,066
Interconnect	3,623,232	–	3,623,232
Other	5,456,575	152,536	5,609,111
	53,145,554	152,536	53,298,090
Services transferred over time	53,145,554	152,536	53,298,090
Goods transferred at a point of time	–	–	–
	53,145,554	152,536	53,298,090
B2C*	25,390,546	147,967	25,538,513
B2B**	8,718,333	4,569	8,722,902
B2O***	10,700,630	–	10,700,630
B2G****	8,336,045	–	8,336,045
	53,145,554	152,536	53,298,090

20. REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)

	For the nine months ended 30 September 2019			
In thousands of tenge	**Fixed line**	**Mobile connection**	**Other**	**Total**
Data transfer services	80,421,724	45,011,274	11,406	125,444,404
Rendering of fixed line and wireless phone services	30,804,910	71,497,930	–	102,302,840
Interconnect	12,095,566	12,832,232	–	24,927,798
Rent of channels	8,818,954	–	–	8,818,954
Sale of equipment and mobile devices	–	12,115,900	–	12,115,900
Other	23,743,058	881,680	339,943	24,964,681
	155,884,212	142,339,016	351,349	298,574,577
Services transferred over time	155,884,212	130,223,116	351,349	286,458,677
Goods transferred at a point of time	–	12,115,900	–	12,115,900
	155,884,212	142,339,016	351,349	298,574,577
B2C*	78,933,792	112,333,329	–	191,267,121
B2B**	25,440,621	13,542,051	351,349	39,334,021
B2O***	24,881,217	16,308,589	–	41,189,806
B2G****	26,628,582	155,047	–	26,783,629
	155,884,212	142,339,016	351,349	298,574,577

	For the nine months ended 30 September 2018		
In thousands of tenge	Fixed line	Other	Total
Data transfer services	83,568,577	–	83,568,577
Rendering of fixed line and wireless phone services	34,052,872	–	34,052,872
Rent of channels	13,949,340	–	13,949,340
Interconnect	10,253,876	–	10,253,876
Other	14,711,018	385,701	15,096,719
	156,535,683	385,701	156,921,384
Services transferred over time	156,535,683	385,701	156,921,384
Goods transferred at a point of time	–	–	–
	156,535,683	385,701	156,921,384
B2C*	77,568,963	368,636	77,937,599
B2B**	23,895,502	17,065	23,912,567
B2O***	31,247,587	–	31,247,587
B2G****	23,823,631	–	23,823,631
	156,535,683	385,701	156,921,384

* *B2C (Business-to-Consumer) – services rendered to private end consumers (individuals).*

** *B2B (Business to Business) – services rendered to the corporate sector, including large enterprises and SMEs.*

*** *B2O (Business-to-Operator) – services rendered to communication operators.*

**** *B2G (Business-to-Government) – services rendered to the state sector.*

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. COMPENSATION FOR PROVISION OF UNIVERSAL SERVICES IN RURAL AREAS

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

During the nine months period ended 30 September 2019, there were no subsidies received from government to provide universal services (fixed line telephony, internet, and telegraph) to rural areas (30 September 2018: KZT 4,637,684 thousand). The subsidies are allocated to operators based on the result of tender. The tender for subsidies allocation for 2019 is expected to be conducted in 4th quarter of 2019.

22. COST OF SALES

Cost of sales for the three and nine months ended 30 September comprised:

In thousands of tenge	For three months ended 30 September 2019 (unaudited)	For three months ended 30 September 2018 (unaudited)	For nine months ended 30 September 2019 (unaudited)	For nine months ended 30 September 2018 (unaudited)
Depreciation and amortization	**25,412,654**	9,299,220	**63,896,727**	28,371,456
Personnel costs	**16,391,854**	11,566,152	**48,371,235**	36,236,727
Interconnect	**8,007,549**	1,959,666	**23,824,624**	4,783,191
Repair and maintenance	**4,400,682**	1,514,778	**11,009,121**	3,582,020
Fee for usage of channels	**2,304,561**	2,298,342	**10,088,946**	6,321,678
Fees for radiofrequencies use	**3,322,963**	321,626	**6,728,769**	939,821
Electricity	**2,127,657**	704,448	**5,344,790**	2,146,616
Inventories	**1,529,938**	1,100,689	**4,034,939**	3,044,887
Fee to provide telecom services	**1,242,186**	735,233	**3,725,989**	2,205,702
Content	**1,170,645**	1,345,819	**3,587,460**	3,888,402
Fees for usage of GSM radiofrequencies of Mobile Telecom Services LLP	**–**	1,314,188	**2,667,239**	3,960,395
Security and safety	**515,369**	605,001	**1,680,891**	1,353,563
Utilities	**375,130**	294,992	**1,392,482**	1,203,657
Business trip expenses	**310,744**	216,951	**764,770**	541,595
Rent of transponders related to satellite communications	**200,050**	199,382	**599,657**	499,711
Rent of property and equipment	**(559,922)**	541,455	**523,749**	1,316,263
Insurance	**181,528**	69,660	**471,827**	285,595
Fees for usage of billing system of Mobile Telecom Services LLP	**–**	54,757	**111,135**	165,016
Other	**6,788,224**	1,130,237	**15,560,220**	2,625,554
	73,721,812	35,272,596	**204,384,570**	103,426,849

