Kcell

Moving Ahead With Confidence

Annual Report and Accounts 2019

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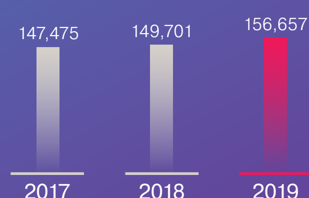
The full annual report and accounts are available online at: investors.kcell.kz/en

2019 highlights

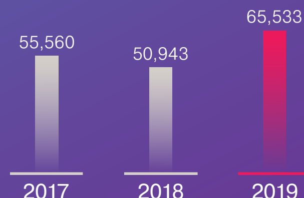
Revenues (KZT million)

+4.6% y-o-y



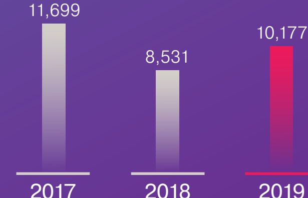
EBITDA[1] (KZT million)

+24.7% y-o-y



Net income (KZT million)

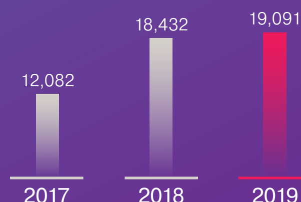
+18.6% y-o-y



1 Excluding non-recurring items

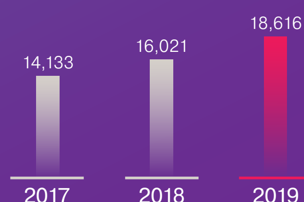
Handset sales (KZT million)

+3.6% y-o-y



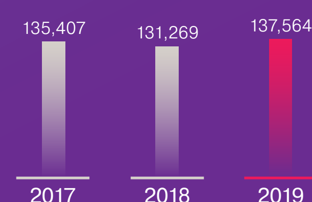
B2B revenues (KZT million)

+16.2% y-o-y



Service revenues (KZT million)

+4.8 % y-o-y



Introduction

Welcome to Kcell's annual report for 2019, when the Company demonstrated its ability to move ahead with confidence following Kazakhtelecom's acquisition of 75% of its shares in December 2018. While making crucial governance changes, including the appointment of a new executive team and a Board led by independent members, Kcell also delivered strong financial and operational results, underscoring its position as the leader of Kazakhstan's mobile telecommunications market.

OFFERING UNRIVALLED CUSTOMER EXPERIENCE

CHAIRMAN'S STATEMENT

PROVIDING THE BEST BUSINESS SOLUTIONS

ARPU (KZT million)

+15.5% y-o-y

Data revenues (KZT million)

+12.3% y-o-y

4G data users

+25.2% y-o-y

Mobile financial service users

+55.5% y-o-y

CREATING THE LARGEST DIGITAL ECOSYSTEM IN KAZAKHSTAN

Strategic Report

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At a Glance

Transforming ourselves to maintain future leadership

Our company
Kcell provides the full range of mobile telecommunication services, including voice, messaging, value-added (multimedia and mobile content) and data transmission (internet access). Its two brands, Kcell for B2B (corporate and government clients) and Activ for B2C (mass-market customers), are pre-eminent names on the market. Underpinning these is the Company's high-quality network, which covers all of the main populated areas in Kazakhstan. At the end of 2019, Kcell had 8.3 million subscribers, while 62.2% of the population had access to its 4G network and 80.5% to its 3G service.

Our journey
In 1998, Kcell became the first company to receive a licence to provide cellular services on the GSM-900 standard in Kazakhstan. In December 2018, Kazakhtelecom acquired a 75% stake in Kcell, enabling the Company to move forward with its ambitious agenda. The transaction allows the two partners to begin to exploit the clear synergies between them, particularly by giving Kcell access to Kazakhtelecom's infrastructure. In addition, new corporate governance institutions and practices have been introduced, including a new executive team and a new Board led by independent members.

Our plans
Kcell's vision for the future is clear: to deliver the highest possible service to customers, thereby generating value for all stakeholders, including the nation. It plans to do this by investing further in its network, introducing more value-added offerings and keeping prices competitive. Throughout all of its efforts to ensure financial and operational excellence, the Company is committed to striving towards best practice in corporate governance.

Network
69.0%
Share of LTE in data traffic

B2C
72.9%
Smartphone penetration among Kcell customers

B2B
66.2%
Share of revenues from business solutions

Coverage
62.2%
Share of population with 4G/LTE access

Our range of products and services

Products and services

Kcell provides the full spectrum of mobile telecommunication products and services to both individuals and organisations. Alongside voice, SMS, MMS and data transmission, it offers internet access and value-added services, including mobile content. These include various OTT services under the Mobi brand (TV, Music, Kino, Press, Bookmate) and an ecosystem of unique mobile financial services. The Company is also focusing increasingly on handset sales as a way of serving all customer needs.

Brands

Today, Kcell operates through two key brands that are among the best established in Kazakhstan. Activ is targeted at the consumer market ('B2C') and Kcell at corporate subscribers and public organisations ('B2B'), as well as high-net-worth individuals.

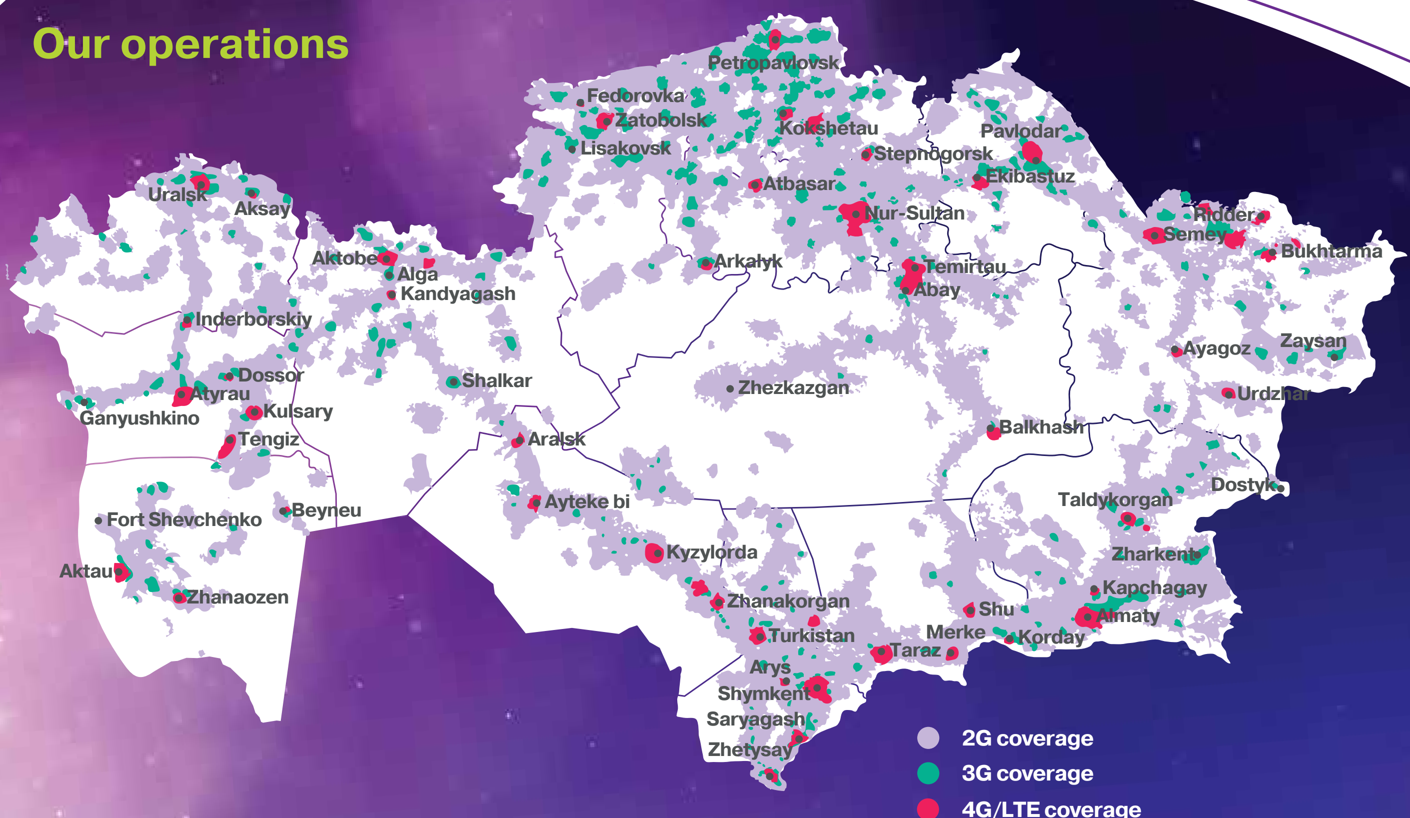
Activ seeks to fulfil all individual customers' mobile communication needs by offering numerous regional, national and international tariffs, complemented by various bundles and an extensive range of additional services. Kcell features a premium service experience, including personal managers.

Network

Over the past two decades, Kcell has built one of the most modern, technologically advanced and extensive mobile telecommunication networks in Kazakhstan. In the coming years, the Company expects the integration with Kazakhtelecom's infrastructure to allow it to expand its offerings to both consumer and business customers significantly, while cutting costs and improving quality.

Kcell has licences to operate on 2G, 3G and 4G/LTE frequencies indefinitely. Its network is collocated and operates on four frequency bands – 700/800 MHz, 900 MHz, 1700/1800 MHz and 2100 MHz – providing both data and voice communications. Data transfer speeds range from 300 kbps for 2G to 37 mbps for 3G and up to 74 mbps for 4G and 221 mbps for 4G+.

Our operations



Milestones

Setting off in a bold new direction

In 2019, Kcell headed in a new direction, building on its unique journey over the past two decades.

1998

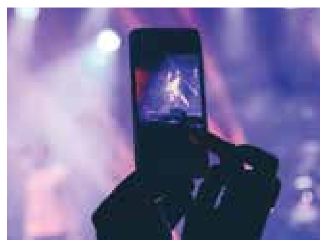
1998
On 1 June 1998, Kcell was established as GSM Kazakhstan OAO Kazakhtelecom to operate a cellular telecommunications network in Kazakhstan.

1999
After receiving the first GSM licence in Kazakhstan, the Company officially launched its mobile communications network in February 1999, operating under the Kcell trademark, and added the Activ brand in September.

2003
In September 2003, Kcell became the first telecommunications operator in Kazakhstan to launch General Packet Radio Service (GPRS) and Multimedia Messaging Service (MMS) functionality.

2005
In September 2005, the Company was the first cellular operator to introduce GPRS roaming in Kazakhstan.

2010
In December 2010, Kcell officially began operating dedicated 3G networks in Astana and Almaty, significantly improving the quality of data transfer services.



2014
In May 2014, Kcell became an official distributor of iPhone in Kazakhstan; while in September, it launched a major rebranding campaign for the Activ brand.

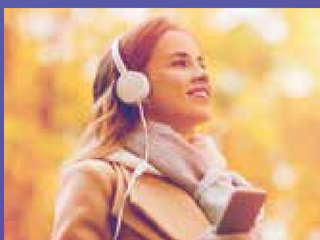
2016
In January 2016, Kcell acquired additional spectrum rights on the 700/800 MHz and 1800 Mhz bands, boosting its nationwide connectivity and preparing for the launch of advanced 4G and LTE services later in the year.

2018
In December 2018, Telia and Fintur sold their 75% stake in Kcell to Kazakhtelecom.

2020

2012
In February 2012, Kazakhtelecom sold its 49% stake to Sonera Holding B.V. (Sonera), a subsidiary of TeliaSonera.

In December 2012, the Company successfully completed its offering of GDRs on the London Stock Exchange and ordinary shares on the Kazakh Stock Exchange.



2015
In March 2015, the Company opened its first branded Kcell store in Almaty, a new concept aimed at improving customer experience.

2017
The international ratings agency Fitch assigned the Company a long-term issuer default rating of 'BB', the outlook 'stable'.

2019
In the first full year since the Kazakhtelecom acquisition, the Company appointed a new Board led by independent members, which outlined a new strategic vision and established a new executive team to implement it. The year marked a clear turnaround for Kcell, which increased revenues by 4.6%, the first improvement in its key financial indicators in five years.

Chairman's Statement

Moving ahead with confidence

In 2019, Kcell made major progress in transforming itself following the Kazakhtelecom acquisition, establishing new governance institutions and laying the foundations for renewed sustainability efforts in the future.

Dear stakeholders,
Following my election as Chairman of the Board of Directors at the beginning of 2019, it has been a privilege to watch Kcell move ahead with confidence as a team to address its opportunities and challenges, as well as strengthen its governance institutions. As the Company's independent Chairman of the Board of Directors, committed to protecting the interests of all shareholders and bondholders, I believe that the steps taken last year represent important progress.

In 2019, Kcell pressed forward on all fronts, including by continuing to invest in its network and ensuring that it remains the market leader in key areas, such as handset sales and B2B. Despite major changes in management and governance, the team delivered both financially and operationally. The Company also conducted a cross-listing, on the Astana International Exchange (AIX), enhancing liquidity and expanding the potential shareholder base.

Institutions

Naturally, the acquisition of a 75% stake in Kcell by Kazakhtelecom, owned in turn by National Welfare Fund Samruk-Kazyna, has begun a transformation at the Company. As a subsidiary of Samruk-Kazyna, the new majority shareholder requires its entities to adopt significant internal reporting measures and introduce new rules and regulations, including a new procurement procedure, dividend policy and corporate governance code. This process is critical for the integration of Kcell and Kazakhtelecom, as both companies can then fully exploit the synergies between them in the future.

An important and early step taken during 2019 was the election of a new Board of Directors with four of seven independent members, which increased to five just after the reporting period. All Board committees are headed by independents, in line with international best practice. Today, my role as Chairman is set aside for an independent director. This is crucial to balance the interests of Kazakhtelecom as the largest shareholder, supported by the state, and those of the international shareholder base. Indeed, Kcell will be an important test case as Samruk-Kazyna continues to pursue international listings for several of its constituent companies.

Also in 2019, Kcell formed a Management Board as a collective executive body, in line with Kazakh corporate practice and Samruk-Kazyna requirements. Today, it comprises the chief executive officer, chief commercial officer, chief technical officer and chief legal officer. This structure formalises reporting lines and accountability.

As an independent director, I am committed to governance changes that make Kcell more transparent and clearly align the goals of all equity and debt investors and partners with those of the new parent. The Company has long been a dynamic and innovative leader in the industry, and this spirit must be maintained. While this process still requires work and will not always be easy, there is an absolute consensus that it must be done.

Overall, the changes made last year increased transparency and continued to address real market risks by ensuring accountability at all levels. I will continue to use my position to advocate that this process prioritises integrity above all and in the interests of all.

Sustainability

A major change under the new shareholder structure is that Kcell's charitable donations will now be managed by Samruk-Kazyna Trust, which I believe is a positive development. The body was designed to organise and amplify the philanthropic work of all Samruk-Kazyna companies, to provide maximum benefit for aid recipients. It does this in a way designed to ensure both accountability and maximum effect from donations, leaving Kcell to focus on its core business.

In the coming time, Kcell plans to research and publish its first sustainability report. There is certainly scope to expand reporting on this front, and I am keenly aware that many of our investors want to see clear metrics so they can make portfolio decisions based on sustainability.

Outlook

After the reporting period, on 16 March 2020, Kazakhstan introduced emergency measures in response to the coronavirus (COVID-19) pandemic, including quarantine in major cities. This has had a significant impact on business activity, and both the pandemic and the measures taken are expected to affect various sectors, including retail. At present, the quantitative effect of the pandemic on the Company cannot be estimated with a sufficient degree of confidence.

Despite the situation, the work to unlock the synergies between Kazakhtelecom and Kcell will continue. It is vital to ensure that efficiencies can be achieved without disrupting customer experience. The strategic priorities introduced last year represent a detailed roadmap for this process and a vital first step.

Another important task will be to build on Kcell's corporate social responsibility reporting. Local communities need to know that the Company is a responsible corporate citizen and investors that it is a business committed to sustainability across all metrics.

