Kazakhtelecom JSC

Interim condensed consolidated financial statements (unaudited)

31 March 2019

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Interim condensed consolidated financial statements (unaudited)

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Report on review of interim condensed consolidated financial statements

To the Shareholders of
Kazakhtelecom JSC

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Kazakhtelecom JSC and its subsidiaries (together the "Group"), which comprise the interim condensed consolidated statement of financial position as at 31 March 2019, the related interim condensed consolidated statement of comprehensive income for the three-month period then ended, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the three-month period then ended and selected explanatory notes ("interim financial information"). Management is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

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Conclusion

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

Ernst & Young LLP

Paul Cohn
Audit Partner

Rustamzhan Sattarov
Auditor

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

Gulmira Turmagambetova
General Director
Ernst & Young LLP

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

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3 June 2019

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2019

In thousands of tenge	Note	**31 March 2019 (unaudited)**	31 December 2018 (audited)*
Assets			
Non-current assets			
Property and equipment	5	**336,618,777**	390,309,113
Right-of-use assets	3	**70,430,117**	–
Intangible assets	6	**173,000,950**	176,542,542
Advances paid for non-current assets		**776,354**	765,088
Investments in associates	7	**80,848,776**	77,669,224
Deferred tax assets		**561,639**	246,884
Costs to obtain a contract		**1,026,480**	1,037,984
Costs to fulfil a contract		**738,944**	107,539
Other non-current assets		**2,417,285**	3,194,682
Other non-current financial assets	9	**8,547,513**	9,649,734
		674,966,835	659,522,790
Current assets			
Inventories		**6,619,739**	8,402,436
Trade receivables	10	**47,638,715**	52,173,348
Advances paid		**1,881,493**	1,416,363
Indemnification assets	18	**10,913,899**	10,913,899
Corporate income tax prepaid		**114,177**	1,849
Costs to obtain a contract		**420,604**	420,604
Costs to fulfil a contract		**892,828**	115,285
Other current assets		**11,365,365**	10,392,954
Other current financial assets	11	**4,548,501**	4,685,111
Cash and cash equivalents	12	**47,080,133**	45,350,092
		131,475,454	133,871,941
Total assets		**806,442,289**	793,394,731

The accounting policies and notes on pages 8 to 36 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at 31 March 2019

In thousands of tenge	Note	31 March 2019 (unaudited)	31 December 2018 (audited)*
Equity			
Shares outstanding	13	**12,136,529**	12,136,529
Treasury shares	13	**(7,065,614)**	(6,464,374)
Foreign currency translation reserve	13	**(8,057)**	(15,157)
Other reserves	13	**1,820,479**	1,820,479
Retained earnings		**381,626,647**	373,429,312
		388,509,984	380,906,789
Non-controlling interests		**33,721,054**	33,934,146
Total equity		**422,231,038**	414,840,935
Non-current liabilities			
Borrowings: non-current portion	14	**174,631,859**	135,838,411
Lease liabilities		**41,084,930**	15,975,306
Other non-current financial liabilities	15	**975,391**	993,705
Deferred tax liabilities		**38,849,234**	38,897,126
Employee benefit obligations		**15,722,481**	14,471,353
Debt component of preferred shares	13	**814,868**	874,244
Non-current contract liabilities	16	**5,746,724**	5,699,301
Asset retirement obligations		**1,428,084**	1,444,530
		279,253,571	214,193,976
Current liabilities			
Borrowings: current portion	14	**11,151,732**	57,614,129
Lease liabilities: current portion		**10,138,086**	6,754,019
Other current financial liabilities	15	**19,006,413**	18,853,954
Employee benefit obligations: current portion		**1,328,873**	1,334,417
Trade payables		**26,449,480**	42,147,405
Current corporate income tax payable		**1,883,141**	3,319,656
Current contract liabilities	16	**11,407,001**	12,667,725
Obligation to pay a fine for termination of the contract	18	**14,551,865**	14,551,865
Other current liabilities	17	**9,041,089**	7,116,650
		104,957,680	164,359,820
Total liabilities		**384,211,251**	378,553,796
Total equity and liabilities		**806,442,289**	793,394,731

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

Chief financial officier — *Uzbekov A.A.*

Chief accountant — *Suleimanov Y.E.*

The accounting policies and notes on pages 8 to 36 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For three months period ended 31 March 2019

In thousands of tenge	Note	31 March 2019 (unaudited)	31 March 2018 (unaudited)*
Revenue from contracts with customers	19	**88,525,964**	51,723,053
		88,525,964	51,723,053
Cost of sales	21	**(64,781,147)**	(31,928,835)
Gross profit		**23,744,817**	19,794,218
General and administrative expenses		**(7,150,902)**	(4,332,049)
Impairment losses on financial assets		**(862,722)**	(1,067,225)
Selling expenses		**(1,106,785)**	(696,673)
Operating profit		**14,624,408**	13,698,271
Share in profits of associates	7	**3,179,552**	819,063
Finance costs	22	**(7,719,671)**	(1,096,814)
Finance income		**1,587,219**	792,903
Net foreign exchange loss		**(347,968)**	(2,987,927)
Gain on disposal of property and equipment, net		**93,257**	37,163
Other income		**747,311**	947,962
Other expenses		**(121,682)**	(182,228)
Profit before tax		**12,042,426**	12,028,393
Income tax expenses	23	**(2,986,439)**	(2,661,095)
Profit for the period		**9,055,987**	9,367,298
Profit attributable to:			
Equity holders of the Parent		**9,137,313**	9,367,298
Non-controlling interests		**(81,326)**	–

The accounting policies and notes on pages 8 to 36 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

In thousands of tenge	Note	**31 March 2019 (unaudited)**	31 March 2018 (unaudited)*
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax)			
Foreign exchange differences from translation of financial statements of foreign subsidiaries		**7,100**	6,104
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**7,100**	6,104
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods (net of tax)			
Actuarial losses on defined benefits plans, net of tax		**(567,253)**	265,685
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		**(567,253)**	265,685
Other comprehensive (loss)/income for the period, net of tax		**(560,153)**	271,789
Total comprehensive income for the period, net of tax		**8,495,834**	9,639,087
Profit attributable to:			
Equity holders of the Parent		**8,577,160**	9,639,087
Non-controlling interests		**(81,326)**	–
		8,495,834	9,639,087
Earnings per share			
Basic, net profit for the period, tenge	13	**830.75**	851.60
Diluted, net profit for the period, tenge	13	**828.58**	851.60