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. FINANCE COSTS

Finance costs for the three and nine months period ended 30 September comprised:

In thousands of tenge	For three months ended 30 September 2019 (unaudited)	For three months ended 30 September 2018 (unaudited)	For nine months ended 30 September 2019 (unaudited)	For nine months ended 30 September 2018 (unaudited)
Finance costs				
Interest expense on loans	**10,358,391**	507,942	**22,284,306**	1,537,774
Interest expense on lease liabilities *(Note 3)*	**2,479,454**	–	**5,738,984**	–
Unwinding of discount on long-term accounts payable	**232,794**	138,243	**803,196**	395,934
Discounting of long-term loans to employees	**345,074**	290,873	**753,564**	599,528
Unwinding of discount (asset retirement obligations)	**221,103**	(1,104)	**233,069**	1,044
Interest on debt component of preferred shares	**21,865**	24,042	**67,771**	72,125
Discounting of other non-current financial assets	**4,458**	4,459	**18,690**	75,807
Interest expense on finance lease liabilities	–	333,081	–	1,085,693
Other	**38,834**	–	**38,834**	–
	13,701,973	1,297,536	**29,938,414**	3,767,905

24. INCOME TAX EXPENSE

Income tax expense for the three and nine months period ended 30 September comprised the following:

In thousands of tenge	For three months ended 30 September 2019 (unaudited)	For three months ended 30 September 2018 (unaudited)	For nine months ended 30 September 2019 (unaudited)	For nine months ended 30 September 2018 (unaudited)
Current corporate income tax expenses	**9,602,960**	4,930,590	**17,100,468**	12,207,177
Deferred income tax expenses	**(4,936,502)**	(47,965)	**(5,429,376)**	(451,032)
	4,666,458	4,882,625	**11,671,092**	11,756,145

25. NON-CASH TRANSACTIONS

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

During the nine months period ended 30 September 2019, the Group paid an amount of KZT 17,403,861 thousand (unaudited) for property and equipment purchased in the preceding year (during the nine months period ended 30 September 2018: KZT 4,635,188 thousand (unaudited)). Property and equipment of KZT 13,500,872 thousand (unaudited) were purchased during the nine months period ended 30 September 2019 but not paid by 30 September 2019 (purchased, but not paid by 30 September 2018: KZT 1,648,296 thousand (unaudited)).

During the nine months period ended 30 September 2019, in accordance with the lease agreements, the Group received telecommunication equipment amounting to KZT 652,471 thousand (during the nine months period ended 30 September 2018: not received).

On 20 May 2019, Khan Tengri Holding B.V., Kazakhtelecom JSC and Tele2 Sverige AB have concluded mutual settlement agreement. In accordance with the agreement payables to Khan Tengri Holding B.V. was netted against trade receivables from Mobile Telecom Service LLP in the amount of KZT 4,842,282 thousand *(Note 16)*.

26. DISPOSAL GROUP

KT Cloud Lab LLP

On 17 June 2019, the Group announced the decision of its Board of Directors to sell 100% share in the charter capital of KT Cloud Lab LLP through open of two-step bargain for the purpose of implementation of strategic initiative "Effective business model".

As at 30 September 2019, the Group approved key parameters of sale of share in subsidiary: initial price of trade, sale conditions and requirements to the asset purchaser. The Management of the Group has strong confidence in high probability of sale within the twelve months period.