On the eve of 5G deployment under the Digital Kazakhstan programme and amid rapid market consolidation, Kcell stands at an important inflection point for the Kazakh telecommunications market. It is our collective task to ensure that the Company retains its existing market leadership, while driving the adoption of technologies that transform the lives of consumers, businesses and government over the years to come. In doing so, this will help to keep Kazakhstan at the forefront of Central Asia's telecommunications markets.

Alexey Buyanov
Chairman,
Board of Directors

Key Events in 2019

In 2019, we expanded our coverage and range of services, and led the way with innovative solutions.

2019

January
An Extraordinary General Meeting of Shareholders voted to terminate the authority of Kcell's existing Board of Directors and elected a new one led by independent members.

The Board of Directors appointed Kaspars Kukelis as Chief Executive Officer, effective 29 January 2019.

February
The Company conducted a KZT16.8 billion bond placement on the Kazakhstan Stock Exchange, at an 11.5% yield, the second placement in the programme announced in December 2017.

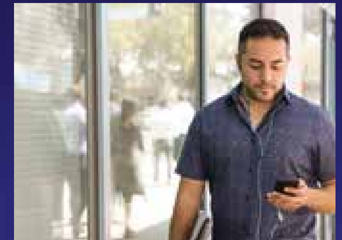
March
The Board of Directors recommended an annual dividend totalling KZT5,972 million, or KZT29.86 per ordinary share and per Global Depositary Receipt (GDR).

April
Following Kazakhtelecom's acquisition of a 75% stake in Kcell, KaR-Tel LLP ended its cooperation under the 2016 Network Sharing Agreement in Kazakhstan, resulting in a termination penalty of KZT14,552 million.

May
The AGM met and voted on numerous matters, including approving the 2018 financial statements, the 2018 dividend and the updated charter; selecting EY as the external auditor for 2019-21; endorsing a remuneration policy for independent directors; and approving an updated methodology for valuing shares if Kcell repurchases them on an over-the-counter market.

June
The Board of Directors established a new Management Board comprising Chief Executive Officer Kaspars Kukelis (chairman), Chief Technical Officer Askar Yesserkegenov (member) and Chief Legal Officer Sergey Yeltsov (member).

Fitch Ratings affirmed the Company's long-term issuer default rating at 'BB' and assigned a 'positive' outlook, mirroring that of Kazakhtelecom.



July
Yerulan Kussainov, a Non-Executive Director representing Kazakhtelecom, announced his intention to resign from Kcell's Board of Directors, effective 19 July 2019.

December
Kcell celebrated the seventh anniversary of listing GDRs on the London Stock Exchange and local shares on the KASE, marking the beginning of its journey as a public company.

October
Kcell approved its updated strategy, which has three core objectives that focus on unlocking synergies and maintaining market leadership.

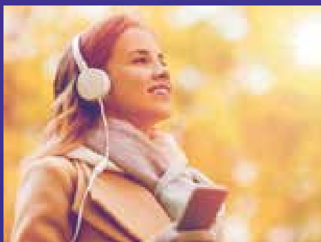
2020

November
The Board of Directors appointed Hikmatulla Nasritdinhodjaev as Chief Commercial Officer and Member of the Management Board, which was expanded to comprise a chairman and three members.

The Board of Directors approved the following changes to the loan agreement with the Eurasian Development Bank: extend the term by 90 months until 20 June 2024; increase the credit line limit from KZT34 billion to KZT38 billion; set the loan availability period until 31 December 2020; and establish a covenant under which net debt/EBITDA (on a quarterly basis) should not exceed 3.0 from 1 January 2019.

Kazakhtelecom won ‘Telecom M&A Deal of the Year – Asia’ at the TMT M&A Awards 2019 for the acquisition of 75% in Kcell, which had a significant effect on both the Company’s business and Kazakhstan’s overall telecommunications market.

August
The Company paid an annual dividend totalling KZT5,972 million, or KZT29.86 per ordinary share (each ordinary share representing one GDR), which represents 70% of net income for 2018.



Chairman of the Management Board, CEO’s Review

Beginning the next chapter well

In 2019, Kcell laid solid foundations for the next phase of its history, delivering a strong financial and operational performance, implementing its five-year strategy and undertaking major organisational change as part of its commitment to better business.

Dear stakeholders,
In 2019, Kcell began the next chapter of its history well. We deployed the right technological and human resources to deliver market-leading services and quality to customers in both the B2C and B2B segments. In doing so, we reconfirmed our position as Kazakhstan’s leading mobile telecommunications operator. The year also set the stage for future growth and leadership in an era of rapid technological evolution on the national telecommunications market.

Kazakhtelecom’s acquisition of a 75% stake in Kcell in December 2018 was a watershed for the Company and one felt keenly during 2019 for several reasons. First, the transaction brought an end to a period of uncertainty and deferred decisions as the previous main shareholder planned the sale. This new clarity allowed us to implement a detailed five-year strategy to develop the business. Second, in the coming years, we see strong financial and operational opportunities in further network and infrastructure-sharing initiatives, which will be a key driver of the business beginning from 2020. Third, and perhaps most importantly, the new shareholder has helped to appoint a new and independent Board of Directors, build a new management team and install new governance procedures that I believe will benefit all stakeholders from here.

Strong performance

In 2019, Kcell delivered a strong performance on the top and bottom lines, one consistent with the healthy expansion of the domestic telecommunications market. Total revenues climbed by 4.6% year-on-year to KZT156,657 million. The B2B segment posted growth of 16.2% year-on-year and service revenues climbed by 4.8% year-on-year, despite a slight reduction in the total number of subscribers.

The growth in revenues was driven by a number of factors, including improved pay-as-you-go (PAYG) billing for bundled offers; the introduction of new tariff plans with unlimited access to social networks; and an increasing number of subscribers transitioning to new offers with enhanced content. In addition, the number of fixed contract subscribers with higher ARPU has risen due to an increase in the number of devices sold.

During the reporting period, EBITDA, excluding non-recurring items, jumped by 24.7% year-on-year to KZT63,533 million, while net profit rose by 18.6% year-on-year to KZT10,117 million. While net income was impacted by a KZT14.5 billion penalty due to the termination of the Network Sharing Agreement with KaR-Tel, it was also positively affected by the reversal of a tax accrual of KZT5.8 billion.

In 2019, we also observed some clear, long-term market trends that will continue to drive the business. We made important CAPEX investments in our network, including building new LTE sites and activating the LTE1800 and LTE2100 bands, which generated additional monthly revenues. Amid the new capacity, 4G device penetration in our network reached 63.9% by the year-end. Among many other factors, this underscores our commitment to being Kazakhstan's number one mobile operator in terms of quality.

Strategic vision

One key milestone last year was the development and confirmation of our five-year strategic priorities, which act as a detailed roadmap for each part of the business and are designed to build on our success to date. This agenda seeks to preserve and enhance our market positions, including leadership in smartphones and B2B, both of which are crucial segments for the continued growth of revenues in the future. To do this, we need to ensure a diversified product range that meets the ever-evolving needs of all customer segments.

Over the next five years, identifying and exploiting synergies, primarily with Kazakhtelecom, will be central to our strategy. Both Kazakhtelecom and Kcell can achieve significant operational efficiencies from an array of resource-sharing initiatives, as well as offer additional, value-added services to each other's customers.

Our strategic priorities also envisage continued growth in our handset business. Kcell is the leading operator in Kazakhstan in terms of direct handset sales to customers through a branded network. In addition, last year, we began online sales of handsets, offering customers the convenience of having their phones delivered to them. While handset sales do not generate a high margin as a standalone business, they represent a vital channel for selling bundled services. Our position in this segment is a key competitive advantage to be developed further.

As Kazakhstan's market trends clearly demonstrate, monetising data is the key to future leadership. Due to several factors linked to regulation and competition, data prices in the country have historically been low. We believe that the market will tolerate higher rates only if they are accompanied by transformative services that change the mobile experience. As such, we plan to invest to deliver cutting-edge mobile telecommunication services, including financial, big data and 5G. In turn, these represent the base for the services that will define the next decade, such as the 'internet of things', for individual, corporate and government subscribers.

Better business

The Kazakhtelecom acquisition has also provided us with the opportunity to review our corporate governance institutions, in line with the stringent requirements of National Welfare Fund Samruk-Kazyna, the owner of Kazakhtelecom.

In 2019, we appointed a new Board of Directors with a majority of independent members, including the Chairman. We also established a Management Board for the first time, initially with four top executives, to enhance accountability. We have changed procurement methods and reviewed all of our existing corporate regulations to ensure that they meet the best-practice standards of our controlling shareholder.

These improvements to our corporate governance help us to best serve all of our stakeholders inside and outside the Company. As we enter 2020, I believe that our corporate governance institutions are stronger than they have ever been.

Outlook

The real success of 2019 was that we undertook enormous organisational change within the Company while delivering a strong financial and operational performance. In addition, we carried out the necessary technological investments to ensure that our network meets the current needs of our customers, while preparing for the future deployment of new technologies. Amid all of this, we maintained much-needed stability for our investors, employees, partners and, most importantly, customers.

Regarding 2020, given the coronavirus (COVID-19) pandemic and measures to contain it, the year is likely to be challenging for businesses across all sectors. Nonetheless, we will press ahead with the plans to exploit our synergies with Kazakhtelecom, including integrating our infrastructure. Whatever the inevitable challenges, we firmly believe that harnessing these synergies in full will be revolutionary for both companies and deliver extraordinary benefits to the people and businesses of Kazakhstan.

Kaspars Kukelis
Chairman of the Management Board,
Chief Executive Officer

Operating on solid foundations

Central to Kcell's success is its business model, which brings together the numerous solid foundations on which the Company operates. By harnessing its strong asset base and differentiators and offering 21st-century solutions, Kcell strives to generate superior value for all stakeholders.

Assets

People
Kcell recognises the value of hiring, developing and retaining talented people, and strives to be an employer of choice in Kazakhstan by creating a positive and motivating work environment, as well as improving quality of life for employees and their families.

Network
The Company operates one of the most modern, technologically advanced and extensive mobile telecommunication networks in the country, and has licences to operate on 2G, 3G and 4G/LTE frequencies indefinitely.

Financial position
Kcell's higher share of revenues from B2B and handset sales, together with a consistent focus on optimising costs and a new strategic approach to building value-over-volume subscriptions, is helping to strengthen the Company's financial position.

Technology
Kcell has become Kazakhstan's largest digital ecosystem and has a competitive edge through such value-added content as mobile television, movies, books, music and magazines, as well as the development of unique business solutions for corporate clients.

Brands
The Kcell and Activ brands are well established in the highly competitive B2B and B2C telecommunications markets and recognised for their quality of customer experience and value.

Natural resources
The Company cares about the environment in which it operates, contributing to local and global sustainability by developing, promoting and utilising resource-efficient and environmentally friendly services, and by seeking to reduce its environmental footprint.

Differentiators

Network quality
With our high-quality 4G/LTE network, we continue to lead the advancement of mobile telecommunications in Kazakhstan and look forward to introducing the next generation, 5G.

Innovation
We invest in innovative products and services, and developing digital content; in 2017, we opened an innovation lab, which has started working on 'internet of things' (IoT) services.

Expertise
From the engineers that build our networks to the operators in our call centres, we employ a dedicated workforce who have the skills to deliver a first-class service to our customers.

Customer relationships
Our focus is on customer value management through the application of smart pricing methods and the use of targeted promotional activities.

21st-century solutions

The digital transformation of Kcell's operations is progressing well. Central to this is our commitment to innovation and value to enable us to deliver 21st-century solutions to our customers. We achieve this through the quality of our fast-expanding network, competitive brands, data-centric products and services, and dedicated employees.

STRATEGY
In 2019, Kcell updated its strategy to maintain leadership and unlock synergies with Kazakhtelecom.

See Strategy on page 16.

SUSTAINABILITY
Investments in sustainability play a crucial role in ensuring that the business model will endure and in benefiting society as a whole.

See Sustainability on page 28.

GOVERNANCE
Following the major change in ownership, Kcell remains steadfastly committed to international best practice in corporate governance.

See Governance on page 36.

RISK MANAGEMENT
Kcell has implemented a robust risk management system to safeguard operations and ensure business continuity.

See Risk Management on page 46.

Value creation

Customers
Kcell provides the full spectrum of mobile telecommunications services to both individuals and organisations, underpinned by data-centric products and services that add high value for digital customers.

Shareholders
The Company remains steadfastly committed to maximising value for shareholders in a way that is sustainable for the long term, including through its clear dividend policy.

Employees
Kcell has 1,950 employees with remuneration packages, which reflect internal equity and external local market conditions, and offers comprehensive benefits.

Community
We are actively involved in dozens of initiatives that aim to improve the lives of people, focusing on three key areas: education, sport and healthy lifestyles, and society.

Value for money

Customer-oriented solutions
People
Brands
Network
Data-centric products and services

Introducing a new vision

In 2019, under the guidance of Kcell's new major shareholder, Kazakhtelecom, the Board of Directors outlined an updated strategy with three core objectives:

In smartphones

Focus on smartphone users

- Higher share and ARPU of bundled offer users
- Contract sales growth
- Additional revenues from digital services

Having a clear multi-brand architecture will enable Kcell to improve the performance of its B2C business through optimal pricing for bundles, customer value management and network quality. The bundled offers launched earlier have led to commoditisation of the industry and need to be revised towards a balanced, value-oriented market. Once price competition is over, the next step is for operators to seek market equilibrium.

With a solid base in the core business, the Company will succeed in the digital ecosystem by shaping a 21st-century operator based on financial services, exclusive content and entertainment, e-commerce and digital services.

In B2B

Sustainable growth through diversification

- IoT
- Leadership and intensive growth in large business through business solutions
- Extensive SME growth through digital solutions and automation
- Development of new business areas (Big Data, IoT, etc)

Concentration of revenues in several products, uneven regional development, and slow growth dynamics in SME and B2G pose risks for consistent growth. Development of new products will reduce the risks of loss of revenues from mature services and secure annual growth.

Group synergies

Product convergence and network integration

– New revenues from FMC in the mass segment
– Converged digital services for business
– Other commercial synergies

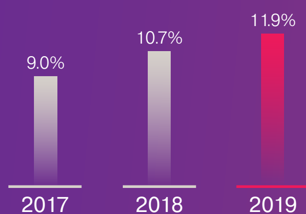
Additional synergies can be achieved through numerous products and cost optimisation. There is potential from existing offerings like fixed-mobile convergence (FMC) in the B2C segment and fiscal data, as well as in new areas, such as FMC in the B2B segment, B2G and Digital Kazakhstan.

Bundling synergies

In 2019, Kcell began to explore the many opportunities for greater synergies with Kazakhtelecom by offering new bundled solutions in the B2B segment, as well as increasing its work with government customers.

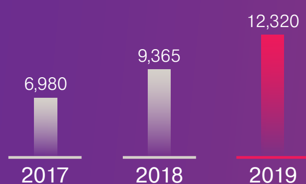
Share of B2B in total revenues

+1.2 pp y-o-y



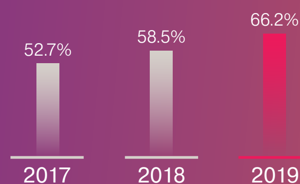
Revenues from business solutions (KZT million)

+31.6% y-o-y



Share of revenues from business solutions in total B2B revenues

+7.7 pp y-o-y



As Kcell's B2B operations mature, they are contributing a growing share of total revenues, driven largely by business solutions. The B2B segment now accounts for almost 12% of the Company's top line, proving itself as a valuable business that has earned its place in the product portfolio. In 2019, one of Kcell's greatest B2B successes was the launch of private LTE services for industrial customers, the first such offering in the CIS.

Kazakhtelecom synergies

To bolster Kcell's dominant share of B2B market revenues, the Company plans to explore the many ways in which it can enhance its combined position with Kazakhtelecom by bundling their products. One potentially strong synergy comes from uniting Kazakhtelecom's fixed line and broadband services with Kcell's mobile voice and data services. Another possible aspect is combining the whole service experience – from products and services to data processing, billing and invoicing – to provide a comprehensive B2B offering.

Private LTE

In 2019, Kcell launched the first private LTE network in the CIS for an industrial customer. The Company's significant human potential and technological expertise are competitive advantages, as they allow it to implement complex niche projects in sectors like oil and gas that require extremely low-latency feedback loops to prevent production incidents. Kcell believes that its lessons learned from this initial experience will help it to become and remain a leader in this promising new business. This helps to illustrate how the Company approaches its B2B customers: as partners, which in turn wins their trust for future initiatives.