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

Chief financial officier — *Uzbekov A.A.*

Chief accountant — *Suleimanov Y.E.*

The accounting policies and notes on pages 8 to 36 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For three months period ended 31 March 2019

	Attributable to equity holders of the Parent							
In thousands of tenge	Shares outstanding	Treasury shares	Foreign currency translation reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Note	13	13	13	13				
At 1 January 2018 (audited)	12,136,529	(6,464,374)	(6,354)	1,820,479	350,376,915	357,863,195	–	357,863,195
Net profit for the period (unaudited)	–	–	–	–	9,367,298	9,367,298	–	9,367,298
Other comprehensive income (unaudited)	–	–	6,104	–	265,685	271,789	–	271,789
Total comprehensive income (unaudited)	–	–	6,104	–	9,632,983	9,639,087	–	9,639,087
At 31 March 2018 (unaudited)	12,136,529	(6,464,374)	(250)	1,820,479	360,009,898	367,502,282	–	367,502,282
At 1 January 2019 (audited)	12,136,529	(6,464,374)	(15,157)	1,820,479	373,429,312	380,906,789	33,934,146	414,840,935
Change in accounting policy due to application of IFRS 16 *(Note 3)**	–	–	–	–	(372,725)	(372,725)	(131,766)	(504,491)
At 1 January 2019 (restated)	12,136,529	(6,464,374)	(15,157)	1,820,479	373,056,587	380,534,064	33,802,380	414,336,444
Net profit for the period (unaudited)	–	–	–	–	**9,137,313**	**9,137,313**	**(81,326)**	**9,055,987**
Other comprehensive loss (unaudited)	–	–	**7,100**	–	**(567,253)**	**(560,153)**	–	**(560,153)**
Total comprehensive income (unaudited)	–	–	**7,100**	–	**8,570,060**	**8,577,160**	**(81,326)**	**8,495,834**
Own repurchased shares *(Note 13)*	–	**(601,240)**	–	–	–	**(601,240)**	–	**(601,240)**
At 31 March 2019 (unaudited)	**12,136,529**	**(7,065,614)**	**(8,057)**	**1,820,479**	**381,626,647**	**388,509,984**	**33,721,054**	**422,231,038**

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

Chief financial officier *Uzbekov A.A.*

Chief accountant *Suleimanov Y.E.*

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For three months period ended 31 March 2019

In thousands of tenge	Note	31 March 2019 (unaudited)	31 March 2018 (unaudited)*
Operating activities			
Profit before tax for the period		**12,042,426**	12,028,393
Adjustment for:			
Depreciation of property and equipment		**16,277,552**	8,794,421
Amortisation of intangible assets		**4,479,680**	726,925
Unrealised foreign exchange gain, net		**334,162**	511,316
Impairment losses on financial assets		**862,722**	1,067,225
Changes in employee benefit obligations		**621,527**	(265,685)
Write-down of inventories to net realizable value		**(12,573)**	56,507
Share in profits of associates	7	**(3,179,552)**	(819,063)
Finance costs accrued		**7,719,671**	1,096,814
Finance income accrued		**(1,587,219)**	(792,903)
Gain on disposal of property and equipment, net		**(93,257)**	(37,163)
Changes in operating assets and liabilities			
Change in trade receivables		**3,699,154**	(1,594,249)
Change in inventories		**1,795,270**	(63,360)
Change in other current assets		**(1,450,128)**	4,869,875
Change in advances paid		**(681,977)**	88,375
Change in trade payables		**(1,819,566)**	2,046,858
Change in costs to obtain a contract and costs to fulfil a contract		**(1,397,444)**	(3,695,608)
Change in contract liabilities		**222,285**	770,360
Changes in other current liabilities		**1,364,158**	219,794
Cash flows from operating activities		**39,196,891**	25,008,832
Income tax paid		**(4,686,786)**	(2,159,108)
Interest paid		**(6,432,041)**	(857,600)
Interest received		**178,407**	479,504
Net cash flows received from operating activities		**28,256,471**	22,471,628
Investing activities			
Purchase of property and equipment		**(15,537,626)**	(4,720,419)
Purchase of intangible assets		**(1,152,352)**	(227,741)
Proceeds from sale of property and equipment		**477,497**	176,631
Placement of deposits		**–**	(6,000,000)
Return of cash on deposits		**–**	16,689,130
Issue of long-term loans to employees		**(351,354)**	(235,303)
Repayment of loans from employees		**97,008**	85,074
Net cash flows (used in) / received from in investing activities		**(16,466,827)**	5,767,372

The accounting policies and notes on pages 8 to 36 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of tenge	Note	31 March 2019 (unaudited)	31 March 2018 (unaudited)*
Financing activities			
Borrowings received		**22,024,647**	–
Borrowings repaid		**(28,490,516)**	–
Dividends paid on common and preferred shares	13	**(2,678)**	(11,673)
Repayment of lease liabilities		**(3,264,533)**	–
Repayment of finance lease liabilities		**–**	(931,772)
Proceeds from sale of securities		**7,257**	–
Net cash flows used in financing activities		**(9,725,823)**	(943,445)
Effect of exchange rate changes on cash and cash equivalents		**(327,062)**	(505,212)
Allowance for expected credit losses on cash and cash equivalents	12	**(6,718)**	–
Net change in cash and cash equivalents		**1,730,041**	26,790,343
Cash and cash equivalents, as at 1 January		**45,350,092**	15,985,943
Cash and cash equivalents, as at 31 March	12	**47,080,133**	42,776,286

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

Disclosure of significant non-cash transactions is presented in *Note 24*.

Chief financial officier _______________ *Uzbekov A.A.*

Chief accountant _______________ *Suleimanov Y.E.*

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months period ended 31 March 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 31 March 2019:

	At 31 March 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%**	2.0%
Other	**6.2%**	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.

These consolidated financial statements of the Group were approved for issue by the Chief financial officier and the Chief accountant on behalf of the Management of the Company on 3 June 2019.

2. BASIS FOR PREPARATION

The interim condensed consolidated financial statements for the three months period ended 31 March 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.

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.