26. DISPOSAL GROUP (continued)

KT CLOUD LAB LLP (continued)

The results of KT Cloud Lab LLP for the period is presented below:

In thousands of tenge	30 September 2019 (unaudited)
Assets	
Property and equipment	813,646
Intangible assets	242,649
Other non-current financial assets	80,539
Inventories	9,319
Trade receivables	257,501
Other current non-financial assets	25,801
Other current financial assets	163,685
Advanced paid	2,808
Cash and cash equivalents	487,725
Assets classified as held for sale	**2,083,673**
Liabilities	
Deferred tax liabilities	35,885
Trade payables	70,537
Other current financial liabilities	229,974
Current corporate income tax payable	5,959
Contract liabilities	340
Other current non-financial liabilities	99,941
Liabilities directly associated with assets classified as held for sale	**442,636**
Net assets directly associated with disposal group	**1,641,037**

27. RELATED PARTY TRANSACTIONS

The category "entities under control of the Parent" include entities controlled by the Parent Company. Transactions with such entities are mainly represented by transactions of the Group with NC Kazakhstan Temir Zholy JSC, NC KazMunayGaz JSC, KEGOC JSC, Kazpost JSC. The Group provides telecommunication services to the Parent and entities controlled by the Parent.

Related party transactions (including transactions with Khan Tengri Holdings B.V. and its subsidiary Mobile Telecom Service LLP) were made on terms, agreed to between the parties, which do not necessarily represent market terms and maybe not accessible to third parties. Outstanding balances at the end of the year are not secured, are short-term, and settlements are made in cash, except as described below.

As described in *Note 4* the Group obtained control over in Khan Tengri Holding B.V. and since the date of control Khan Tengri Holding B.V. is consolidated. The Group's interest in Khan Tengri Holding B.V. was accounted for in the interim condensed consolidated financial statements using the equity method till the date of obtaining control.

As at 30 September 2019, the Group recognized an allowance for expected credit losses in the amount of KZT 96,638 thousand in respect of receivables from related parties.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. RELATED PARTY TRANSACTIONS (continued)

Sales and purchases with related parties during the periods of three and nine months period ended 30 September 2019 and 30 September 2018 and the balances with related parties at 30 September 2019 and 31 December 2018 were as follows:

In thousands of tenge	For three months ended 30 September 2019 (unaudited)	For three months ended 30 September 2018 (unaudited)	For nine months ended 30 September 2019 (unaudited)	For nine months ended 30 September 2018 (unaudited)
Sales of goods and services				
Parent	48,062	81,927	142,298	286,132
Parent-controlled entities	727,181	183,947	2,043,278	1,910,708
Associate (Khan Tengri Holding B.V.) [1]	–	5,963,629	18,516,552	17,694,120
Associate (Qaz Cloud LLP)	223,202	695,157	482,209	695,850
Government institutions	8,912,774	7,896,151	26,783,660	22,902,882
Purchases of goods and services				
Parent	13,872	86	14,104	735
Parent-controlled entities	374,325	849,153	1,918,172	2,296,276
Associate (Khan Tengri Holding B.V.) [1]	–	3,001,143	10,185,382	7,891,927
Associate (Qaz Cloud LLP)	64,662	206,111	174,694	206,111
Government institutions	7,063	1,191	28,448	5,898
Interest accrued on borrowings				
Entities under state control (Development Bank of Kazakhstan JSC)	324,122	507,828	1,543,962	1,537,432
Average interest rate on borrowings	8.33%	8.00%	8.33%	8.00%
Parent	2,875,000	–	8,625,000	–
Average interest rate on borrowings	11.50%	–	11.50%	–

In thousands of tenge	30 September 2019 (unaudited)	31 December 2018 (audited)
Cash and cash equivalents		
Entities under state control (Development Bank of Kazakhstan JSC)	55	103
Borrowings		
Entities under state control (Development Bank of Kazakhstan JSC)	30,597,519	25,266,233
Parent	100,958,333	101,461,458
Trade receivables		
Parent	47,586	130,725
Parent-controlled entities	957,122	613,921
Associate (Khan Tengri Holding B.V.)	–	16,248,774
Associate (Qaz Cloud LLP)	147,248	105,827
Government institutions	11,932,733	11,431,512
Trade payables		
Parent	43	39
Parent-controlled entities	260,040	469,260
Associate (Khan Tengri Holding B.V.)	–	11,014,949
Associate (Qaz Cloud LLP)	22,861	–
Government institutions	498,479	735,815
Other non-current non-financial assets		
Long-term loans to key management personnel	30,380	35,914

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. RELATED PARTY TRANSACTIONS (continued)

During the nine months period ended 30 September 2019 and 2018, the Group provided communication services for the entities controlled by the Parent and purchased goods and services to support operating activities related to provision of telecommunication services from such entities.

[1] The Group has significant volumes of transactions with Mobile Telecom Services LLP ("MTS"), subsidiary of Khan Tengri B.V., including revenue from data transmission, access to internet, rental of lines, interconnect and other revenue that in total comprise 6% from total consolidated revenue of the Group for the nine months ended 30 September 2019. In addition, the Group purchased from MTS services related to the usage of GSM radiofrequencies, interconnect, mobile traffic for converged services and other services that in total comprise 5% from total consolidated cost of sales of the Group for the nine months ended 30 September 2019.