Automation

One area in which Kcell's B2B team is working to serve customers better is by accelerating initiatives to automate various customer service operations. This will allow corporate customers to largely self-service SIM-cards and mobile devices via a mobile app or corporate portal. A major part of this involves conducting user acceptance tests.

Digital Kazakhstan

The Digital Kazakhstan programme is a national initiative to digitalise government services in new and innovative ways, improving ease-of-use and reducing service costs for both citizens and the government. Kcell's projects under this include providing digital government subscription services, improving the efficiency of traffic cameras, helping to provide mobile government workplaces and using big data to assist state tourism initiatives. For more information about the Company's Digital Kazakhstan efforts, see 'Sustainability' on page 28.

Focusing on value-added services amid better competition

The recent consolidation of Kazakhstan's mobile telecommunication market has led to more rational trends in the competitive environment, allowing Kcell to offer customers more compelling, value-added services backed by a robust mobile data network.

In 2019, the race-to-the-bottom approach long employed by mobile operators in Kazakhstan to maintain high subscriber numbers was replaced by a drive to offer the most competitive value-added services, supported by advanced 4G and emerging 5G infrastructure that meets customers' increasing needs for high-speed data connectivity. In this more rational competitive environment, the Company's service revenue continued to rise, buoyed by value-added services, synergies with the new shareholder, increased retail and online handset sales, and important new partnership agreements.

Service revenues

In 2019, Kcell's revenues from services increased, fuelled partly by improved pay-as-you-go (PAYG) billing for bundled offers and new tariff plans giving customers unlimited access to social networks. A growing number of existing subscribers are switching to tariff plans with higher-end offers and greater content access, which also helps to boost service revenues. In addition, more than half of the Company's total subscriber base has opted for bundled offers, which generate stronger ARPU.

Value-added services

As part of the renewed focus on areas with clear substantial potential in the updated strategy, Kcell is exploring innovative value-added services that it can offer its customers. For example, mobile financial services provide a convenient way for customers to manage their financial lives, wherever they happen to be. In addition, the Company is harnessing the potential of big data to develop valuable new services. With more than 50% of smartphones in Kazakhstan providing 4G/LTE connectivity, the introduction of 5G infrastructure and services will drive the next generation of Kcell's technological evolution. As part of these efforts, in December 2019, the Company launched a pilot 5G network in Almaty.

Synergies with Kazakhtelecom

A key differentiating factor for Kcell in the current competitive environment will be the network integration with Kazakhtelecom, as customers are increasingly choosing their mobile operator based on the quality and speed of its data network. As an example of the need for a robust data infrastructure, in 2019, the Company's overall traffic data totalled 322.5 petabytes, up 31% year-on-year and 76% since 2017.

Retail and online handset sales

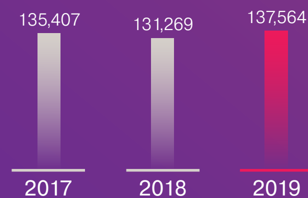
Another differentiator is Kcell's success in switching customers from prepaid to bundled contracts with handset and service offerings. Notably, this is essentially a retail rather than an operator business. With 3 million devices sold in 2019, of which 90% were smartphones, the Company's market share was around 10%, leaving significant room for growth. By converting customers from PAYG to bundled phone contracts, their value immediately grows and their tenure improves, allowing Kcell to offer more compelling services. A key channel for helping customers to make this switch is handset sales via the Company's 33 retail outlets and online store. Launched in 2019, the latter also offers delivery for added convenience and has a much broader potential reach.

Partnership agreements

Retail partnership agreements have become an increasingly valuable part of Kcell's business, starting in 2014 with sales of Apple phones. In 2019, the Company opened the first co-branded store with Samsung in Almaty and ran a contract smartphone and smartwatch promotion with the South Korean electronics maker. The partnership with Samsung is a prudent approach, as it allows the two companies to share costs and expertise in marketing and in-store displays, for example. Samsung currently has the leading smartphone market share in Kazakhstan and Apple is a highly visible player as well. In addition, Kcell launched a sales partnership offering smartphones and accessories via the Kaspi online

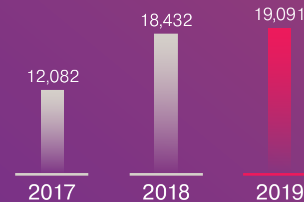
Revenues from services (KZT million)

+4.8% y-o-y



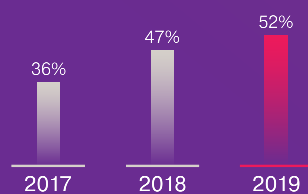
Revenues from handset sales (KZT million)

+3.6% y-o-y



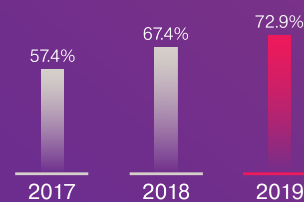
Share of bundled subscribers

+5pp y-o-y



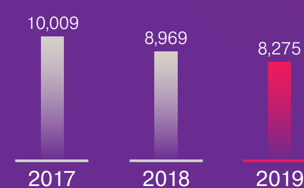
Smartphone penetration in Kcell's network

+5.5pp y-o-y



Subscriber numbers ('000)

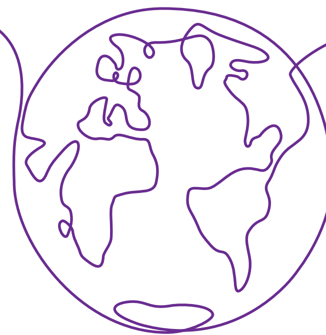
-7.7% y-o-y



platform. Also new in 2019 was the beginning of testing on the Company's network of eSIM, a technology initially developed by Apple. Such partnerships deliver additional value to customers and shareholders alike.

Subscriber database changes

While Kazakhstan currently has a population of around 18 million people, there are more than 20 million registered SIM-cards, as operators were until recently using unsustainable competitive practices that led to exponential growth in SIM-card numbers. Together with the more rational focus on value-added services in today's market, another factor that has reduced the number of SIM-cards in Kazakhstan is recent government regulations requiring users to register and link their personal identification to SIM-cards. While the process of identifying and completing missing data took time and led to temporary limitations on some services, it has ultimately also reduced the number of overall subscribers in the country, which is in line with Kcell's focus on customer quality over quantity.



Leading the region's digital transformation

In 2019, Kazakhstan's economy bucked global trends and grew strongly overall, as consumer spending increased and the small e-commerce sector surged. Buoyed by the spread of smartphones and other devices, the country's telecommunications sector remains the most developed in Central Asia, and on the eve of the 5G era, data traffic continues to boom.

Macroeconomic overview

Kazakhstan's economy picked up in 2019, with GDP increasing by 4.5% amid strong consumer spending and business investment, defying the slowdown globally. As expected, a drop in net exports, associated with weaker economic growth in the country's largest trading partners, was partly offset by greater social spending and a fall in household debt. This helped to boost consumer spending and, in turn, drive business investment.

Today, Kazakhstan is the second largest economy in the Commonwealth of Independent States, and the World Bank ranks it as an upper-middle-income country. This marks a transition from lower-middle-income status in just two decades, reflecting rapid development and integration with the global economy.

Kazakhstan has some of the world's largest oil and gas reserves, is a major producer of other mineral resources and is one of the top 10 grain exporters. It is also a major road, rail and air hub for people and cargo transiting Eurasia. At the same time, government policy has sought to diversify the economy to allow the country to counter downturns in commodity cycles.

Since independence in the early 1990s, Kazakhstan has seen the emergence of consumer, retail and other service industries from virtually zero. It has also become the clear leader in the information and telecommunications industry in Central Asia. According to the Kazakh Ministry of Trade and Integration, in 2019, the country's e-commerce sector swelled by 80% year-on-year to KZT700 billion, accounting for 3.7% of total retail. Around 60% of purchases were made from Kazakh e-commerce platforms.

Kazakhstan's economic performance in 2019 was particularly notable, as its primary trading partners – China, Russia and the European Union – faced strong economic headwinds. According to analysts, over the first nine months of the year, investment in fixed assets increased by 13% and foreign direct investment by 5%. This indicates that the government sustained major investments in targeted areas of the economy, such as communications infrastructure through the Digital Kazakhstan programme.

Rising consumer spending is driving Kazakhstan's telecommunications market and a broader diversification of the economy. According to the World Bank, the country's gross national income (GNI) per capita, using comparable purchasing power parity (PPP) rates, which measures a population's underlying buying ability, rose from US$1,430 in 1993 to US$8,070 in 2018. This underscores the rapid emergence and continued growth of a new, dynamic consumer market in Eurasia.

Oil, gas and other mineral extraction industries remain the primary driver of Kazakhstan's economy and exports, as well as the main source of budget revenues. While the country is a party to crude oil production cuts as part of agreements with the Organisation of the Petroleum Exporting Countries, Russia and other major producers, a large portion of its output is not subject to these restrictions. In the second half of 2019, crude output (including natural gas liquids) at the giant Kashagan field hit record daily levels, which were partly offset by lower production at the Tengiz and Karachaganak fields due to maintenance.

Despite external challenges and a decline in average benchmark crude prices in 2019, robust fiscal policies allowed Kazakhstan's National Bank to increase the international reserves to US$91 billion, while the National Oil Fund reached US$62 billion, taking receipts since inception to US$660 million. Overall, Kazakhstan entered 2020 on sound fiscal footing.

Outlook for 2020

After a resilient performance in 2019, Kazakhstan's economy is forecast to slow in 2020, as the global environment remains challenging. The overriding factor is the unprecedented situation caused by the outbreak of coronavirus, which has prompted many

countries worldwide to announce a lockdown or similar measures aimed at curbing the spread of the virus. As a result, global and national GDP growth is expected to be hit hard, at least in the first and second quarters.

Closer to home, Kazakh President Kassym-Jomart Tokayev has identified two areas of concern in the domestic economy: the banking sector and inflation. In recent years, the former has consolidated and consumer banking has developed quickly. However, the sector continues to have a substantial portfolio of non-performing loans, and most observers expect further consolidation around the top-tier banks.

While inflation in Kazakhstan has fallen sharply since 2014, when it was in the double digits, it remains a central issue for policymakers. In 2019, the consumer price index rose by 5.4% year-on-year, driven primarily by higher food prices, which jumped by 9.6%, a source of concern. During the year, the Central Bank raised rates to dampen inflation. The National Bank has set an overall inflation target of 5-6%, while making food prices a key priority.

If we look beyond the situation regarding coronavirus, Kazakhstan's macroeconomic environment should enable continued growth of household incomes and therefore spending on telecommunications services. The country remains an island of economic stability and sustainable development in Central Asia.

Telecommunications market

In 2019, according to the Ministry of National Economy, Kazakhstan's telecommunications market grew by 9.8% year-on-year to KZT800.1 billion. It is maturing and now has three dominant operators, which effectively have a combined share of more than 78%. While each is a leader in different segments, Kcell remains the number one mobile operator overall, with a 21% share of overall revenues and top positions in the key smartphone and B2B segments.

The market has certain structural features in common with those of other Central Asian countries. In terms of geographic size, Kazakhstan is roughly equal to Western Europe. Coupled with a thin population density in rural areas, where nearly half the population lives, this makes it relatively costly to achieve nationwide coverage. Historically, the same factors have also led to relatively low fixed-line penetration.

At the same time, the market is far more advanced than its regional peers, primarily due to a combination of liberalisation and targeted state investment: the rollout of 4G in recent years was market-driven and outpaced that in neighbouring countries. As detailed below, Kazakhstan is also poised to be a leader in 5G deployment, which appears to be a government priority.

A key growth driver in the market is rising mobile data traffic. As expected, in 2019, fixed-line subscriber numbers and revenues, including from local and long-distance calling, continued to fall. According to the Ministry of National Economy, in the first 11 months of 2019, revenues from local calling had dropped by 5% and from international calling by 16% year-on-year, while those from internet services climbed by 17%.

On 1 January 2019, a law requiring all subscribers to link the IMEI-code to their SIM-card and their individual identification code (IIC) came into effect. While the new regulation caused some short-term disruption for operators, as some subscribers had not registered in time, it had the side-effect of rationalising the total number of SIM-cards on the market. As of 31 December 2019, total market penetration stood at 139%. Most analysts believe that the era of consumers using multiple SIM-cards is slowly coming to an end, partly because operators are shifting from competing fiercely on prices to focusing on services as smartphone penetration rises and 5G technology beckons in the next few years.

The Kazakh government has supported the development of the telecommunications sector through the Digital Kazakhstan programme. This ambitious, long-term project aims to develop e-government services and bring digital technology and services to healthcare, education and transportation, as well as support key industries like mining, which often operate in remote areas far from network infrastructure. For 2018-19, the Prime Minister's office estimated the programme's economic effect at around KZT600 million.

5G revolution

According to the International Telecommunications Union, between 2020 and 2030, mobile broadband traffic will increase by 10 to 100 times. The fifth generation of mobile technologies has the speed and capacity to handle this explosion in traffic and connect not only people, but transportation, smart infrastructure, household devices and much more with maximum reliability.

In late 2019, Kazakhstan's Minister of Digital Technologies announced that 5G networks will be deployed over the next three years in large cities like Nur-Sultan, Almaty and Shymkent. Given the technology and experience of its early adopters, such as South Korea, over this period, the network is likely to be developed locally and within large institutions, such as universities, shopping centres, airports, train stations and similar locations. Analysts expect the roll-out to regional cities to begin in 2023.

Leading the 5G roll-out is Kazakhtelecom, which reported successful tests on the 3.5 GHZ and 28 GHZ frequencies in Nur-Sultan and Almaty in early 2019. Already by the end of October, the Company had deployed a commercial 5G network under the Alcatel brand. Around the same time, a private operator launched another network in Shymkent.

5G is crucial to both government policy and the ambitions of commercial operators. Several factors remain outstanding, including the assignment of frequencies, as well as the need to update regulations to create a framework covering 5G's requirements and possibilities. Operators will have to prepare B2C and B2B customers to take full advantage of these. Nonetheless, Kazakhstan appears to be facing these issues head-on and could be a pioneer in the region for this transformational technology. The year 2020 will be a defining one for the Kazakh telecommunications market.

Delivering the best results in five years

Following the merger with Kazakhtelecom in 2018, Kcell demonstrated renewed strength in 2019. Revenues rose by 4.6% compared with the previous reporting period, marking the first improvement in the Company's key financial indicators in five years.

KZT millions, except key ratios, per share data and changes	2019	2018	Change (%)
Revenues	156,657	149,701	4.6
of which service revenues	137,564	131,269	4.8
EBITDA, excl. non-recurring items	63,533	50,943	24.7
Margin (%)	40.6	34.0	
Operating income	22,814	21,237	7.4
Operating income, excl. non-recurring items	33,393	24,493	36.3
Net income	10,117	8,531	18.6
Earnings per share (KZT)	50.6	42.7	18.6
CAPEX-to-sales (%)	12.9	12.9	
Free cash flow	16,443	8,320	97.6

Breakdown of revenues

KZT millions, except shares	2019	% of total	2018	% of total
Voice and other services	78,689	50.2	77,515	51.8
Data services	51,430	32.8	45,800	30.6
Value-added services	7,447	4.8	7,954	5.3
Handset sales	19,091	12.2	18,432	12.3
Total revenues	156,657	100.0	149,701	100.0

Revenues

Net sales

Revenues rose by 4.6% to KZT156,657 million (2018: KZT149,701 million). Service revenues increased by 4.8% to KZT137,564 million (2018: KZT131,269 million).

Voice and other services

Revenues from voice and other services climbed by 1.5% to KZT78,689 million (2018: KZT77,515 million). Enterprise revenues rose by 16.2% to KZT18,616 million (2018: KZT16,021 million).

Data service revenues

Data revenues increased by 12.3% to KZT51,430 million (2018: KZT45,800 million).

Value-added service revenues

Revenues from value-added services decreased by 6.4% to KZT7,447 million (2018: 7,954 million).

Handset sales

Handset sales increased by 3.6% to KZT19,091 million (2018: 18,432 million).