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:

	31 March 2019	31 December 2018
US dollar	**380.04**	384.20
Euro	**425.95**	439.37
Russian rouble	**5.87**	5.52

2. BASIS FOR PREPARATION (continued)

Foreign currency translation (continued)

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

	Country of incorporation	Percentage ownership 31 March 2019 (unaudited)	31 December 2018 (audited)
Kcell JSC	Kazakhstan	**75.00%**	75.00%
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%
Nursat JSC	Kazakhstan	**–**	100.00%

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.

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').

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 16 Leases (continued)

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 capitalised 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 liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under advances paid and other payables, respectively.

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

- *Leases previously classified as finance leases*

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 was applied to these leases from 1 January 2019.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 16 Leases (continued)

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

- *Leases previously accounted for as operating leases (continued)*

The Group 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**

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.

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)

(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:

In thousands of tenge	Buildings and constructions	Equipment	Total	Lease liability
At 1 January 2019	29,700,555	42,229,062	71,929,617	53,201,569
Additions	–	**573,588**	**573,588**	**573,588**
Depreciation expenses	**(1,105,509)**	**(967,579)**	**(2,073,088)**	–
Interest expenses	–	–	–	**1,628,555**
Payments	–	–	–	**(4,180,696)**
At 31 March 2019	**28,595,046**	**41,835,071**	**70,430,117**	**51,223,016**

The Group recognized rent expenses from short-term leases of KZT 1,781,280 thousand for the three months ended 31 March 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.

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

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

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Group's current practice is in line with these amendments, they had no impact on the interim condensed consolidated financial statements of the Group.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all 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. 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, KT Cloud Lab LLP.
- Rendering mobile telecommunication services in GSM and LTE standards by business units Khan Tengri Holding B.V. and Kcell JSC.

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)

4. SEGMENT INFORMATION (continued)

The following tables disclose revenue and segment profit information for the Group's operating segments for the three months ended 31 March 2019 and 2018.

For the three months ended 31 March 2019 (unaudited)

In thousands of tenge	**Fixed line**	**Mobile telecommunication services in GSM and LTE standards**	**Other**	**Eliminations and adjustments**	**Group**
Revenue from contracts with customers					
Sales to external customers	**53,507,286**	**34,911,369**	**107,309**	**–**	**88,525,964**
Inter-segment	**2,186,556**	**268,556**	**56,217**	**(2,511,329)**	–
Total revenue from contracts with customers	**55,693,842**	**35,179,925**	**163,526**	**(2,511,329)**	**88,525,964**
Financial results					
Depreciation and amortisation	**(9,096,262)**	**(11,640,433)**	**(20,537)**	**–**	**(20,757,232)**
Finance costs	**(4,650,690)**	**(3,068,981)**	**–**	**–**	**(7,719,671)**
Finance income	**482,283**	**1,104,675**	**261**	**–**	**1,587,219**
Share in profits of associates	**–**	**3,128,234**	**51,318**	**–**	**3,179,552**
Impairment losses on financial assets	**(413,218)**	**(449,781)**	**277**	**–**	**(862,722)**
Segment profit/(loss)	**8,780,519**	**(11,312,422)**	**(19,669)**	**14,593,998**	**12,042,426**

For the three months ended 31 March 2018 (unaudited)

In thousands of tenge	Fixed line	Mobile telecommunication services in GSM and LTE standards	Other	Eliminations and adjustments	Group
Revenue from contracts with customers					
Sales to external customers	51,624,228	–	98,825	–	51,723,053
Inter-segment	–	–	55,198	(55,198)	–
Total revenue from contracts with customers	51,624,228	–	154,023	(55,198)	51,723,053
Financial results					
Depreciation and amortisation	(9,492,552)	–	(28,794)	–	(9,521,346)
Finance costs	(1,096,814)	–	-	–	(1,096,814)
Finance income	792,413	–	490	–	792,903
Share in profit of associates	–	781,044	38,019	–	819,063
Impairment losses on financial assets	(1,067,225)	–	–	–	(1,067,225)
Segment profit/(loss)	11,268,873	781,044	(21,524)	–	12,028,393

4. SEGMENT INFORMATION (continued)

The following table presents assets and liabilities information for the Group's operating segments as at 31 March 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 31 March 2019 (unaudited)	**554,103,794**	**408,154,466**	**2,276,260**	**(158,092,231)**	**806,442,289**
As at 31 December 2018	551,021,413	407,842,367	2,218,590	(167,687,639)	793,394,731
Operating liabilities					
As at 31 March 2019 (unaudited)	**245,327,680**	**143,702,415**	**291,055**	**(5,109,899)**	**384,211,251**
As at 31 December 2018	247,072,042	132,647,334	260,773	(1,426,353)	378,553,796

5. PROPERTY AND EQUIPMENT

During the three months period ended 31 March 2019, the Group acquired property and equipment for KZT 3,131,703 thousand (unaudited) (during three months period ended 31 March 2018: KZT 1,230,417 thousand (unaudited)). During the three months period ended 31 March 2019, the Group disposed property and equipment with net book value of KZT 336,128 thousand (unaudited) (during three months period ended 31 March 2018: KZT 34,516 thousand (unaudited)).

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

During the three months period ended 31 March 2019, the Group recognized depreciation expense amounting to KZT 14,204,464 thousand (unaudited) (during three months period ended 31 March 2018: KZT 8,794,421 thousand (unaudited)).

As at 31 March 2019, property and equipment, amounting to KZT 154,341,093 thousand (unaudited), were fully amortized (as at 31 December 2018: KZT 166,079,984 thousand).

6. INTANGIBLE ASSETS

During the three months period ended 31 March 2019, the Group acquired intangible assets for KZT 938,216 thousand (unaudited) (during three months period ended 31 March 2018: KZT 49,897 thousand (unaudited)).

During the three months period ended 31 March 2019, the Group recognized amortization expense amounting to KZT 4,479,680 thousand (unaudited) (during three months period ended 31 March 2018: KZT 726,925 thousand (unaudited)).

As at 31 March 2019 intangible assets (mainly software) with cost amounting to KZT 10,236,951 thousand (unaudited), were fully amortized (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.