Sales and purchases with MTS during the three and nine months ended 30 September 2019 and 2018 were as follows:

	For three months ended 30 September	
In thousands of tenge	2019 (unaudited)	2018 (unaudited)
Sales of goods and services		
Data transmission [A]	–	3,498,137
Interconnect [B]	–	432,524
Rent of channels [C]	–	1,368,945
Rent of sites for base stations	–	176,499
Base cell stations maintenance [D]	–	163,973
Other	–	323,551
	–	5,963,629
Purchases of goods and services		
Interconnect [E]	–	208,486
Mobile traffic at wholesale tariffs [G]	–	967,609
Fee for usage of GSM radiofrequencies [F]	–	1,314,188
Fee for usage of billing system [H]	–	54,757
Other	–	456,103
	–	3,001,143

	For nine months ended 30 September	
In thousands of tenge	2019 (unaudited)	2018 (unaudited)
Sales of goods and services		
Data transmission [A]	**7,566,176**	10,319,857
Interconnect [B]	**5,646,243**	1,244,147
Rent of channels [C]	**2,778,374**	4,125,411
Rent of sites for base stations	**342,678**	472,948
Base cell stations maintenance [D]	**338,132**	489,292
Other	**1,844,949**	1,042,465
	18,516,552	17,694,120
Purchases of goods and services		
Interconnect [E]	**4,473,217**	638,577
Fee for usage of GSM radiofrequencies [F]	**2,667,239**	3,960,395
Mobile traffic at wholesale tariffs [G]	**2,551,672**	2,483,947
Fee for usage of billing system [H]	**111,135**	165,016
Other	**382,119**	643,992
	10,185,382	7,891,927

[A] Data transmission represented revenue from provision of fixed and wireless communication channels, and access to the internet. It is calculated on the basis of provided communication channels capacity (Mb/s), as well as the number of communication channels provided.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. RELATED PARTY TRANSACTIONS (continued)

[B] Revenue from interconnect is calculated based on the actual volumes of minutes of the connection.

[C] Rent of channels represents revenue from the provision to the temporary use of channels with the specified technical characteristics, organized based on LTE base cell stations (i.e. 4G license radiofrequencies). It is calculated based on the actual number of rented channels. In February 2016, the Group concluded an agreement with MTS for renting out 4G license radiofrequencies. Rental fees are payable on a monthly basis. Simultaneously upon concluding the agreement for renting out 4G license radiofrequencies the Group and MTS agreed to increase fees for use of GSM radiofrequencies and fee for usage of the billing system payable by the Group as described below. For the nine months ended 30 September 2019 revenue from rent of channels amounted to KZT 2,778,374 thousand (for nine months ended 30 September 2018: KZT 4,125,411 thousand).

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

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

[F] Fee for usage of GSM radiofrequencies is fixed monthly payment for the usage of the GSM radiofrequencies owned by MTS. For the nine months ended 30 September 2019 fee for usage of GSM radiofrequencies amounted to KZT 2,667,239 thousand (nine months ended 30 September 2018: KZT 3,960,395 thousand).

[G] Cost of mobile traffic at wholesale tariffs is the actual traffic used by Kazakhtelecom JSC customers in the mobile operator's network and is calculated based on the actual number of outgoing minutes, short messages (SMS), and megabytes of mobile traffic.

[H] Fee for usage of billing system is fixed monthly payment for the usage of the MTS billing system. For the nine months ended 30 September 2019 fee for usage of billing system amounted to KZT 111,135 thousand (for the nine months ended 30 September 2018: KZT 165,016 thousand).

The provision of these service is governed by different agreements that are not related to each other. Under each such agreement, the Group is either receiving or providing a certain type of services, for which the Group receives or pays a fee, which may differ from the terms under agreements with third parties. The difference from the terms under agreements with third parties could be explained by volume discounts and other special conditions between the Group and its associate. Volumes of services purchased from / sold to MTS exceed the volume of similar transactions with third party operators.

28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES

Impairment losses on financial assets

Impairment losses on financial assets for the nine months ended 30 September 2019, comprise accruing reserve for trade receivables in amount of KZT 2,168,395 thousand *(Note 11)*, other current financial assets in amount of KZT 1,423 thousand *(Note 12)*, cash and cash equivalents in amount of KZT 727 thousand *(Note 13)*.