Expenses

Cost of sales

Cost of sales remained largely unchanged year-on-year at KZT109,195 million (2018: KZT109,433 million).

Selling and marketing expenses

Selling and marketing expenses fell by 5.3% to KZT2,887 million (2018: KZT3,050 million).

General and administrative expenses

General and administrative expenses decreased by 36.6% to KZT8,925 million (2018: KZT14,075 million). This was mainly due to lower tax expenses, as comparative data for 2018 included an additional tax reserve of KZT4.0 billion.

Earnings, financial position and cash flow

EBITDA

EBITDA, excluding non-recurring items, rose by 24.7% to KZT63,533 million (2018: KZT50,943 million). The EBITDA margin was 40.6% (2018: 34.0%).

Net finance cost

Net finance cost increased by 12.8% to KZT10,085 million (2018: KZT8,941 million).

Income tax expense

Income tax expense amounted to KZT2,753 million (2018: KZT3,732 million). This decrease reflects the recognition of a deferred tax asset on the tax loss carried forward following the accrual of a fine for the termination of the Network Sharing Agreement with KaR-Tel.

Net income

Net income totalled KZT10,117 million (2018: KZT8,531 million), while earnings per share equalled KZT50.6 (2018: KZT42.7).

CAPEX

CAPEX amounted to KZT20,200 million (2018: KZT19,240 million) and the CAPEX-to-sales ratio stood at 12.9% (2018: 12.9%).

Free cash flow

Free cash flow increased to KZT16,443 million (2018: KZT8,320 million).

Key financial ratios

	31 December 2019	31 December 2018
Return on equity (%, rolling 12 months)	14.1	12.5
Return on capital employed (%, rolling 12 months)	15.1	24.7
Equity assets ratio (%)	37.4	41.6
Net debt/equity ratio (%)	74.2	89.2
Net debt/EBITDA ratio (multiple, rolling 12 months)	0.84	1.2
Owners' equity per share (KZT)	357.9	340.4

Key Performance Indicators

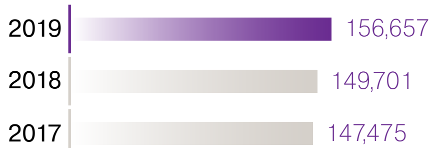
Showing strength and leadership

Kcell delivered on a solid set of key performance indicators in 2019, underscoring the fundamental strength of the business and its leadership of Kazakhstan's telecommunications market.

FINANCIAL INDICATORS

Revenues
(KZT million)

156,657



Overall revenues rose by 4.6% in 2019, the best improvement in the top line in five years, mainly due to an increase in service revenues.

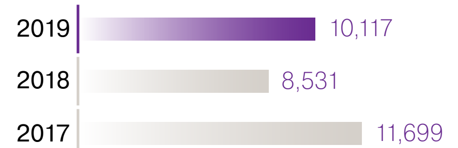
EBITDA, excluding non-recurring items
(KZT million)

63,533

Driven by the rise in revenues and cost control, EBITDA excluding non-recurring items jumped by 24.7% in the reporting period, driving the corresponding margin to 40.6%.

Net income
(KZT million)

10,117



The abovementioned measures were also reflected in net income, which climbed by 18.6% in 2019.

B2B revenues
(KZT million)

18,616

One key growth area remains B2B revenues, which increased by 16.2% in the reporting period.

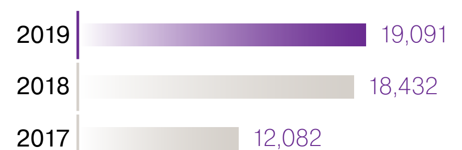
Data revenues
(KZT million)

51,430

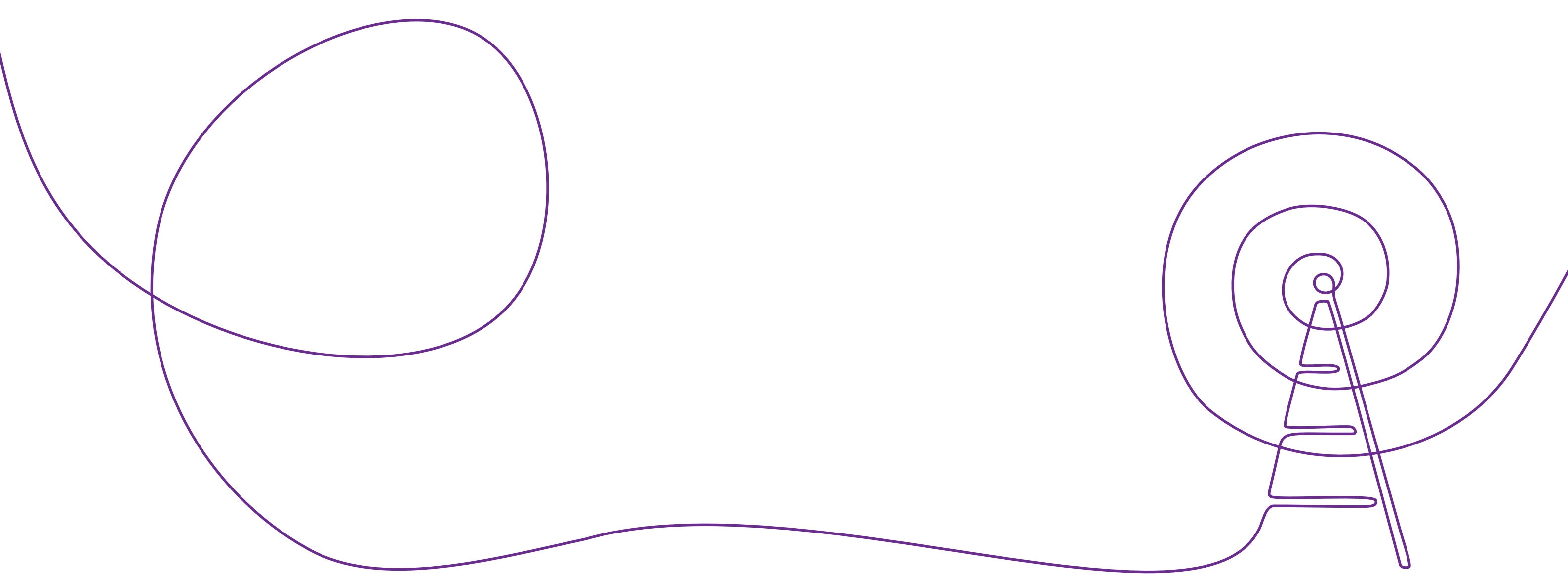
In 2019, amid the ongoing migration away from traditional voice services, data revenues rose by 12.3%.

Handset sales
(KZT million)

19,091



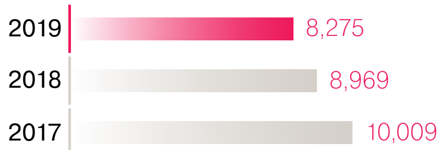
Handset sales continued their growth in the reporting period, climbing by 3.6%, supported by the launch of Kcell's online store.



OPERATIONAL INDICATORS

Total subscribers
('000)

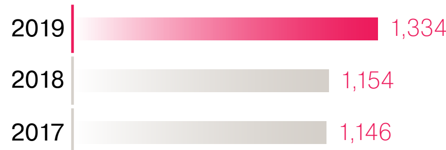
8,275



Over 2019, the overall subscriber number decreased by 7.7%, as the Company moved from quantity-driven distribution to value-driven acquisition.

Average revenues per user
(ARPU; KZT)

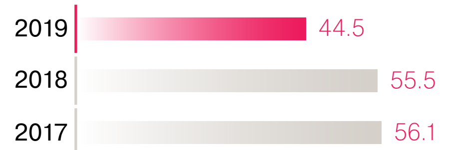
1,334



At the same time, the focus on greater value drove ARPU, which jumped by 15.5% in the reporting period.

Churn
(%)

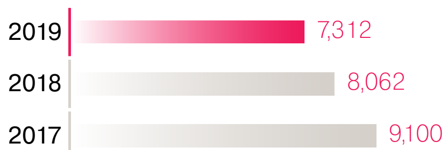
44.5



In 2019, churn fell considerably, by 11 percentage points, as Kcell implemented its 'From Volume to Value' subscriber acquisition strategy.

Prepaid subscribers
('000)

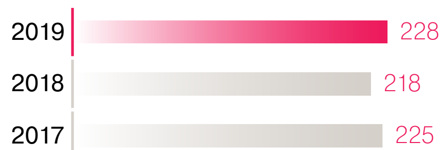
7,312



The number of prepaid subscribers dropped by 9.3% in the year, also due to the abovementioned subscriber acquisition strategy.

Minutes of usage
(MOU; units)

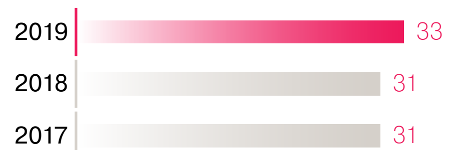
228



MOU remained largely unchanged in the reporting period, in keeping with the trend seen in recent years.

Share of data in revenues
(%)

33



Also reflecting the move away from voice services, the share of data in the top line climbed by 2 percentage points in 2019.

Striving to serve as a role model

Kcell strives to use its privileged position as a leading company in Kazakhstan to serve as a role model for sustainability and responsible business. The Company extends its sustainability efforts throughout the entire value chain to both strengthen its business and improve its communities.

The acquisition of 75% of Kcell by Kazakhtelecom, which adheres to the enhanced requirements of National Welfare Fund Samruk-Kazyna, provides a renewed impetus for the Company to be a leader in sustainability in Kazakhstan. Kcell takes a 'zero-tolerance' approach to corruption, including by providing a Speak-Up line for all stakeholders to report potential unethical business practices and misconduct. The Company's sustainability approach includes effective measures concerning responsible procurement, human rights, customer privacy, freedom of expression, environmental responsibility, occupational health and safety, and employees.

Approach

As one of Kazakhstan's leading companies and with Kazakhtelecom as the majority shareholder, Kcell has a high degree of visibility. We understand that this is a privileged position and are committed to being a role model for responsible business. We firmly believe that in steadfastly adhering to the highest standards of ethical conduct in every interaction, we are setting the best example for all stakeholders: investors, customers, employees, partners, suppliers, public organisations and society in general. In doing so, we seek to contribute to and promote an enduring culture of responsible business.

The Company's approach to sustainability covers the entirety of how it ensures accountability for its long-term effect on society and the environment. Our responsibility encompasses the length and breadth of the value chain. We believe that this approach strengthens both our business and our local communities, creating long-term shared value for society and shareholders. Sustainability is a core aspect of our business model, strategy and philosophy: through it, we mitigate negative impact and create a positive effect on society.

Areas of focus

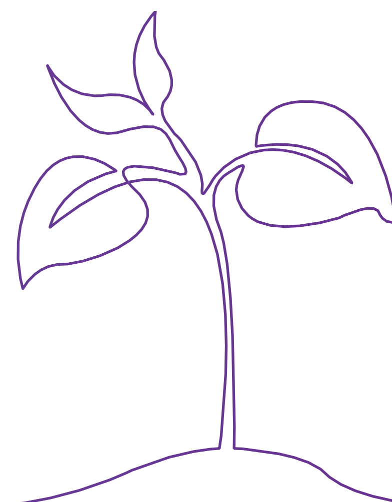
Kcell's sustainability approach covers:

- Anti-bribery and corruption
- Speak-Up line and disciplinary action
- Responsible procurement
- Human rights
- Customer privacy
- Environmental responsibility
- Occupational health and safety
- Employees

These areas are governed by an ethics and compliance framework, the purpose of which is to ensure that Kcell has a systematic approach for implementation, monitoring and compliance.

Anti-bribery and corruption

As part of Kcell's overriding 'zero-tolerance' approach to corruption, it is committed to implementing effective measures to prevent, monitor and eliminate questionable business practices in any form. To this end, our efforts to root out corruption from every aspect of our activities are ongoing.



The Company emphasises the development of its face-to-face antibribery and corruption (ABC) and third-party due care training programmes.

The ABC training is mandatory for all new recruits. During the reporting period, 233 new hires attended the ABC training, which is conducted on a bi-weekly basis to ensure that all new employees are familiar with Kcell's ABC principles and regulating documents.

Speak-Up line and disciplinary action

In addition to Kcell's anti-bribery and corruption instruction, the Company provides mandatory compliance training regarding its Speak-Up line, a secure channel that allows all stakeholders to report potential unethical business practices or misconduct. The portal is available on the intranet for employees and on an external website for third parties in the form of a user-friendly online messaging system.

Kcell promotes the Speak-Up line via a high-visibility employee communications campaign in our offices to ensure maximum awareness. In addition, Kcell provides a separate internal reporting line for managers wishing to raise concerns about conduct.

In 2019, whistleblowers submitted a total of nine reports via the Speak-Up line or Speak-Up email from or about Kcell. The types of issues raised in the reports are leadership, policy violations, conflict of interest and complaints about service quality.

The Company believes that the whistleblower hotline provides an important feedback channel on critical issues and views their reports as a positive indicator of employee and management engagement. Ensuring that stakeholders can confidently use the Speak-Up line without fear of retaliation helps to support our approach to ethics and compliance.

Responsible procurement

Kcell now has a centralised procurement system with Kazakhtelecom that allows it to fulfil due diligence checks locally on all suppliers.

Human rights

Since 2016, Kcell has been using the results of an independent human rights impact assessment, which was the UN Guiding Principles on Business and Human Rights, to improve the measures that it undertakes to respect human rights and labour rights.

Customer privacy

Kcell remains committed to respecting and safeguarding its customers' privacy. Our aim is to integrate privacy as a natural part of our services, processes, infrastructure and daily activities. We strive to operate highly secure communication networks and take action to prevent unauthorised access to customers' personal data.

The Company's work in this area is guided by the Kcell privacy policy, which sets a consistent standard with regard to respecting customer privacy. Among other matters, the policy defines principles regarding the collection, processing and retention of personal data, transparency, data accuracy, risk assessments, supplier requirements, and technical and organisational measures to protect integrity and confidentiality.

Sustainability continued

Environmental responsibility

Kcell cares about the environment in which it exists and operates. We contribute to local and global environmental sustainability by developing, promoting and utilising resource-efficient and environmentally friendly services, as well as by seeking to reduce our environmental footprint. We constantly look for opportunities to maximise the use of best practices and synergies between our businesses.

The Company's environmental policy follows a structured approach to managing key environmental impacts.

Occupational health and safety

For Kcell, the health and safety of employees is of paramount importance. We implement all measures in this area in accordance with the Labour Code of Kazakhstan and other corresponding regulations.

The Company has a policy and an instruction on occupational health and safety, which define its commitments aimed at safeguarding employees in the workplace. These include: providing safety training and protective clothing and equipment; guaranteeing optimal labour conditions; standardising sanitary labour conditions; making health care services available; and monitoring compliance with occupational safety and health standards.

Kcell's international OHSAS 18001 certification is confirmed annually through an independent audit conducted by the British Standard Institution. In addition, based on risk assessments, the Company has developed and implemented safety guidelines covering offices, transport, warehouses and field maintenance. Twice a year, Kcell conducts a review of OHS risks and implements any necessary corrective actions.

Employees

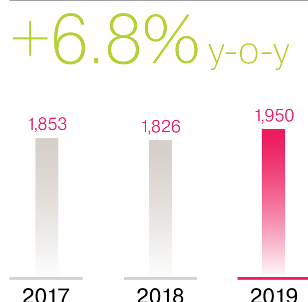
As a people-centric organisation, Kcell believes that its employees are the lifeblood of its business. As such, we aim to hire, develop and retain talented people and to be an employer of choice in Kazakhstan.