7. INVESTMENTS IN ASSOCIATES

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

			31 March 2019 (unaudited)		31 December 2018 (audited)	
In thousands of tenge	**Primary activities**	**Country of incorporation**	**Carrying amount**	**Ownership share**	Carrying amount	Ownership share
Khan Tengri Holding B.V.	Telecommunication services	Netherlands	**79,198,819**	**51%**	76,070,585	51%
QazCloud LLP	IT services	Kazakhstan	**1,649,957**	**49%**	1,598,639	49%
			80,848,776		77,669,224	

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. INVESTMENTS IN ASSOCIATES (continued)

Movements in investments in associates for the three months ended 31 March 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
Share in profits of associates	781,044	38,019	819,063
Share in other comprehensive income of associates	–	–	–
Dividends declared	–	–	–
At 31 March 2018 (unaudited)	69,108,059	957,144	70,065,203
At 31 December 2018 (audited)	76,070,585	1,598,639	77,669,224
Share in profits of associates	**3,128,234**	**51,318**	**3,179,552**
Share in other comprehensive income of associates	**–**	**–**	**–**
Dividends declared	**–**	**–**	**–**
At 31 March 2019 (unaudited)	**79,198,819**	**1,649,957**	**80,848,776**

Investments in 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. 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. The Group's interest in Khan Tengri Holding B.V. is recorded in the interim condensed consolidated financial statements using the equity method.

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	**31 March 2019 (unaudited)**	31 December 2018 (audited)
Current assets	**28,585,849**	23,058,916
Non-current assets	**177,863,835**	155,086,820
Current liabilities	**(41,231,460)**	(38,288,604)
Non-current liabilities	**(123,351,263)**	(104,123,963)
Equity	**41,866,961**	35,733,169
Share of the Group in equity – 51%	**21,352,150**	18,223,916
Goodwill	**57,846,669**	57,846,669
Carrying amount of investment of the Group	**79,198,819**	76,070,585

In thousands of tenge	**31 March 2019 (unaudited)**	31 March 2018 (unaudited)
Revenue	**32,459,423**	27,705,322
Operating expenses	**(23,771,001)**	(23,804,177)
Non-operating expenses	**(2,527,924)**	(2,713,819)
Profit before tax	**6,160,498**	1,187,326
Income tax benefit/(expenses)	**(26,705)**	344,133
Profit for the period	**6,133,793**	1,531,459
Total comprehensive income for the period	**6,133,793**	1,531,459
Share of the Group in profit for the period	**3,128,234**	781,044

7. INVESTMENTS IN ASSOCIATES (continued)

Options to acquire interest in an associate

According to the agreement between the Group and Tele2, the Group has 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 has a similar unconditional right to require the Group to acquire a 49% interest in Khan Tengri Holding B.V. (put option).

The price of an option is expressed in US dollars and should be equal to the fair market value of the shares transferred as of the day of its determination. The Group estimated the fair value of the options and as at 31 March 2019 the fair value of the options is nil (at 31 December 2018: nil).

In connection with the closure of the transaction on the acquisition by Kazakhtelecom JSC of 75% of shares in Kcell JSC, Tele2 A.B. made a decision on exercise of the put option, according to which Tele2 A.B. has the right to demand from Kazakhtelecom JSC to acquire at a market value all shares of Khan Tengri Holding B.V., owned by Tele2 A.B. According to the terms of the Shareholders Agreement dated 29 February 2016, Tele2 A.B. has the opportunity to withdraw notice of the option exercise within 10 days after agreeing on the fair value of the shares of Khan Tengri Holding B.V. As at 31 March 2019 and the date of issue of these financial statements fair values of shares of Khan Tengri Holding B.V. has not determined yet.

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 at 31 March 2019 neither call or put option do not provide the Group ability to direct relevant activities of Khan Tengri Holding B.V. as KT 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 Anti-Monopoly Committee of Kazakhstan. Therefore, as at 31 March 2019 and the date of issue of these financial statements the Group has not obtained control over Khan Tengri Holding B.V.

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-registred 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 and 27 April 2018, the Group made contributions to the charter capital of QazCloud LLP, in the amount of KZT 986,980 thousand and KZT 563,000 thousand, respectfully. 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.

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

In thousands of tenge	**31 March 2019 (unaudited)**	31 March 2018 (unaudited)
Revenue	**664,169**	443,938
Operating expenses	**(520,892)**	(414,441)
Non-operating profit/(expenses)	**(12,363)**	49,700
Profit before tax	**130,914**	79,197
Income tax expense	**(26,183)**	(1,607)
Profit for the period	**104,731**	77,590
Total comprehensive loss for the period	**104,731**	77,590
Share of the Group in profit for the period	**51,318**	38,019

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. 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 31 March 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.

9. OTHER NON-CURRENT FINANCIAL ASSETS

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

In thousands of tenge	**31 March 2019 (unaudited)**	31 December 2018 (audited)
Long-term accounts receivable	**5,826,069**	6,669,328
Loans to employees	**2,492,470**	2,760,145
Other	**229,109**	220,396
	8,547,648	9,649,869
Less: allowance for expected credit losses	**(135)**	(135)
	8,547,513	9,649,734

As at 31 March 2019, the long-term receivables represent amounts due from Mobile Telecom Service LLP. On 29 February 2016 the Company 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.

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 22% (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.

10. TRADE RECEIVABLES

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

In thousands of tenge	**31 March 2019 (unaudited)**	31 December 2018 (audited)
Trade receivables	**51,581,824**	55,348,456
	51,581,824	55,348,456
Less: allowance for expected credit losses	**(3,943,109)**	(3,175,108)
	47,638,715	52,173,348

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

In thousands of tenge	**31 March 2019 (unaudited)**	31 March 2018 (unaudited)
Allowance for expected credit losses at the beginning of the period	**(3,175,108)**	(3,146,484)
Charge for the period	**(835,479)**	(453,439)
Write-off for the period	**67,478**	84,082
Allowance for expected credit losses at the end of the period	**(3,943,109)**	(3,515,841)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. OTHER CURRENT FINANCIAL ASSETS

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

In thousands of tenge	**31 March 2019 (unaudited)**	31 December 2018 (audited)
Bank deposits	**3,686,199**	3,684,443
Loans to employees	**2,045,421**	2,132,007
Restricted cash	**438,812**	438,812
Due from employees	**215,237**	228,993
Other accounts receivable	**2,400,925**	2,421,526
	8,786,594	8,905,781
Less: allowance for expected credit losses	**(4,238,093)**	(4,220,670)
	4,548,501	4,685,111

Bank deposits with initial maturity of more than 3 (three) months but less than 12 (twelve) months have been placed with local banks and earned income at interest rates of 1.25% to 10.5% per annum (at 31 December 2018: 1.25% to 10.5% per annum).