The Group's principal financial instruments include loans and borrowings, lease liabilities, cash and cash equivalents, bank deposits and trade receivables and trade payables. The main risks associated with the Group's financial instruments include interest rate risk, currency and credit risk. In addition, the Group monitors market risk and liquidity risk associated with all financial instruments.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Fair value

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

In thousands of tenge	Carrying amount as at 30 September 2019 (unaudited)	Fair value as at 30 September 2019 (unaudited)	Unrecognised gain/(loss) as at 30 September 2019 (unaudited)	Carrying amount as at 31 December 2018 (audited)	Fair value as at 31 December 2018 (audited)	Unrecognised gain/(loss) as at 31 December 2018 (audited)
Financial assets						
Cash and cash equivalents	**50,320,830**	**50,320,830**	–	45,350,092	45,350,092	–
Other non-current financial assets	**3,733,620**	**3,733,620**	–	9,649,734	7,040,366	(2,609,368)
Other current financial assets	**10,123,254**	**10,123,254**	–	4,685,111	4,685,111	–
Trade receivables	**46,268,255**	**46,268,255**	–	52,173,348	52,173,348	–
Financial liabilities						
Borrowings	**365,376,868**	**356,012,823**	**9,364,045**	193,452,540	194,104,469	(651,929)
Finance lease liabilities	**70,693,477**	**70,693,477**	–	22,729,325	22,729,325	–
Guarantee issued	–	–	–	915,558	65,938	849,620
Other non-current financial liabilities	**1,367**	**1,367**	–	78,147	78,147	–
Other current financial liabilities	**13,450,832**	**13,450,832**	–	18,853,954	18,878,261	(24,307)
Trade payables	**35,184,363**	**35,184,363**	–	42,147,405	42,147,405	–
Total unrecognised change in unrealised fair value			**9,364,045**			(2,435,984)

29. COMMITMENTS AND CONTINGENCIES

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 telecommunication equipment. As at 30 September 2019, the Group had contractual obligations in the total amount of KZT 41,859,057 thousand, excluding VAT (31 December 2018: KZT 6,238,697 thousand, excluding VAT) mainly related to purchase of telecommunication equipment and construction of telecommunication network.

License commitments

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

29. COMMITMENTS AND CONTINGENCIES (continued)

Taxation

Tax legislation and regulatory framework of the Republic of Kazakhstan are subject to constant changes and allow for different interpretations. In addition, management believes that international agreements, under which the Group works with non-residents residing in International Telecommunication Union, and which provide for certain tax exemptions, have a priority over national tax legislation. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50%-80% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of the Republic of Kazakhstan multiplied by 1.25. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review.

Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 30 September 2019. Management believes that as at 30 September 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. Kcell JSC did not agree with some results of tax audit and filed an appeal.

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

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

- Additional charge on withholding tax for services provided by non-resident legal entities in the amount of 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, Kcell JSC 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 nine months ended 30 September 2019. As Kcell JSC 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, 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 September 2019, and Kcell JSC had recognized provision on the full amount of the fines and penalties in previous year. Thus, Kcell JSC derecognized the provision on fines and penalties in 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 Group's network in order to comply with the requirements of the Technical Regulations.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. COMMITMENTS AND CONTINGENCIES (continued)

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 Kcell JSC for an alleged administrative violation related to the abuse of dominant position in 2017. The potential fine, which can be imposed by the court, constitutes approximately KZT 2,000,000 thousand.

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

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

On 25 October 2019, a decision was made to terminate administrative proceedings due to the lack of corpus delicti.

The management of Kcell JSC assumes the likelihood that the said Decree can be appealed, appealed by the relevant state bodies.

5G services

In accordance with the Order of Committee of competition protection of the Ministry of national economics, the Group has an obligation to start providing 5G services not later than 31 December 2022 (not later than 31 December 2021 if 5G standard is approved in 3rd Generation Partnership Project (3GPP) and International Telecommunications Union (ITU) before 31 December 2020).

30. SEASONALITY OF OPERATIONS

The Group's services are impacted by seasonal trends throughout the year. Revenue and operating profits in the seconds 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.

31. SUBSEQUENT EVENTS

On October 18 Development bank of Kazakhstan JSC and Kazakhtelecom JSC entered into KZT 26,666,667 thousand credit facility agreement with duration untill 30 June 2032 at interest rate 7.22% untill 29 April 2027 and 11.72% starting from 30 April 2027. Colateral of the loan is a public-private partnership agreement #2 signed on 12 October 2018 (right to claim money).

On 17 October 2019 the Group has fully repaid loan in the amount of KZT 5,131,389 thousand obtained from Halyk Bank of Kazakhstan JSC.