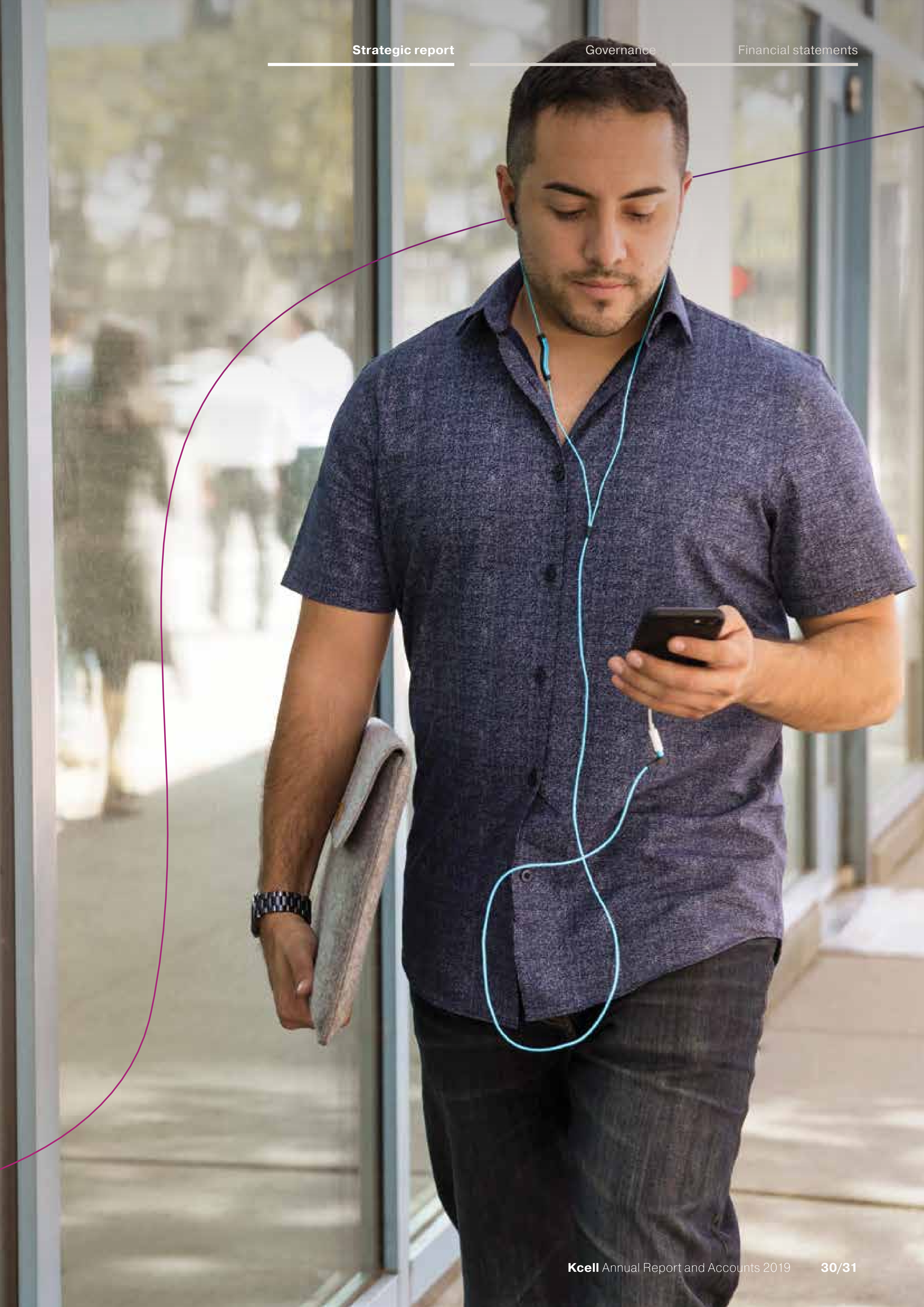
In an effort to create a positive and motivating work environment, as well as to improve the quality of life of employees and their family members, the Company provides numerous benefits over and above those required by law in Kazakhstan.

As of 31 December 2019, Kcell had 1,950 employees, up 6.8% year-on-year. We support equality and diversity in the workforce. At the year-end, the Company employed 842 male and 1,108 female staff representing more than 30 nationalities.

Employees

+6.8% y-o-y





Pursuing the highest principles

The responsibilities entailed in Kcell's privileged position as a leading company in Kazakhstan drive it to pursue the highest principles of corporate social responsibility, a commitment that we strive to demonstrate consistently throughout our sustainability efforts.

Kcell's commitment to corporate social responsibility (CSR) runs more than skin deep: it forms the core of our corporate values and informs all aspects of our sustainability efforts. More than a decade ago, the Company was the first telecommunications operator in Kazakhstan to sign the United Nations Global Compact, which seeks to create a sustainable and inclusive global economy by encouraging businesses to follow key principles regarding human rights, labour, environment and anti-corruption.

Since its inception, Kcell has played an active role in numerous initiatives aimed at improving the lives of people wherever possible. The Company focuses its efforts on three key areas that it believes help to maximise the benefits of its efforts and ensure the effectiveness of its approach: education, sport and healthy lifestyles, and society.

When evaluating potential projects, Kcell seeks to engage with established partners committed to making a difference over the long term and for as many individuals as possible. The Company places a special emphasis on strengthening communities by contributing to sustainable development, helping those less fortunate and creating equal opportunities for self-improvement, as well as on driving progress through innovation, integrity and inspiration.

In 2019, Kcell supported numerous projects, many of which it has been involved with for years and have become valuable partners.

Education

As education is one of the main drivers of personal, social and national development, Kcell strives to promote various initiatives aimed at making learning accessible. The Company seeks to provide support to both individuals dedicated to self-improvement through education and organisations established to help them.

Situational Kazakh

In 2019, the Situational Kazakh mobile application was updated with Kcell's support to include a dictionary containing more than 4,000 catch phrases, expressions and idioms in the Kazakh language and their equivalents in Russian. This is an official electronic version of the third volume of the eponymous book written by Kanat Tassibekov. Supporting the development of the Situational Kazakh mobile application is part of the Company's education-oriented CSR strategy.

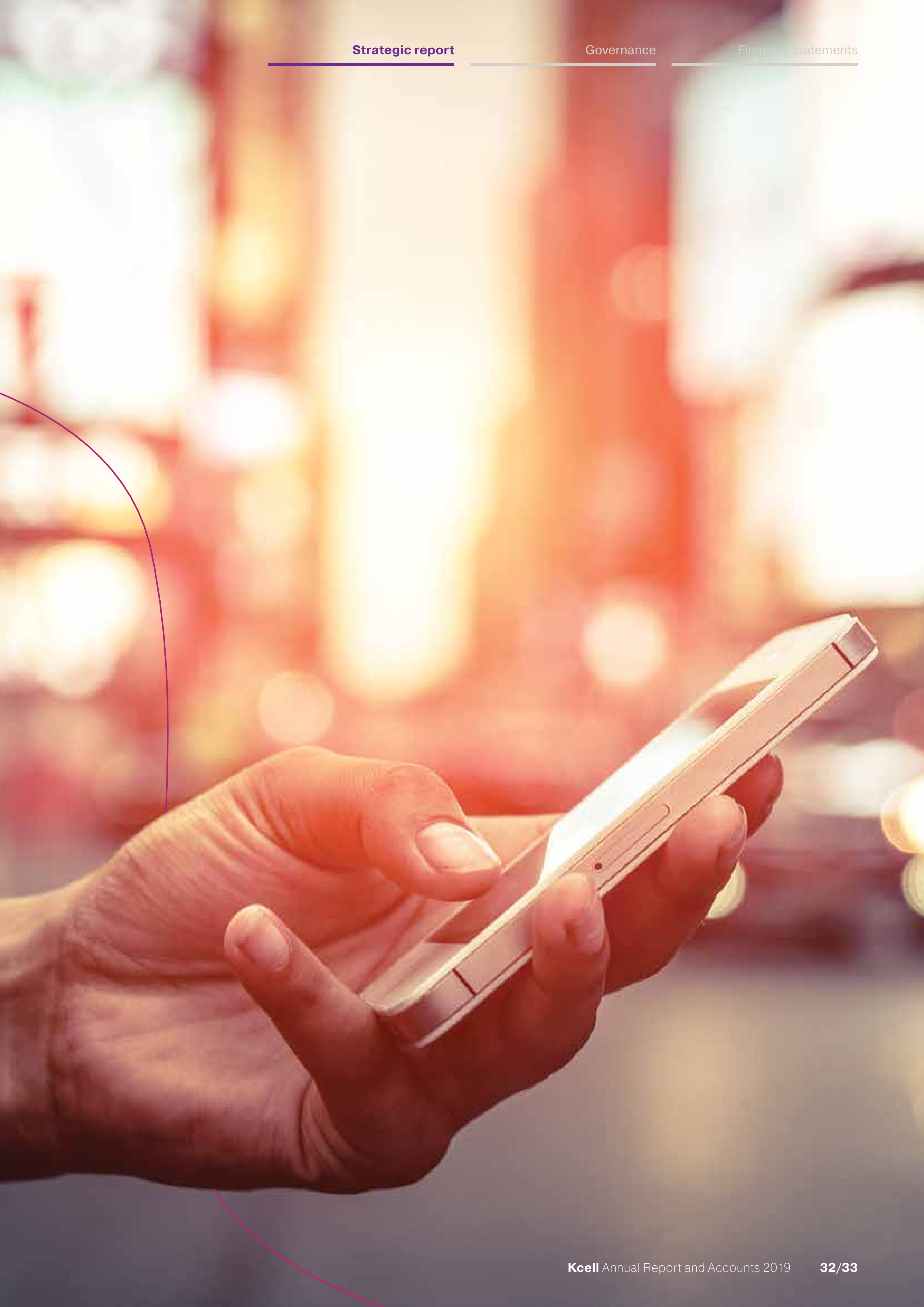
The application is supported on smartphones using both the iOS and Android mobile platforms, has a user-friendly interface and, most importantly, can be installed on the devices that people have with them all the time. Situational Kazakh provides important details of the correct situational and contextual application of idioms, set expressions and word forms in Kazakh, as well as the new dictionary function. The application's text content is enriched with illustrations and audio.

Digital Life

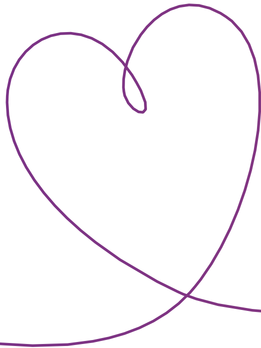
For several years now, Kcell has been a proud supporter of Digital Life, a government educational programme. It aims to increase awareness in Kazakhstan of the many ways that smartphones and mobile applications can improve daily life. Since 2015, people from cities nationwide have attended master classes held under the programme on such wide-ranging topics as mobile media, mobile security, mobile education, mobile government and mobile business. Participants include schoolchildren and their parents, students, representatives of small and medium-sized businesses, journalists and bloggers.

Grannies and smartphones

The widely popular 'Grannies and smartphones' course, an outgrowth of the Digital Life programme, continued on its fourth year in 2019. To date, many people over the age of 50 from cities in Kazakhstan have learned how to overcome 'digital barriers' through the project so that they can enjoy all the benefits of modern mobile technology. They have learned how to use smartphones and tablets for the first time, including installing and using mobile applications, instant messaging and social media.



Corporate Social Responsibility continued



Sport and healthy lifestyles

Like education, sport is central to the development of individuals, communities and nations. It stimulates health, energy and spirit, and encourages teamwork and friendly competition. Kcell provides financial, technological and other assistance to numerous sporting endeavours at the local, national and international level. In 2019, the Company's initiatives in this area included its use of short charity numbers and several other events promoting sport and a healthy lifestyle.

Short charity numbers

Kcell also puts its technology to good use as part of its charitable fundraising and awareness initiatives to promote a healthy lifestyle. This can be seen in the Company's use of short charity numbers as ways to help improve the outreach and fundraising for its own charitable efforts, as well as those of its customers and partners. In 2019, Kcell helped to support the following charitable campaigns using short numbers:

- Number 6486 – the 'We Will Overcome Autism' campaign aims to raise the awareness of autism among Kazakhstan's society and to help children with this diagnosis.
- Number 9099 – the 'Make a Gift of Life' campaign's purpose is to collect money for children's medical treatment that is not available in Kazakhstan.
- Number 9962 – the 'Breathe Life' campaign seeks to provide medical equipment for rehabilitation rooms in paediatric hospitals to decrease fatality rates among children.
- Number 9191 – the 'Helping Hand' campaign collects money for Shugyla Foundation's social projects, which are targeted at low-income families.
- Number 9777 – the 'Humanitarian Help' campaign, in cooperation with Red Crescent International, is a fundraising project for humanitarian activities at different emergency sites that provides food and basic necessities.
- Number 3838 – the 'SOS Children's Villages' campaign provides support for children who have been orphaned or left without parental care.

Almaty Marathon

In April 2019, Kcell became the communications partner for the eighth annual Almaty Marathon, which saw 17,000 runners come together from 17 regions in Kazakhstan and 53 countries. In addition to ensuring voice and data connectivity during the event, the Company provided communications and mobile internet to the organising committee. Kcell is especially proud that around 100 of its employees ran in the marathon.

Tour of Almaty

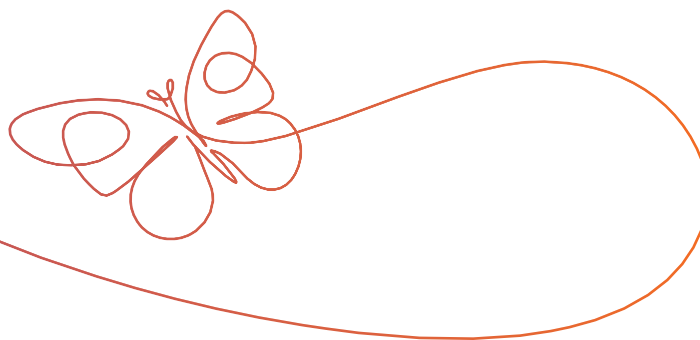
During the Tour of Almaty bicycle race, Kcell helped to ensure high-quality 4G+ data transmission for the wireless broadcast of the event. As part of these efforts, the Company upgraded several base stations in the Industrial Park area and installed a new mobile station there. Another station was built on a mountain trail, where the final stage of the race took place.

FourE eco-ethnofestival

In August 2019, Kcell provided mobile communications for the annual FourE open-air festival, which is held near Almaty and was attended by some 10,000 guests. The 'four E' philosophy on which the festival is based includes: ethnical diversity of community; environmental friendliness; evolution of consciousness; and emotions. This was the second consecutive year that the Company has provided quality mobile communication and mobile internet at the FourE festival.

Charity fair

In May 2019, Kcell organised a charity fair as a way for its employees to thank World War II veterans for their sacrifices. This year, employees of the corporate office had the opportunity to purchase souvenirs as a fundraiser to provide material assistance to 15 local veterans.



Society

Kcell recognises that its role as Kazakhstan's leading telecommunications provider places it at the heart of daily life and the Company strives to use this position to support social development wherever possible. Some of the key aspects of this approach in 2019 included assisting the emergency response to the Arys tragedy and helping to improve daily life via the Digital Kazakhstan e-government initiative.

Emergency response

In the most difficult of times, the ability to communicate is more than just a convenience: it is a basic human right. In response to the tragedy in the town of Arys, beginning on 25 June 2019, Kcell began to provide communications services to local residents free of charge.

With the help of a mobile communication station, as well as providing the emergency response headquarters with high-speed 4G internet and voice communications, the Company helped to ensure that all issues related to assisting victims and coordinating the work of the emergency responders could be quickly resolved.

In addition, Kcell's employees collected humanitarian aid for those affected by the tragedy.

Digital Kazakhstan

A major part of Kcell's CSR efforts is its active participation in the Digital Kazakhstan programme, an initiative that seeks to improve ease-of-use and reduce service costs for both citizens and the government by digitalising government services.

Digital government subscription services

An important pair of initiatives helps to move the government from a CAPEX model of owning and developing services that limits the scope of programmes to an OPEX model where Kcell provides a more cost-effective subscription service that allows for broader implementation:

- Digital traffic police tablets help to simplify the process of issuing traffic fines, including accepting payment on the spot using payment cards, which also improves transparency and accountability.
- Digital ambulance service tablets help with dispatching, navigation to incident addresses, accessing patient medical information and health records, and following patient care checklists, which ensures a high standard of service and helps to save lives.

Improved traffic camera efficiency

Another initiative is helping to digitalise the process of issuing violations and receiving payment of fines from traffic cameras by matching government vehicle registration databases with Kcell customer information. Instead of mailing notices of fines, the Company's solution enables the government to send notifications via SMS messages. In recognition of the cost-effectiveness of the solution, the government offers digital payment discounts to reduce the amount of the fine.