As at 31 March 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.

Changes in allowance for expected credit losses were as follows at 31 March 2019 and 31 March 2018:

In thousands of tenge	**31 March 2019 (unaudited)**	31 March 2018 (unaudited)
Allowance for expected credit losses at the beginning of the period	**(4,220,670)**	(1,281,945)
Charge for the period	**(18,678)**	(79,722)
Write-off for the period	**1,255**	68
Allowance for expected credit losses at the end of the period	**(4,238,093)**	(1,361,599)

12. CASH AND CASH EQUIVALENTS

As at 31 March 2019 and 31 December 2018 cash and cash equivalents comprised:

In thousands of tenge	**31 March 2019 (unaudited)**	31 December 2018 (audited)
Cash on current bank accounts	**43,669,608**	45,763,434
Deposits with less than 90 days' maturity from the date of opening	**3,902,351**	72,802
Cash on hand	**21,657**	20,621
	47,593,616	45,856,857
Less: allowance for expected credit losses	**(513,483)**	(506,765)
	47,080,133	45,350,092

Cash on current bank accounts earn interest at the rates ranging from 0.1% to 8.2% per annum (at 31 December 2018: from 0.1% to 8.5% per annum). As at 31 March 2019 cash on current bank accounts included an amount of KZT 3,902,351 thousand placed on overnight deposits with a rate of up to 7% (as at 31 December 2018: an amount of KZT 72,802 thousand with a rate of up to 7%).

12. CASH AND CASH EQUIVALENTS (continued)

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

In thousands of tenge	**31 March 2019 (unaudited)**	31 December 2018 (audited)
US dollars	**32,860,817**	29,886,154
Tenge	**14,053,103**	15,314,144
Russian roubles	**134,939**	128,024
Other	**31,274**	21,770
	47,080,133	45,350,092

Movements in the allowance for expected credit losses were as follows for the periods ended 31 March 2019 and 31 March 2018:

In thousands of tenge	**31 March 2019 (unaudited)**	31 March 2018 (unaudited)
Allowance for expected credit losses at the beginning of the period	**(506,765)**	(20,240)
Charge for the period	**(6,718)**	–
Allowance for expected credit losses at the end of the period	**(513,483)**	(20,240)

13. 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 31 March 2019	**10,922,876**	**1,213,653**	**10,922,876**	**1,213,653**	**12,136,529**

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 31 March 2019 (unaudited)	**216,852**	**914,868**	**3,052,617**	**4,012,997**	**7,065,614**

Shares issued less reacquired shares

As at 31 March 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 minority 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). As at 31 March 2019 the Group recognized the obligations for the repurchase of shares in the amount of KZT 660,616 thousand *(Note 15)*.

13. EQUITY (continued)

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 31 March 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. 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 24,042 thousand were accrued as at 31 March 2019 (at 31 March 2018: KZT 24,042 thousand) and are recorded as interest expenses in the interim condensed consolidated statement of comprehensive income.

Movements in dividends payable for the three months ended 31 March were as follow:

In thousands of tenge	**31 March 2019 (unaudited)**	31 March 2018 (unaudited)
Dividends payable at the beginning of the year	**2,033,495**	1,628,625
Dividends declared on common shares	**–**	–
Dividends declared on preferred shares in excess of the obligatory amount	**–**	–
Interest on debt component of preferred shares	**24,042**	24,042
Withholding tax	**–**	–
Dividends paid on common and preferred shares	**(2,678)**	(11,673)
Dividends payable at the end of the period *(Note 15)*	**2,054,859**	1,640,994

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 31 March 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.

13. EQUITY (continued)

Earnings per share (continued)

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

In thousands of tenge	**31 March 2019 (unaudited)**	31 March 2018 (unaudited)
Net profit	**9,137,313**	9,367,298
Interest on preferred shares	**24,042**	24,042
Net profit for calculating of basic and diluted earnings per share	**9,161,355**	9,391,340
Weighted average number of common and preferred shares for calculation of basic earnings per share	**11,027,879**	11,027,879
Basic earnings per share, tenge	**830.75**	851.60
Weighted average number of common and preferred shares for calculation of diluted earnings per share	**11,056,731**	11,027,879
Diluted earnings per share, tenge	**828.58**	851.60

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	**31 March 2019 (unaudited)**	31 December 2018 (audited)
Total assets	**806,442,289**	793,394,731
Less: intangible assets *(Note 6)*	**173,000,950**	176,542,542
Less: total liabilities	**384,211,251**	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	**248,931,303**	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)	**23,252**	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 31 March 2019, this indicator amounted to 3,727 tenge (as at 31 December 2018: 3,727 tenge).

14. BORROWINGS

As at 31 March 2019 and 31 December 2018, borrowings comprised:

In thousands of tenge	**Weighted average interest rate**	**31 March 2019 (unaudited)**	Weighted average interest rate	31 December 2018 (audited)
Borrowings with a fixed interest rate of 7% to 12% per annum	**10.14%**	**62,656,479**	10.61%	86,791,306
Bonds with a fixed interest rate of 7.5% to 11.5% per annum	**11.50%**	**123,127,112**	11.50%	106,661,234
		185,783,591		193,452,540

14. BORROWINGS (continued)

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.

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

Borrowings are repayable as follows:

In thousands of tenge	**31 March 2019 (unaudited)**	31 December 2018 (audited)
Current portion of borrowings	**11,151,732**	57,614,129
Maturity between 1 and 2 years	**29,628,833**	7,392,518
Maturity between 2 and 5 years	**12,177,556**	23,780,192
Maturity over 5 years	**132,825,470**	104,665,701
Total non-current portion of borrowings	**174,631,859**	135,838,411
Total borrowings	**185,783,591**	193,452,540

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

	Maturity date	**Nominal interest rate**	**31 March 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 Kcell JSC (KCELb1)	16 January 2021	11.50%	**22,162,602**	5,193,713
Local bonds of Kazakhtelecom JSC (KZTKb3)	26 December 2019	7.50%	**6,177**	6,063
Total			**123,127,112**	106,661,234