Mobile government workplace

Kcell is working on a project with National Information Technologies (NIT), the operator of Kazakhstan's e-Government information and communication infrastructure, which provides government employees with tablets to offer secure connectivity for a mobile workplace.

Big data for tourism

The Company is helping the government to use big data to help tourists by analysing where they are coming from, what destinations they are visiting in Kazakhstan, and optimising public transport routes, etc.

Governance

Governance

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Board of Directors

Alexey Buyanov
Chairman

Alexey Buyanov has been the Chairman of the Board of Directors and an independent, non-executive director at Kcell since 25 January 2019.

Mr Buyanov is also an independent director at Kazakhtelecom and a director at Bengala Investments. From 2002 to 2014, he was senior vice president, chief financial officer and member of the management board at Sistema Group, an equity fund that is publicly traded on the London Stock Exchange. From 2014 to 2016, he served as managing director and head of the investment committee at Redline Capital Management.

Mr Buyanov holds degrees from the Department of Applied Physics and Mathematics at Moscow Institute of Physics and Technology (Russia) and has completed the Oxford Fintech Programme at Said Business School, University of Oxford (UK).

Rashit Makhat
Chairman of the Personnel and Remuneration Committee
Chairman of the Strategic Planning Committee

Rashit Makhat has been an independent, non-executive director at Kcell since 25 January 2019.

Mr Makhat is also the owner of PRIMA Investment Company, as well as an independent director and member of the board of directors at the Kazakhaltyn metals and mining company. From 2013 to 2016, he was a member of the board of directors and independent director at Tartyp. In 2014-15, he served as a member of the board of directors and independent director at Kazakhstan Engineering. In 2016-17, he was a member of the board of directors and independent director at Kazkommertsbank.

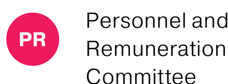
Mr Makhat holds a degree in Economics from Kokshetau State University (Kazakhstan) and is a graduate of the Department of International Economic Relations at Moscow State University of International Relations (Russia).

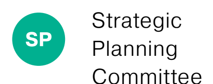
Dinara Inkarbekova
Chairwoman of the Internal Audit Committee

Dinara Inkarbekova has been an independent, non-executive director at Kcell since 25 January 2019.

Ms Inkarbekova is also general manager at Sigma Advisors. From 2010 to 2014, she was general manager at AKSAI – BMC. In 2015-16, she was a senior adviser at Deloitte TCF. In 2016-17, she served as chief financial officer at Estate Management Company.

Ms Inkarbekova holds a bachelor's in Jurisprudence from Turan University (Kazakhstan), a bachelor's in Finance from Narxoz University (Kazakhstan) and an MBA in Economics and Strategic Research from Kazakhstan Institute of Management (Kazakhstan).





Kuanyshbek Yessekeyev
Representative of Kazakhtelecom

Kuanyshbek Yessekeyev has been a member of the Board of Directors at Kcell since 25 January 2019.

Since 2010, Mr Yessekeyev has been chairman of the board and a member of the board of directors at Kazakhtelecom.

Mr Yessekeyev holds a degree in Mathematical Science from the Department of Applied Mathematics at Kazakh State University named after Al-Farabi (Kazakhstan), a specialisation in Management from Kazakh State Academy of Management (Kazakhstan), and an executive MBA from Hult International Business School (UK).

Vladimir Popov
Chairman of the Sustainability Committee

Vladimir Popov has been an independent, non-executive director at Kcell since 25 January 2019.

Mr Popov is also a managing partner at PRO VIDENS. In addition, he is working under a service contract as an independent legal adviser on privatisation and M&A projects for Kazakhtelecom. From 2010 to 2016, he was chief legal officer at international private investment fund AMUN Capital Advisors KZ.

Mr Popov holds a degree in Jurisprudence from Kazakh State Law University (Kazakhstan).

Timur Turlov
Representative of Freedom Finance

Timur Turlov has been a member of the Board of Directors at Kcell since 25 January 2019.

Mr Turlov is also general director at IC Freedom Finance, adviser to the chairman of the board at Freedom Finance, director at FFI Brokerage Service, independent director of the board of directors at FFINEU Investments, chairman of the supervisory board at FFIN Bank, chairman of the board of directors at Freedom Finance, chairman of the board of directors at Freedom Finance Life and chairman of the board of directors at Freedom Finance Insurance.

Mr Turlov graduated from Russian State Technological University (named after Tsiolkovsky) in 2009 with a bachelor's in economics and management.

Management Board

Name	**Kaspars Kukelis** **Chairman,** **Chief Executive Officer**	**Askar Yesserkegenov** **Member,** **Chief Technical Officer**
Date of appointment	Kaspars Kukelis was appointed as Chief Executive Officer at Kcell on 29 January 2019 and has been Chairman of the Management Board since 19 June 2019.	Askar Yesserkegenov was appointed as Chief Technical Officer at Kcell on 7 March 2019 and has been a Member of the Management Board since 19 June 2019.
Previous experience	Before that, from June 2017, Mr Kukelis was chief director of B2C and a member of the management board at Kazakhtelecom, having joined the board in February 2017. He was also an independent member of the board of directors at Altel from September 2015 to March 2016. He worked at Kcell as chief commercial officer from September 2013 to February 2014, and was director of marketing from September 2009 to August 2013. His earlier experience spans 10 years in telecommunications and media in Kazakhstan.	Before joining the Company, Mr Yesserkegenov worked for 16 years at Kazakhtelecom in numerous roles, including managing director from September 2013 and chief commercial officer from September 2007. Prior to that, he spent two years at other telecommunications companies in Kazakhstan, as well as over five years at Kazakhtelecom, which he first joined in 1996.
Education	Mr Kukelis obtained an undergraduate degree in Economics from Almaty Technological University (Kazakhstan) in 1994 and an executive MBA from Harvard Business School (US) in 2004. He has served as the honorary consul of Latvia in Kazakhstan since August 2010.	Mr Yesserkegenov graduated with a Bachelor's degree in Radio Engineering from Moscow Electrotechnical University of Communications (Russia) in 1988 and with an MBA from the International Business Academy (Russia) in 2005.

Hikmatulla Nasritdinhodjaev
Member,
Chief Commercial Officer

Hikmatulla Nasritdinhodjaev was appointed as Chief Commercial Officer at Kcell in April 2019 and has been a Member of the Management Board since 18 November 2019.

Before that, Mr Nasritdinhodjaev was chief commercial officer at Uzbektelecom from March 2018; head of B2C at Kcell from August 2013 to September 2015; and director of marketing at Ucell from October 2012 to August 2013. He first joined Kcell in 2008 and held numerous positions, including head and manager of consumer marketing. He previously worked at Nestle and Grey Worldwide.

Mr Nasritdinhodjaev graduated with a Bachelor's in International Business from the University of World Economy and Diplomacy (Uzbekistan) in 2000, and a Master's in Economics from Tashkent State Economic University (Uzbekistan) in 2002. He also completed an executive education programme at London Business School (UK) in 2011.

Sergei Yeltsov
Member,
Chief Legal Officer

Sergei Yeltsov was appointed as Chief Legal Officer at Kcell on 7 March 2019 and has been a Member of the Management Board since 19 June 2019.

Before joining the Company, Mr Yeltsov was a non-executive member of the board of directors at Kazakhaltyn from 2017 to 2019, and a managing director and member of the management board at Kazkommertsbank from May 2016 to June 2017. He also worked at Kemont, as corporate development director and administrative director, from January 2015 to May 2016, and as managing director at Green Apple from September 2013 to January 2015. Prior to that, he held numerous executive and advisory positions in the banking, metals and mining and telecommunications sectors.

Mr Yeltsov obtained a Bachelor's in International Law from Kazakh Institute of Law and International Relations (Kazakhstan) in 1997, and a Master's in Banking and Finance from Almaty Academy of Economics and Statistics (Kazakhstan) in 2005. He also completed an executive education programme at in 2007.

Committed to international best practice

Under the guidance of the new shareholder, Kazakhtelecom, Kcell remains steadfastly committed to international best practice in corporate governance. In January 2020, an EGM approved an updated Corporate Governance Code, after the Board of Directors recommended it, the Code of Ethics and Conduct and other key policies for approval at the end of 2019.

Kcell's governance standards are informed by the requirements of its new controlling shareholder, Kazakhtelecom, which adheres to the enhanced standards of National Welfare Fund Samruk-Kazyna, as well as by its commitment to international best practice in corporate governance. In 2019, the Company conducted a wide-ranging governance review, updating its Charter, Corporate Governance Code, Code of Ethics and Conduct, as well as various other key policies.

Kcell's Corporate Governance Code is based on National Welfare Fund Samruk-Kazyna's Corporate Governance Code and the UK Corporate Governance Code. It also complies with the regulations of the Kazakhstan Stock Exchange in relation to joint stock companies and securities.

The Company's approach to corporate governance is founded on the principles of fairness, honesty, responsibility, transparency, professionalism and expertise. Its system of corporate governance requires respect and protection for the rights and interests of all stakeholders; increases Kcell's efficiency and market value; and promotes financial stability and profitability.

National Welfare Fund Samruk-Kazyna's Corporate Governance Code

Kazakhstan's Model Code establishes corporate governance guidelines for The National Welfare Fund Samruk-Kazyna's Corporate Governance Code, which is based on international best practice in corporate governance.

UK Corporate Governance Code

In keeping with Kcell's GDR listing on the London Stock Exchange, the Company's goal is to comply with the UK Corporate Governance Code on a voluntary basis.

Corporate governance policies

In 2019, significant efforts were made to update Kcell's governance policies in support of its commitment to establishing a strong corporate governance framework consistent with the requirements of Kazakhtelecom, National Welfare Fund Samruk-Kazyna, local law and best international practice. In addition to the Company's Charter, the following governance policies were updated during the reporting period:

- Corporate Governance Code
- Code of Ethics and Conduct
- Anti-Corruption Policy

Kcell also has the following existing corporate policies in place:

- Financial Management Policy (second version)
- Insurance Policy
- Risk Management Policy
- Communication Policy
- Recruitment Policy
- Insider Information Policy
- Insider Trading Policy
- Security Policy (second version)
- Privacy Policy
- Freedom of Expression in Telecommunications Policy
- Occupational Health and Safety Policy
- Supplier Code of Conduct
- People Policy
- Environmental Policy
- Competition Policy
- Policy on Enterprise Risk Management
- Policy on Electromagnetic Fields

Corporate governance principles

Protecting the rights and interests of shareholders	Kcell's corporate governance practices protect and respect shareholders' rights and legitimate interests, and contribute to efficient operations, seeking to grow assets and maintain financial stability and profitability.
Effective management of the Company by the Board of Directors and the Management Board	The Board of Directors aims to increase the Company's market value and provide shareholders with a balanced and accurate assessment of progress and prospects. The Management Board manages the Company's daily operations in accordance with the established business plan and development strategy.
Transparency and objectivity in disclosure of information about operations	The Company aims to ensure maximum transparency through the timely and accurate disclosure of reliable information to shareholders and stakeholders, including its financial position, economic indicators, performance, ownership and management structure.
Ethics and compliance	Kcell operates in strict accordance with the law and generally accepted standards of business ethics, as well as its Charter, Corporate Governance Code, listing rules and contractual obligations.
Effective dividend policies	The Company pays dividends in accordance with the law, the Charter and the relevant resolutions of the General Meeting of Shareholders. Dividends on Kcell's ordinary shares (depositary receipts) may be paid on the basis of the annual, semi-annual and/or quarterly results after the audit of the financial statements for the relevant period. When payment of dividends is declared, such dividends shall be paid in the manner set forth by the law.
Effective personnel policies	The Company guarantees its employees' rights under the law and its Code of Ethics and Conduct. Kcell aims to develop partnership relations with staff to address social issues and regulate working conditions.
Sustainability	The Company recognises the importance of its influence on the economy, environment and society. As such, it is committed to ensure its sustainable development in the long term, while striving to balance the interests of stakeholders and increase its long-term value.
Management of corporate conflicts and conflict of interest	The members of the Board of Directors and the Management Board, as well as employees, perform their professional duties in good faith and on reasonable grounds, with due care and diligence, in the interests of Kcell and its shareholders, while avoiding conflicts. Should a conflict occur, Company officials promptly inform the Corporate Secretary.

Board of Directors

Kcell's Charter sets out the duties of the Board of Directors and Management Board. Under the Charter, the Board is responsible for the general management of Kcell's activities. Besides formulating strategies and approving plans for the Company's development, the Board is responsible for taking decisions on establishing Kcell branches and representative offices; on the Company acquiring or disposing of 10% or more of third-party shares; on concluding major transactions and transactions with related parties; on approving annual budgets; and on deciding other issues that belong to the exclusive competence of the Board of Directors according to the Company's Charter and the Joint-Stock Company Law of Kazakhstan.

Kcell's CEO and Members of the Management Board are a highly professional team of experts with experience spanning telecommunications, finance, marketing and information technology. The Company's Charter details the Management Board responsibilities in managing daily operations. These include all matters not within the exclusive authorities of the Board of Directors or the General Meeting (GM) of Shareholders. In addition, the Management Board is responsible for executing decisions taken by a GM and the Board of Directors.

Membership of the Board of Directors

Members of the Board of Directors are elected at the GM, where their terms of office are also decided. At the time of writing, all but one of the current directors were elected at an Extraordinary General Meeting (EGM) of Shareholders that was held on 25 January 2019. Four of the seven members of the Board were independent directors, including the Chairman. Of the remaining three directors, two were representatives of the controlling shareholder, Kazakhtelecom, and one was a representative of shareholder, Freedom Finance. The composition of the Board of Directors at that time is presented below:

- Alexey Buyanov (independent director)
- Rashit Makhat (independent director)
- Dinara Inkarbekova (independent director)
- Vladimir Popov (independent director)
- Kuanyshbek Yessekeyev (representative of shareholder Kazakhtelecom JSC)
- Yerulan Kussainov (representative of shareholder Kazakhtelecom JSC)
- Timur Turlov (representative of shareholder Freedom Finance JSC)

The biographies of the Board of Directors can be found on pages 38 and 39.

Notably, Mr Kussainov resigned from his position as a member of the Board of Directors at Kcell effective 19 July 2019. At an EGM held after the reporting period, on 15 January 2020, Jere Calmes was elected as an independent, non-executive director at Kcell. As such, the Board of Directors currently has five independent directors, including the Chairman, as well as one representative each of Kazakhtelecom and Freedom Finance.

As of 31 December 2019, only Timur Turlov held shares in Kcell.

Committees of the Board of Directors

In line with the legislation on joint-stock companies in Kazakhstan, Kcell has established the following committees to consider important issues and prepare recommendations for the Board of Directors: Strategic Planning Committee, Personnel and Remuneration Committee, Internal Audit Committee and Sustainability Committee.

The Board may create other committees at its discretion. The chairperson of each committee is an independent director. The law also requires that committees be drawn from members of the Board of Directors who have the necessary expertise to serve on the given committee. All committees are advisory bodies of the Board of Directors.

Committee name	Role	Committee chair and members
Strategic Planning Committee	Makes recommendations to the Board of Directors on strategic development. Four meetings were held in 2019.	Rashit Makhat (Chairman) Alexey Buyanov Kuanyshbek Yessekeyev Timur Turlov Jere Calmes
Personnel and Remuneration Committee	Makes recommendations to the Board of Directors on qualification requirements for employees, appointment and dismissal of certain employees, bonuses and salary for management bodies, and internal documents evaluating staff fitness, training and motivation of employees. Three meetings were held in 2019.	Rashit Makhat (Chairman) Alexey Buyanov Timur Turlov
Internal Audit Committee	Makes recommendations to the Board of Directors on financial statements, internal controls and risk management, and internal and external audits. Five meetings were held in 2019.	Dinara Inkarbekova (Chairwoman) Kuanyshbek Yessekeyev Timur Turlov Jere Calmes
Sustainability Committee	Makes recommendations to the Board of Directors on internal documents related to social accountability and sustainable development; improvement of the sustainability strategy; development and implementation of policies and procedures relating to environmental and social sustainability, including but not limited to, respecting human rights, environmental safety, social responsibility, and compliance with business ethics requirements in accordance with internal documents and applicable legislation. Two meetings were held in 2019.	Vladimir Popov (Chairman) Alexey Buyanov Jere Calmes

Board activities

Kcell uses specialist software that is designed to improve Board communications and effectiveness. This provides end-to-end security for its governance and workflow management. The Board of Directors held 14 meetings in total during 2019: 10 were conducted in person, three via conference calls and one meeting by voting in absentia. More than 90 decisions were adopted.