Borrowings	**Maturity date**	**Nominal interest rate**	**31 March 2019 (unaudited)**	31 December 2018 (audited)
Development Bank of Kazakhstan JSC	19 December 2024	7.00%	**17,412,295**	17,113,449
Development Bank of Kazakhstan JSC	19 December 2024	9.00%	**7,361,887**	8,152,784
Eurasian Bank JSC	20 May 2024	11.50%	**28,881,348**	29,749,590
Halyk Bank Kazakhstan JSC	2 December 2019	11.50%	**–**	7,818,525
Halyk Bank Kazakhstan JSC	20 September 2019	11.50%	**13,345**	3,893,578
Halyk Bank Kazakhstan JSC	16 July 2021	11.50%	**3,901,001**	9,976,714
Alfa Bank JSC	7 June 2019	12.00%	**–**	5,036,666
Alfa Bank JSC	7 June 2019	12.00%	**–**	5,050,000
VTB Bank JSC	1 February 2020	10.90%	**5,086,603**	–
Total			**62,656,479**	86,791,306

As at 31 March 2019, the Parent is a guarantor of the Group's credit facility in the amount of KZT 24,355,111 thousand received from Development Bank of Kazakhstan JSC (as at 31 December 2018: KZT 24,961,627 thousand). As at 31 March 2019 and at 31 December 2018, the Group's borrowings are not collateralized by any property other than the above-mentioned guarantee.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. OTHER NON-CURRENT AND CURRENT FINANCIAL LIABILITIES

Other non-current financial liabilities

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

In thousands of tenge	**31 March 2019 (unaudited)**	31 December 2018 (audited)
Guarantee issued	**904,764**	915,558
Non-current accounts payable	**70,627**	78,147
	975,391	993,705

Guarantee issued

On 25 February 2016, the Company 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. The actual amount of the loan under the credit line in Development Bank of Kazakhstan JSC was KZT 9,984,421 thousand as at 31 March 2019. The actual balance of the debt on the used loan amount under the credit line in Development Bank of Kazakhstan JSC was KZT 8,558,074 thousand as of 31 March 2019. As at 31 March 2019 guarantee issued represents an estimated reserve for expected credit losses on liabilities of Khan Tengri Holding B.V.

Other current financial liabilities

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

In thousands of tenge	**31 March 2019 (unaudited)**	31 December 2018 (audited)
Payables to employees	**11,000,049**	11,100,616
Payable to Khan Tengri Holding B.V.	**4,842,282**	4,842,282
Dividends payable *(Note 13)*	**2,054,859**	2,033,495
Shares repurchase obligations *(Note 13)*	**660,616**	–
Guarantees issued	**43,174**	43,174
Other	**405,433**	834,387
	19,006,413	18,853,954

Payable to Khan Tengri Holding B.V. is related to final settlements on acquisition of interest in associate of Khan Tengri Holding B.V.

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

16. NON-CURRENT AND CURRENT CONTRACT LIABILITIES

Non-current contract liabilities

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

In thousands of tenge	**31 March 2019 (unaudited)**	31 December 2018 (audited)
Contract liabilities from operators	**3,278,923**	3,425,567
Contract liabilities for connection of subscribers	**1,112,438**	1,163,051
Other contract liabilities	**1,355,363**	1,110,683
	5,746,724	5,699,301

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

Current contract liabilities

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

In thousands of tenge	**31 March 2019 (unaudited)**	31 December 2018 (audited)
Advances received	**9,487,922**	10,734,219
Contract liabilities from operators	**901,887**	902,722
Contract liabilities for connection of subscribers	**456,745**	471,924
Other contract liabilities	**90,813**	14,673
Other	**469,634**	544,187
	11,407,001	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.

17. OTHER CURRENT LIABILITIES

Other current liabilities

As at 31 March 2019 and 31 December 2018 other current liabilities comprised:

In thousands of tenge	**31 March 2019 (unaudited)**	31 December 2018 (audited)
Taxes payable other than income tax	**8,096,979**	6,305,705
Payable to pension funds	**654,578**	561,920
Other	**289,532**	249,025
	9,041,089	7,116,650

18. 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.

Due to high propability of the the exercise of the termination right by Kar-Tel LLP, in December 2018 the Group recognized liability related to the payment of termination fine to company Kar-Tel LLP and respective an indemnification asset for reimbursement of 75% of the estimated fine by companies Telia Company and Fintur Holding B.V.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue from contracts with customers for the three months ended 31 March comprised:

	For the three months ended 31 March 2019			
In thousands of tenge	**Fixed line**	**Mobile connection**	**Other**	**Total**
Data transfer services	**27,777,748**	**13,352,304**	**4,306**	**41,134,358**
Rendering of fixed line and wireless phone services	**10,467,017**	**12,641,644**	**–**	**23,108,661**
Rent of channels	**3,953,787**	**–**	**–**	**3,953,787**
Interconnect	**3,842,249**	**5,011,270**	**–**	**8,853,519**
Sale of equipment and mobile devices	**–**	**3,526,152**	**–**	**3,526,152**
Other	**7,466,485**	**379,999**	**103,003**	**7,949,487**
	53,507,286	**34,911,369**	**107,309**	**88,525,964**
Services transferred over time	**53,507,286**	**31,385,217**	**107,309**	**84,999,812**
Goods transferred at a point of time	**–**	**3,526,152**	**–**	**3,526,152**
	53,507,286	**34,911,369**	**107,309**	**88,525,964**
B2C*	**26,456,072**	**25,663,198**	**–**	**52,119,270**
B2B**	**5,868,623**	**4,236,868**	**107,309**	**10,212,800**
B2O***	**12,007,167**	**5,011,269**	**–**	**17,018,436**
B2G****	**9,175,424**	**34**	**–**	**9,175,458**
	53,507,286	**34,911,369**	**107,309**	**88,525,964**

	For the three months ended 31 March 2018		
In thousands of tenge	Fixed line	Other	Total
Data transfer services	27,900,518	–	27,900,518
Rendering of fixed line and wireless phone services	11,301,206	–	11,301,206
Rent of channels	4,644,872	–	4,644,872
Interconnect	3,217,324	–	3,217,324
Other	4,560,308	98,825	4,659,133
	51,624,228	98,825	51,723,053
Services transferred over time	51,624,228	98,825	51,723,053
Goods transferred at a point of time	–	–	–
	51,624,228	98,825	51,723,053
B2C*	26,315,972	92,367	26,408,339
B2B**	7,608,177	6,458	7,614,635
B2O***	10,152,532	–	10,152,532
B2G****	7,547,547	–	7,547,547
	51,624,228	98,825	51,723,053

* *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.*

20. 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.

At the reporting date, the Group lacked reasonable assurance that it will be designated as the universal communications services operator and that it will meet all the conditions related to compensation and its receipt. Accordingly, the Group has not recognised compensation revenue for provision of universal services in rural areas for the three months ended 31 March 2019 and 2018.

21. COST OF SALES

Cost of sales for the three months ended 31 March comprised:

In thousands of tenge	**31 March 2019 (unaudited)**	31 March 2018 (unaudited)
Depreciation and amortization	**19,865,070**	9,473,577
Personnel costs	**16,690,499**	10,844,599
Interconnect	**6,869,329**	1,103,158
Fee for usage of channels	**3,862,422**	2,070,498
Repair and maintenance	**3,186,473**	950,240
Cost of SIM-card, scratch card, start package sales and handsets	**2,916,597**	–
Electricity	**1,748,051**	703,833
Fees for radiofrequencies use	**1,670,356**	310,118
Fees for usage of GSM radiofrequencies of Mobile Telecom Services LLP	**1,330,569**	1,021,880
Content	**1,229,590**	1,341,366
Inventories	**1,157,360**	784,261
Fee to provide telecom services	**780,642**	735,235
Security and safety	**583,028**	439,756
Utilities	**499,437**	543,454
Rent of property and equipment	**275,816**	672,125
Rent of transponders related to satelite communications	**199,567**	112,063
Business trip expenses	**188,466**	124,858
Insurance	**153,631**	124,553
Fees for usage of billing system of Mobile Telecom Services LLP	**55,440**	42,579
Other	**1,518,804**	530,682
	64,781,147	31,928,835

22. FINANCE COSTS

Finance costs for the three months period ended 31 March comprised:

In thousands of tenge	**31 March 2019 (unaudited)**	31 March 2018 (unaudited)
Finance costs		
Interest expense on loans	**5,339,392**	514,916
Interest expense on lease liabilities *(Note 3)*	**1,628,555**	–
Interest expense on finance lease liabilities	**–**	385,058
Discounting of long-term loans to employees	**290,231**	151,615
Unwinding of discount on long-term accounts payable	**403,816**	–
Interest on debt component of preferred shares	**24,042**	24,042
Discounting of other non-current financial assets	**21,669**	20,101
Unwinding of discount (provision for decommissioning liability)	**11,966**	1,082
	7,719,671	1,096,814

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. INCOME TAX EXPENSE

Income tax expense for the three months period ended 31 March comprised the following:

In thousands of tenge	**31 March 2019 (unaudited)**	31 March 2018 (unaudited)
Current corporate income tax expenses	**3,137,943**	2,733,293
Deferred income tax benefit	**(151,504)**	(72,198)
	2,986,439	2,661,095

24. NON-CASH TRANSACTIONS

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

During the three months period ended 31 March 2019, the Group paid an amount of KZT 17,220,080 thousand (unaudited) for property and equipment purchased in the preceding year (during the three months period ended 31 March 2018: KZT 4,585,174 thousand (unaudited)). Property and equipment of KZT 4,899,052 thousand (unaudited) were purchased during the three months period ended 31 March 2019 but not paid by 31 March 2019 (purchased, but not paid by 31 March 2018: KZT 965,988 thousand (unaudited)).

During the three months period ended 31 March 2019, in accordance with the lease agreements, the Group received telecommunication equipment amounting to KZT 573,588 thousand (during the three months period ended 31 March 2018: not received).

25. 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.

At 31 March 2019, the Group recognized an allowance for expected credit losses in the amount of KZT 53,056 thousand in respect of receivables from related parties.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. RELATED PARTY TRANSACTIONS (continued)

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

In thousands of tenge	**31 March 2019 (unaudited)**	31 March 2018 (unaudited)
Sales of goods and services		
Parent	**24,448**	107,403
Parent-controlled entities	**578,178**	769,084
Associate (Khan Tengri Holding B.V.) [1]	**8,604,399**	5,758,952
Associate (Qaz Cloud LLP)	**164,706**	348
Government institutions	**9,175,423**	5,998,733
Purchases of goods and services		
Parent	**667**	649
Parent-controlled entities	**748,741**	654,180
Associate (Khan Tengri Holding B.V.) [1]	**4,886,067**	1,459,840
Associate (Qaz Cloud LLP)	**55,389**	–
Government institutions	**2,287**	2,443
Interest accrued on borrowings		
Entities under state control		
(Development Bank of Kazakhstan JSC)	**469,277**	514,802
Average interest rate on borrowings	**8.00%**	8.11%
Parent	**2,875,000**	–
Average interest rate on borrowings	**11.50%**	–

In thousands of tenge	**31 March 2019 (unaudited)**	31 December 2018 (audited)
Cash and cash equivalents		
Entities under state control		
(Development Bank of Kazakhstan JSC)	**87**	103
Borrowings		
Entities under state control		
- (Development Bank of Kazakhstan JSC)	**24,774,182**	25,266,233
Parent	**100,958,333**	101,461,458
Trade and other accounts receivable		
Parent	**25,910**	130,725
Parent-controlled entities	**828,768**	613,921
Associate (Khan Tengri Holding B.V.)	**18,074,686**	16,248,774
Associate (Qaz Cloud LLP)	**172,534**	105,827
Government institutions	**7,131,447**	11,431,512

25. RELATED PARTY TRANSACTIONS (continued)

In thousands of tenge	**31 March 2019 (unaudited)**	31 December 2018 (audited)
Accounts payable		
Parent	**14**	39
Parent-controlled entities	**339,615**	469,260
Associate (Khan Tengri Holding B.V.)	**13,616,394**	11,014,949
Associate (Qaz Cloud LLP)	**43,840**	–
Government institutions	**465,152**	735,815
Other non-current assets		
Long-term loans to key management personnel	**32,632**	35,914

During the three months period ended 31 March 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 10% from total consolidated revenue of the Group for the three months ended 31 March 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 7% from total consolidated cost of sales of the Group for the three months ended 31 March 2019.