The Board's activities during 2019 included:

- Updates on business, commercial, operational and legal matters, and approvals arising from these
- Approval of major transactions
- Approval of the appointment and terms of employment of the members of the Management Board and executive bodies of Kcell subsidiaries
- Preliminary approval of the 2018 annual financial report and approval of quarterly financial reports
- Convocation of the 2019 AGM, including dividend proposals
- Approval of interested-party transactions
- Approval of the auditor's fee for audit services
- Approval of revisions to policies, including the updated Code of Ethics and Conduct
- and Anti-Corruption Policy
- Approval of changes to the terms and conditions of loan agreements

The Board's agenda for 2020 is as follows:

There are eight Board meetings scheduled for 2020. As well as regular items covering financial results, risks reviews and reports from the Management Board and Board committees. In addition, ad hoc meetings or conference calls will be held as and when required.

Accountability and viability

The Board of Directors is responsible for preparing the Annual Report and Accounts. They consider that the 2019 Annual Report and Accounts, taken as a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy. A description of the basis on which Kcell generates value over the longer term, its business model, and the strategy for delivering its objectives are explained in the Strategic Report on page 2.

The Board has assessed Kcell's prospects over the next year, being the period over which the key risks facing the Company can be accurately evaluated and mitigated. Based on this, the Board has a reasonable expectation that Kcell will be able to continue to operate and meet its liabilities as they fall due over that period.

The Board has carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. These risks and an explanation of how they are being managed or mitigated are described in the Risk Management section on page 46. The Board monitors Kcell's risk management and internal control systems, and has reviewed their effectiveness during the year. This review has covered all material controls, including financial, operational and compliance controls.

Internal Audit Committee

The Internal Audit Committee met five times during 2019. It considered significant issues in relation to financial statements and the findings of an internal audit.

An Internal Audit department was established in 2013, and the Committee monitors and reviews the effectiveness of its activities.

The Committee also has primary responsibility for making recommendations on the appointment, re-appointment and removal of the external auditor to the General Meeting of Shareholders. At the AGM on 29 May 2019, Ernst & Young LLP was approved as Kcell's new external auditor for 2019-21 to replace Deloitte, which had been the Company's auditor since 2014. To protect its independence, Kcell does not engage Ernst & Young LLP for any non-audit services for the Company; a similar practice was previously in place with Deloitte.

Remuneration of the Board of Directors

On 29 May 2019, a GM approved an updated policy on the remuneration and reimbursement of expenses of independent members of the Board of Directors for performing their duties (Remuneration Policy). According to it, the Company remunerates independent directors in two parts: fixed annual remuneration, and additional annual remuneration for chairmanship of the Board and its committees. The policy also provides for the reimbursement of expenses that Board members incur when performing their duties.

The GM held in 2019 established the following gross annual remuneration for independent directors: fixed annual remuneration of US$75,000; annual additional remuneration for chairing the Board of Directors of US$25,000; and annual additional remuneration for chairing a committee of the Board of Directors of US$15,000.

According to the payment terms, 50% of the fixed annual remuneration fee and additional annual remuneration for chairmanship of the Board and its committees is paid six months after a director takes office; and the remaining 50% is paid one year after an independent director takes office.

In 2019, the total remuneration paid to the Board of Directors was US$192,500 (gross).

Relations with shareholders

The Board of Directors is in regular dialogue with Kcell's major shareholders through the representatives from Kazakhtelecom and Freedom Finance.

Management Board

Kcell's Management Board is a collective executive body tasked with managing day-to-day operations and is structured in line with the requirements of National Welfare Fund Samruk-Kazyna. The Company understands the need for a leader in the person of the Chairman of the Management Board, a role that is performed by the CEO. In addition, the collective body of the Management Board supports the CEO in solving the complex problems that arise in the course of the management process.

The underlying principles that the Management Board follows are legality, honesty, good faith, reasonableness, regularity, professionalism and objectivity. It acts with the utmost respect for shareholders' interests and is fully accountable to the GM and Board of Directors.

Kcell's Management Board currently comprises four members:

- Kaspars Kukelis – Chairman of the Management Board, chief executive officer
- Askar Yesserkegenov – member of the Management Board, chief technical officer
- Sergey Yeltsov – member of the Management Board, chief legal officer
- Hikmatulla Nasritdinhodjaev – member of the Management Board, chief commercial officer

The biographies of the Management Board can be found on pages 40 and 41.

Safeguarding operations and ensuring business continuity

All organisations face elements of risk when conducting their activities. To address these, Kcell has established a robust risk management system that aims to identify and mitigate issues as early as possible, with a view to safeguarding its operations and ensuring business continuity. The Company is committed to reinforcing this through continuous improvement.

Responsibility

Kcell's Board of Directors has overall responsibility for the Company's risk profile, while the Internal Audit Committee is charged with ensuring that appropriate measures are in place. Studies have shown that where employees are empowered to take responsibility in the workplace, risks are more rapidly identified and mitigated. As such, Kcell seeks to promote a culture of risk awareness, management and accountability at all levels within the Company, incorporating bottom-up and top-down elements to achieve this.

In this way, risk management is fully integrated into the business planning and control processes, with established procedures, clear lines of reporting and regular reviews. On a day-to-day basis, these are delegated to each business area, departmental heads and dedicated risk co-ordinators with responsibility for:

- Identifying, assessing, managing and mitigating risks
- Making relevant and reasonable efforts to ensure business continuity
- Reporting risks in a timely and clear manner
- Recruiting staff to oversee effective risk evaluation, mitigation and reporting processes
- Maintaining and promoting overall risk awareness
- Ensuring that each department's risk management activities are adequately documented

Framework

Developed in line with the Committee of Sponsoring Organisations of the Treadway Commission's Enterprise Risk Management guidance, Kcell's risk management framework takes into account the increasing complexity of the evolving business environment and the greater need to identify and evaluate potential threats to ensure continuity. This also takes account of international best practice and recommended governance standards.

Process

The main principles of the risk management process are:

- Integrity – considering risk in its entirety
- Openness – making the process easily accessible and understandable
- Structuring – defining a clear structure
- Awareness – promoting objective, accurate and timely information
- Continuity – instigating an ongoing learning process
- Cyclicity – creating a constantly recurring cycle

Principal risks

Using the risk management framework to identify the principal threats to the business, Kcell is able to classify the level of exposure in any given area. This requires drawing on an in-depth knowledge of the Company as well as a thorough understanding of the market and the legal, social, political and cultural environment in which it

operates. It also involves simultaneously reviewing Kcell's strategic and operational objectives, including factors critical to its success like related threats and opportunities.

The Company has identified various principal risks and uncertainties that are key to its day-to-day operations: strategic, operational, financial, legal and natural disaster/catastrophe.

Strategic risk

Strategic risk is categorised as the potential for losses due to changes or errors in defining and implementing business strategy and development; changes in the political or regional environment; and fluctuations in the market or customer behaviour. This could include increased price competition caused by the activities of other mobile operators or new legislation. Most of these are considered high-risk, requiring the attention of management.

Kcell seeks to mitigate these risks by protecting its leadership in 'strong' regions and by offering competitive tariffs and products to increase its market share.

Operational risk

Operational risk is defined as the potential for losses due to defects or errors in internal processes, the supply chain, recruitment, culture and regulations. Most of these have a low risk rating and mitigating actions are already in place as part of the daily risk management procedures. The exceptions to this are information systems and technologies, which Kcell categorises as high risk.

Protecting customer privacy and data management are vital parts of the service that the Company offers. Any data breaches could impact on business in both the short and long term. Kcell's networks are supported by the latest information security systems with measures and processes in place to mitigate the threat of cyber-attacks.

Financial risk

The Company can be subject to financial volatility originating from various sources. The risk management framework seeks to minimise potential adverse effects on performance stemming from fluctuations in financial markets as well as other macro and microeconomic factors. Kcell does not use derivative financial instruments to hedge risk exposure.

It has detailed policies covering specific areas of financial risk, including credit, foreign exchange and interest rate risk.

Credit risk

The Company's Credit Risk Policy ensures that products and services are sold only to customers and distributors with appropriate credit histories. Where corporate customers have independent credit ratings, these are applied. Otherwise, a risk control assessment is undertaken of a potential customer's credit worthiness based on current financial position, credit history and other factors. Outstanding trade receivables and overdue balances are analysed and followed up by the management, and mobile services are disconnected if customers fail to settle their liabilities. With a highly diversified customer portfolio, which includes a large number of both individuals and companies, Kcell has no significant concentration of credit risk. While income could be affected by economic factors, the management sees no significant risk of loss.

Kcell has established relationships with several banks, which are considered to have minimal risk of default. Kazakhstan itself is identified as an emerging market and carries certain inherent risks that apply equally to the banks that hold the Company's cash, cash equivalents and term deposits.

The Company has a policy of investing only in financial instruments with high credit ratings, such as US Treasury bills.

Foreign exchange risk

The majority of Kcell's purchases of property, plant and equipment and inventories, as well as revenues from certain services like roaming, are denominated in US dollars. As such, most of the Company's foreign exchange risk relates to the movement of the tenge against the US dollar, although profits are less susceptible to this. Given the undeveloped market for financial instruments in Kazakhstan, Kcell does not use derivative financial instruments to hedge its foreign exchange risk. However, the Company has a policy of matching assets and liabilities denominated in foreign currencies where possible and practicable.

Interest rate risk

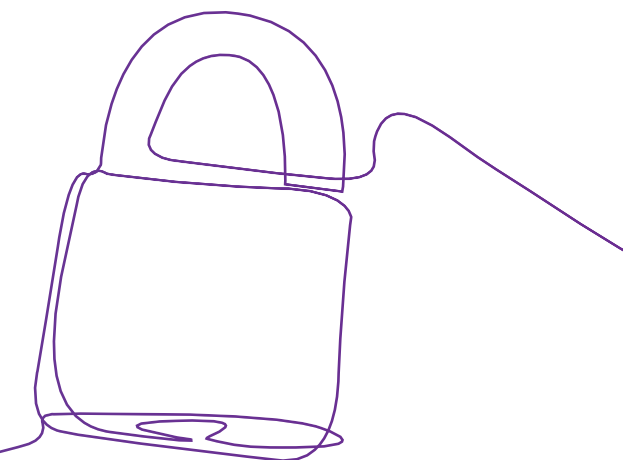
Overall, Kcell's income and operating cash flow are not dependent upon changes in market interest rates. As of 31 December 2019, the Company had no assets or liabilities with floating interest rates. However, the terms of the existing loan agreements give the banks the right to unilaterally revise interest rates in case of significant market fluctuations.

Legal risk

Legal risk is defined as the potential for uncertainty due to legal action or ambiguity in the application or interpretation of contracts, laws or regulations. Kcell's Legal Department ensures compliance with current legislation, monitors amendments to legislation and participates in relevant draft law debates whenever possible.

Natural disaster/catastrophe risk

Natural disasters or catastrophes are defined as natural phenomena or processes that provoke catastrophic situations and are characterised by a sudden reduction in the population, the destruction of infrastructure and property and/or death. Kcell has implemented measures aimed at minimising disasters such as fires, accidents and incidents arising from human neglect. These include fire drills, fire alarm systems, regular vehicle servicing, preventive measures against seasonal illnesses, medical insurance, annual medical examinations, diesel generators for use during power failures, deliveries of reserve water supplies to employees and other preventive work.



Independent Auditor's Report

As at 31 December 2019

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

Opinion

We have audited the consolidated financial statements of Kcell JSC and its subsidiaries (hereinafter, the Group), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
There is a significant risk of misstatement relating to the recognition and measurement of revenue from telecommunication services as the billing systems employed by the Group are complex. In addition, effect of accounting treatment of changing tariff structures and multi-element arrangements on revenue could be significant. The selection and application of revenue recognition policies, including the application of IFRS 15, involve a number of key judgements and estimates, and therefore revenue could be subject to misstatement, whether due to fraud or error, including untimely recognition. The Group's disclosure of information in respect of the accounting policies on revenue recognition is included in Note 3 to the consolidated financial statements, and detailed revenue disclosures are included in Note 22 to the consolidated financial statements.	We have considered the relevant IT systems and the design of controls, and tested the operating effectiveness of controls over capture and recording of revenue transactions; authorisation of changes and accounting treatment of tariff rates input to the billing systems; and calculation of amounts billed to the customers. We performed substantive analytical procedures, including monthly fluctuations analysis and analysis of changes in key drivers of revenue, and compared financial and non-financial data. We also analysed the timeliness of revenue recognition. We analysed the key judgements and estimates, and the accounting policy for compliance with IFRS 15. We considered revenue disclosures in light of the requirements of IFRS 15.

Adoption of IFRS 16 Leases	
The Group applied the modified retrospective approach for the transition accounting to IFRS 16. The application of the new standard gives rise to a right-of-use asset of 24 billion tenge, a lease liabilities of 24.9 billion tenge and corresponding decrease in equity. The assessment of the impact of IFRS 16 is significant to our audit, as the balances recorded are material, the update of the accounting policy requires management to apply judgment in policy choices. In addition, the implementation process to identify and process all relevant data associated with the leases is complex process and the measurement of the right-of-use assets and lease liabilities is based on assumptions such as discount rates and the lease terms, including termination and renewal options. The Group's disclosure in respect of the impact of IFRS 16 adoption, the accounting policies on lease recognition and measurement is included in Note 3 to the consolidated financial statements, and detailed lease disclosures are included in Note 3 to the consolidated financial statements.	We analysed the updated accounting policy and policy choices in respect of adoption of the new standard to be in accordance with IFRS 16. We performed testing of the completeness of the identified lease contracts on a sample basis and testing of the accuracy of the input in the lease calculation to the lease contracts. We challenged management assumptions, specifically the assumptions used to determine the discount rates and lease terms, including termination and renewal options. We recalculated the right-of-use assets and lease liabilities by type of lease contracts. We assessed the adequacy of the disclosure of the impact of IFRS 16 in Note 3 to the consolidated financial statements.
Costs capitalisation	
The Group capitalises significant internal labour costs and external costs in respect of major capital projects, including mobile network upgrades. There is risk in respect of valuation and allocation of assets, that costs which do not meet the criteria for capitalisation in accordance with IAS 16 and IAS 38 are capitalised or that assets continue to be recognised as non-current assets despite no longer meeting the relevant capitalisation criteria. Due to the relative size of the Group's mobile network related property and equipment and intangible assets in the consolidated statement of financial position and the area of judgment around the application of capitalisation criteria, we considered this as one of the key audit matters. The Group's policy on the capitalisation of assets is included in Note 3 to the consolidated financial statements, and detailed property and equipment and intangible assets disclosures are included in Note 8 and Note 9, respectively, to the consolidated financial statements.	We obtained an understanding of the process around the property and equipment cycle and intangible assets cycle. We have considered the design and tested the operating effectiveness of related controls. We analysed the appropriateness of costs capitalisation policies of the Group. We have carried out substantive testing in relation to each element of capitalised costs including inspecting supporting evidence for a sample of the capitalised costs and understanding the nature of the costs capitalised. We assessed the timeliness of the transfer of assets from the constructions-in-progress to the property and equipment and intangibles assets. In addition, we analysed assets recognised as non-current assets for compliance with capitalisation criteria. We considered the appropriateness of the related disclosures provided in the Group consolidated financial statements.
Transition as auditors including audit of opening balance	
Initial audit engagements involve a number of considerations different from recurring audits. We identified the audit transition, including the audit of the opening balance as a key audit matter as this involves additional planning activities and considerations necessary to establish an appropriate audit plan and strategy. This includes: - Gaining an initial understanding of the Group and its business including its control environment and information systems, sufficient to make audit risk assessments and develop the audit strategy and plan; - Obtaining sufficient appropriate audit evidence regarding the opening balances including the selection and application of accounting principles; and - Communication with the predecessor auditor.	We had close interaction with the predecessor auditor, including a process of file review and formal hand over procedures as prescribed by professional auditing standards. We evaluated key accounting positions and audit matters from prior years and discussed them with the predecessor auditor and management. We reviewed management's control documentation to assist in obtaining an understanding of the Group's financial reporting and business processes. We have communicated our audit plan to the Group's Audit committee and we reported status, progress and key findings from our audit process. We used the knowledge gained through these procedures as we undertook our audit work and refined our views on risks and scope accordingly.