Sales and purchases with MTS during the the three months ended 31 March 2019 and 2018 were as follows:

In thousands of tenge	**31 March 2019 (unaudited)**	31 March 2018 (unaudited)
Sales		
Data transmission [A]	**3,738,451**	3,400,752
Rent of channels [B]	**1,386,009**	1,379,329
Interconnect [C]	**2,758,256**	373,240
Base cell stations maintenance [D]	**174,012**	162,663
Rent of sites for base stations	**145,298**	151,234
Other	**402,373**	291,734
	8,604,399	5,758,952
Purchases		
Fee for usage of GSM radiofrequencies [E]	**1,330,569**	1,021,880
Mobile traffic at wholesale tariffs [F]	**1,208,109**	67,046
Interconnect [G]	**2,154,334**	223,058
Fee for usage of billing system [H]	**55,440**	42,579
Other	**137,615**	105,277
	4,886,067	1,459,840

[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.

[B] 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 three months ended 31 March 2019 revenue from rent of channels amounted to KZT 1,386,009 thousands (for three months ended 31 March 2018: KZT 1,379,329 thousand).

25. RELATED PARTY TRANSACTIONS (continued)

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

[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] Fee for usage of GSM radiofrequencies is fixed monthly payment for the usage of the GSM radiofrequencies owned by MTS. For the three months ended 31 March 2019 fee for usage of GSM radiofrequencies amounted to KZT 1,330,569 thousands (three months ended 31 March 2018: KZT 1,021,880 thousand).

[F] 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.

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

[H] Fee for usage of billing system is fixed monthly payment for the usage of the MTS billing system. For the three months ended 31 March 2019 fee for usage of billing system amounted to KZT 55,440 thousands (for the three months ended 31 March 2018: KZT 42,579 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.

26. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES

Impairment losses on financial assets

Impairment losses on financial assets for the three months ended 31 March 2019, comprise accruing reserve for trade receivables in amount of KZT 835,479 thousand *(Note 10)*, other current financial assets in amount of KZT 18,678 thousand *(Note 11)*, cash and cash equivalents in amount of KZT 6,718 thousand *(Note 12)*.

The Group's principal financial instruments include loans, lease obligations, cash and cash equivalents, bank deposits and accounts receivable and accounts payable. 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.

26. 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 31 March 2019 (unaudited)**	**Fair value as at 31 March 2019 (unaudited)**	**Unrecog-nised gain/ (loss) as at 31 March 2019 (unaudited)**	Carrying amount as at 31 December 2018 (audited)	Fair value as at 31 December 2018 (audited)	Unrecog-nised gain/ (loss) as at 31 December 2018 (audited)
Financial assets						
Cash and cash equivalents	**47,080,133**	**47,080,133**	**–**	45,350,092	45,350,092	–
Other non-current financial assets	**8,547,513**	**6,150,083**	**(2,397,430)**	9,649,734	7,040,366	(2,609,368)
Other current financial assets	**4,548,501**	**4,548,501**	**–**	4,685,111	4,685,111	–
Trade receivables	**47,638,715**	**47,638,715**	**–**	52,173,348	52,173,348	–
Financial liabilities						
Borrowings	**185,783,591**	**184,678,516**	**1,105,075**	193,452,540	194,104,469	(651,929)
Lease liabilities	**51,223,016**	**51,223,016**	**–**	–	–	–
Finance lease liabilities	**–**	**–**	**–**	22,729,325	22,729,325	–
Guarantee issued	**904,764**	**229,703**	**675,061**	915,558	65,938	849,620
Other non-current financial liabilities	**70,627**	**70,627**	**–**	78,147	78,147	–
Other current financial liabilities	**19,006,413**	**19,079,911**	**(73,498)**	18,853,954	18,878,261	(24,307)
Trade payables	**26,449,480**	**26,449,480**	**–**	42,147,405	42,147,405	–
Total unrecognised change in unrealised fair value			**(690,792)**			(2,435,984)

27. COMMITMENTS AND CONTINGENCIES

Operating environment

In Kazakhstan, economic reforms and the development of the legal, tax and administrative infrastructure that meets the developed markets are still in process. 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 31 March 2019, the Group had contractual obligations in the total amount of KZT 8,531,383 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.

27. 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 31 March 2019. Management believes that as at 31 March 2019 its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained.

New Technical Regulations

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

Cases related to the abuse of dominant position

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

According to the Committee, the violation resulted in the establishment of different prices for Kcell's mobile Internet access service with a data allowance, 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 and is going to appeal to the court. The management of the Company believes that the appeal will be successful and assesses the probability of outflow of economic benefits as remote.

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).

28. 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. SUBSEQUENT EVENTS

In April and May 2019 the Company repurchased 21,771 preferred shares and 1,299 common shares at a price of KZT 26,377 per preferred share and of KZT 66,487 per common share for the total amount of KZT 660,616 thousand from minority shareholders.

On 30 April 2019 on the basis of the decision made at the annual shareholders general meeting of Kazakhtelecom JSC, the Company declared dividends on preferred shares based on 2018 results in the amount of KZT 250,365 thousand and dividends on common shares in the amount of KZT 8,362,107 thousand.

On 8 May 2019, Kcell JSC received a loan from Halyk Bank of Kazakhstan JSC to repay a fine for termination of the Network Sharing Agreement between Kcell JSC and Kar-Tel LLP in the amount of KZT 10,000,000 thousand for a period of three years and an annual interest rate of 11%.

On 22 May 2019 Kazakhtelecom JSC and Halyk Bank JSC entered into credit facility agreement according to which on 24 May 2019 Kazakhtelecom JSC received KZT 80,818,492 thousand. The maturity of the loan is 21 May 2027 and interest is 11.5%. The purpose of the loan is the refinancing of the loan of Mobile Telecom Service LLP, the associate.

On 23 May 2019 Kazakhtelecom JSC and Mobile Telecom Service LLP concluded a loan agreement for KZT 80,818,492 thousand with interest rate of 12%. In three months period from the date of the loan provision to Mobile Telecom Service LLP, the debt transfer agreement between “Kazakhtelecom” JSC, “Mobile Telecom-Service” LLP and “Halyk bank” JSC should be concluded.

In accordance with the terms of the Shareholders Agreement relating to Khan Tengri Holding B.V. dated 29 February 2016, concluded between Kazakhtelecom JSC and Tele2 Sverige AB, on 23 May 2019, 49% «Khan Tengri Holding B.V.» shares purchase agreement was signed, according to which Kazakhtelecom JSC will acquire all shares of Khan Tengri Holding B.V., owned by Tele2 Sverige AB.