Other matter

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

Other information included in the Group's 2019 Annual report

Other information consists of the information included in the Group's 2019 Annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2019 Annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and the Audit committee of the Board of directors for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit committee of the Board of directors is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit committee of the Board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide the Audit committee of the Board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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

Paul Cohn

Audit Partner

Rustamzhan Sattarov
Auditor

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

050060, Republic of Kazakhstan, Almaty
Al-Farabi ave., 77/7, Esentai Tower

28 February 2020

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 on 15 July 2005

Consolidated Statement of Financial Position

As at 31 December 2019

In thousands of tenge	Note	31 December 2019	31 December 2018*,**
Assets			
Non-current assets			
Property and equipment	8	**82,283,327**	88,437,346
Intangible assets	9	**38,819,624**	40,114,996
Advances paid for non-current assets		**232,657**	729,048
Right-of-use assets	3	**23,066,886**	–
Long-term trade receivables	10	**1,118,077**	3,009,995
Cost to obtain contracts		**239,612**	388,802
Deferred tax assets	27	**1,377,725**	–
Other non-current assets		**2,653**	36,533
Total non-current assets		**147,140,561**	132,716,720
Current assets			
Inventories	11	**6,636,242**	4,728,092
Trade receivables	10	**15,646,942**	13,787,025
Other current non-financial assets	12	**6,704,397**	5,275,663
Other current financial assets	13	**1,371,295**	1,010,707
Prepaid income tax		**30,319**	–
Financial assets at fair value through other comprehensive income	14	**4,964,633**	–
Cash and cash equivalents	15	**8,825,048**	6,029,042
Total current assets		**44,178,876**	30,830,529
Total assets		**191,319,437**	163,547,249
Equity and liabilities			
Share capital	7	**33,800,000**	33,800,000
Retained earnings		**37,771,288**	34,275,289
Total equity		**71,571,288**	68,075,289
Non-current liabilities			
Borrowings: non-current portion	16	**55,548,314**	14,935,969
Long-term lease liabilities	3	**21,619,521**	–
Deferred tax liabilities	27	**1,248,186**	1,503,915
Asset retirement obligation	19	**1,970,215**	1,285,482
Other non-current liabilities		**–**	76,560
Total non-current liabilities		**80,386,236**	17,801,926
Current liabilities			
Borrowings: current portion	16	**6,383,658**	51,782,817
Trade payables	17	**21,174,548**	14,047,602
Contracts liabilities	18	**4,149,365**	3,772,341
Other current non-financial liabilities	30	**187,793**	2,910,727
Other current financial liabilities	20	**3,171,814**	1,716,864
Short-term lease liabilities	3	**3,198,428**	–
Income tax payable		**594,746**	1,853,827
Taxes payable other than income tax	21	**501,561**	1,585,856
Total current liabilities		**39,361,913**	77,670,034
Total liabilities		**119,748,149**	95,471,960
Total equity and liabilities		**191,319,437**	163,547,249

* The Group has initially applied IFRS 16 using the modified retrospective method. Under this method, the comparative information is not restated. See Note 3.
** Certain amounts shown here do not correspond to the consolidated financial statements for the year ended 31 December 2018, as they reflect the reclassifications made, as detailed in Note 4.

Kaspars Kukelis
Chairman of the Management Board

Dauren Shaikhin
Acting Chief Financial Officer

The accounting policies and notes on pages 57-95 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

In thousands of tenge	Note	2019	2018*,**
Revenue from contracts with customers	22	**156,656,861**	149,700,750
Cost of sales	23	**(109,194,996)**	(109,433,146)
Gross profit		**47,461,865**	40,267,604
Penalty expenses	20	**(14,551,865)**	–
General and administrative expenses	24	**(8,924,684)**	(14,074,485)
Impairment of financial assets	10	**(2,256,120)**	(1,906,060)
Impairment of property and equipment	8	**(1,844,104)**	–
Selling expenses	25	**(2,887,221)**	(3,049,861)
Reversal of tax and related fines and penalties provision	30	**5,816,045**	–
Operating profit		**22,813,916**	21,237,198
Finance costs	26	**(11,500,011)**	(9,720,797)
Finance income	26	**1,415,357**	781,137
Net foreign exchange loss		**(91,454)**	(420,195)
Other income		**317,436**	552,473
Other expenses		**(84,853)**	(166,346)
Profit before tax		**12,870,391**	12,263,470
Income tax expenses	27	**(2,752,992)**	(3,732,438)
Profit for the year		**10,117,399**	8,531,032
Other comprehensive income		**–**	–
Total comprehensive income for the year, net of tax		**10,117,399**	8,531,032
Earnings per share			
Basic and diluted, tenge	7	**50.59**	42.66

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

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

Kaspars Kukelis
Chairman of the Management Board

Dauren Shaikhin
Acting Chief Financial Officer

The accounting policies and notes on pages 57-95 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

In thousands of tenge	Share capital	Retained earnings	Total equity
Balance at 1 January 2018	33,800,000	37,422,257	71,222,257
Net profit for the year	–	8,531,032	8,531,032
Other comprehensive income	–	–	–
Total comprehensive income	–	8,531,032	8,531,032
Dividends declared *(Note 7)*	–	(11,678,000)	(11,678,000)
At 31 December 2018	33,800,000	34,275,289	68,075,289
Balance at 1 January 2019	33,800,000	34,275,289	68,075,289
Change in accounting policy due to application of IFRS 16 *(Note 3)**	–	(649,400)	(649,400)
Balance at 1 January 2019 (restated)	33,800,000	33,625,889	67,425,889
Net profit for the year	**–**	**10,117,399**	**10,117,399**
Other comprehensive income	**–**	**–**	**–**
Total comprehensive income	**–**	**10,117,399**	**10,117,399**
Dividends declared *(Note 7)*	**–**	**(5,972,000)**	**(5,972,000)**
At 31 December 2019	**33,800,000**	**37,771,288**	**71,571,288**

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

Kaspars Kukelis
Chairman of the Management Board

Dauren Shaikhin
Acting Chief Financial Officer

The accounting policies and notes on pages 57-95 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

In thousands of tenge	Note	2019	2018*,**
Cash flows from operating activities			
Profit before tax		**12,870,391**	12,263,470
Adjustments for:			
Impairment of financial assets	10	**2,256,120**	1,906,060
Impairment of property and equipment	8	**1,844,104**	–
Finance costs	26	**11,500,011**	9,720,797
Depreciation of property and equipment and right-of-use assets (for the year ended 31 December 2018: depreciation of property and equipment)	3, 8	**20,558,245**	18,873,906
Amortisation of intangible assets	9	**9,389,738**	7,758,259
Finance income	26	**(1,415,357)**	(781,137)
Reversal of tax and related fines and penalties provision	30	**(5,816,045)**	–
Gain on cancellation of lease agreements		**(9,725)**	–
Net foreign exchange loss, net		**91,454**	420,195
Operating cash flows before changes in operating assets and liabilities		**51,268,936**	50,161,550
Change in inventories		**(1,908,151)**	(1,303,428)
Change in trade receivables		**(2,197,426)**	(5,729,424)
Change in other current non-financial assets		**(953,266)**	5,969,790
Change in other current financial assets		**(326,077)**	(575,588)
Change in cost to obtain contracts		**149,189**	(167,713)
Change in trade payables		**2,017,238**	(5,897,842)
Change in other current non-financial liabilities		**116,639**	509,414
Change in other current financial liabilities		**(69,544)**	(2,003,504)
Change in contract liabilities		**377,024**	(2,235,239)
Change in taxes payable other than income tax		**(1,114,614)**	2,115,846
Cash flows generated from operations		**47,359,948**	40,843,862
Income tax paid		**(3,312,728)**	(5,088,762)
Interest received		**404,036**	856,347
Interest paid	29	**(9,825,613)**	(9,040,881)
Net cash inflows from operating activities		**34,625,643**	27,570,566
Cash flows from investing activities			
Purchase of property and equipment		**(8,832,005)**	(12,460,152)
Purchase of intangible assets		**(4,329,376)**	(6,791,345)
Purchase of financial assets at fair value through other comprehensive income		**(5,021,171)**	–
Net cash flows used in investing activities		**(18,182,552)**	(19,251,497)
Cash flows from financing activities			
Proceeds from loans	29	**20,000,000**	26,840,000
Proceeds from bonds issued	29	**17,024,647**	4,950,000
Repayment of loans	29	**(42,000,000)**	(35,210,000)
Repayment of principal portion of lease liabilities	3, 29	**(2,649,442)**	–
Dividends paid	7	**(5,972,000)**	(11,678,000)
Net cash flows used in financing activities		**(13,596,795)**	(15,098,000)
Net increase/(decrease) in cash and cash equivalents		**2,846,296**	(6,778,931)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency		**(50,290)**	148,129
Cash and cash equivalents at the beginning of the year		**6,029,042**	12,659,844
Cash and cash equivalents at the end of the year	15	**8,825,048**	6,029,042

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

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

Non-cash transactions

For the year ended 31 December 2019 the Group paid 3,312,728 thousand tenge for corporate income tax of which 329,552 thousand tenge were subsequently offset against withholding tax for non-residents and other taxes (2018: 4,149,039 thousand tenge and 3,034,975 thousand tenge, respectively).

Kaspars Kukelis
Chairman of the Management Board

Dauren Shaikhin
Acting Chief Financial Officer

The accounting policies and notes on pages 57-95 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

1. General information

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

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

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

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

On 21 December 2018, the 75% stake in the Company owned by Telia Company was sold directly to Kazakhtelecom JSC (the 'Parent'). As of 31 December 2019 the Company is controlled by Kazakhtelecom JSC. Kazakhtelecom JSC is controlled by the Government of the Republic of Kazakhstan through Sovereign Wealth Fund 'Samruk-Kazyna' JSC ('Samruk-Kazyna') which owns 51% of Kazakhtelecom's controlling shares.

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

	31 December 2019	31 December 2018
Kazakhtelecom JSC	**75.00%**	75.00%
Raiffeisenbank JSC	**11.82%**	11.14%
Other	**13.18%**	13.86%
	100.00%	100.00%

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

	31 December 2019	31 December 2018
KazNet Media LLP	**100%**	100%
KT-Telecom LLP	**100%**	100%

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

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

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

The consolidated financial statements were authorised for issue by the Chairman of the Management Board on 28 February 2020.

2. Basis of preparation

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (hereinafter, 'IFRS'), as issued by International Accounting Standard Board (hereinafter, 'IASB').

These consolidated financial statements have been prepared on a historical cost basis, except as described in the accounting policies and the notes to these consolidated financial statements. The consolidated financial statements are presented in Kazakhstan tenge ('tenge') and all amounts are rounded to the nearest thousands, except when otherwise indicated.

2. Basis of preparation continued

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

3. Summary of significant accounting policies

New and amended standards and interpretations

The Group applied IFRS 16 *Leases* for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

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'), and lease contracts for which the underlying asset is low value ('low-value assets').

3. Summary of significant accounting policies continued

New and amended standards and interpretations continued

In thousands of tenge	Adjustments as at 1 January 2019
Non-current assets	
Right-of-use assets	24,070,061
Total non-current assets	**24,070,061**
Total assets	**24,070,061**
Non-current liabilities	
Long-term lease liabilities	22,191,923
Deferred tax liabilities	(162,350)
Total non-current liabilities	**22,029,573**
Current liabilities	
Short-term lease liabilities	2,689,887
Total current liabilities	**2,689,887**
Total liabilities	**24,719,460**
Total adjustment on equity	
Retained earnings	(649,400)
	(649,400)

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

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

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

The Group also applied the available practical expedients wherein it:

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

Based on the foregoing, as at 1 January 2019:

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

3. Summary of significant accounting policies continued
New and amended standards and interpretations continued

a) Nature of the effect of adoption of IFRS continued

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

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

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

	Right-of-use assets	
In thousands of tenge	Buildings and construction	Lease liabilities
As at 1 January 2019	24,070,061	24,881,810
Depreciation expenses	**(3,598,481)**	–
Interest expense	–	**2,914,490**
Payments	–	**(5,563,932)**
Additions	**2,079,672**	**2,079,672**
Cancellations	**(19,001)**	**(28,726)**
Modifications	**534,635**	**534,635**
As at 31 December 2019	**23,066,886**	**24,817,949**
Current	–	**3,198,428**
Non-current	–	**21,619,521**

The following are the amounts recognised in profit or loss:

In thousands of tenge	2019
Depreciation expense of right-of-use assets	**3,598,481**
Interest expense on lease liabilities	**2,914,490**
Expense relating to short-term leases (included in cost of sales)	**1,207,221**
Total amount recognised in profit or loss	**7,720,192**

The Group had total cash outflows for leases of 6,771,153 thousand tenge in 2019. The Group also had non-cash additions to right-of-use assets and lease liabilities of 2,079,672 thousand tenge in 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 consolidated financial statements of the Group.

3. Summary of significant accounting policies continued

New and amended standards and interpretations continued

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 an 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 consolidated financial statements of the Group.

Amendments to IAS 19 Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the 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 the 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). The amendments had no impact on the 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 consolidated financial statements as the Group does not have long-term interests in its associate and joint venture.

Annual improvements 2015-2017 cycle

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 had no impact on the consolidated financial statements of the Group as there is no transaction where joint control is obtained.

IFRS 11 Joint Arrangements

An entity 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.

IFRS 11 Joint Arrangements

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where a joint control is obtained.

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 it originally recognised those past transactions or events.

3. Summary of significant accounting policies continued

Annual improvements 2015-2017 cycle continued

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the 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 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.

The entity applies the 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 consolidated financial statements of the Group.

Standards issued but not yet effective

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

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

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

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 7. This standard is not applicable to the Group.

Amendments to IFRS 3 Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8 Definition of Material

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

3. Summary of significant accounting policies continued

Standards issued but not yet effective continued

Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 Financial Instruments: Disclosures, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR).

The amendments must be applied retrospectively. However, any hedge relationships that have previously been de-designated cannot be reinstated upon application, nor can any hedge relationships be designated with the benefit of hindsight. Early application is permitted and must be disclosed. These amendments are not applicable to the Group.

The Conceptual Framework for Financial Reporting

Effective immediately for the IASB and the IFRS IC. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

The revised *Conceptual Framework for Financial Reporting* (the Conceptual Framework) is not a standard, and none of the concepts override those in any standard or any requirements in a standard. The purpose of the Conceptual Framework is to assist the Board in developing standards, to help preparers develop consistent accounting policies if there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The IASB issued the Conceptual Framework in March 2018. It sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. The Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. The revised Conceptual Framework is not expected to have a significant impact on the Group's consolidated financial statements.

Amendments to IAS 1 Financial Statements: Classification of Liabilities as Current and Non-current

On 23 January 2020, the International Accounting Standards Board (IASB or the Board) issued amendments to paragraphs 69 to 76 of IAS 1 *Presentation of Financial Statements* (the amendments) to specify the requirements for classifying liabilities as current or non-current.

The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments to IAS 1 are required to be applied for annual periods beginning on or after 1 January 2022. The amendments must be applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Earlier application is permitted. These amendments do not have impact on the Group.

Foreign currency translation

The consolidated financial statements of the Group are presented in tenge, which is the functional currency of the Company and its main subsidiaries. Tenge is the currency of the primary economic environment in which the Company and its main subsidiaries operate. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

3. Summary of significant accounting policies continued

Foreign currency translation continued

Foreign exchange rates are presented in the following table:

	31 December 2019	31 December 2018
US dollar	**382.59**	384.20
Euro	**429**	439.37
Russian rouble	**6.16**	5.52

Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset as current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within 12 (twelve) months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 (twelve) months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within 12 (twelve) months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least 12 (twelve) months after the reporting period.

The Group classifies all other liabilities as non-current.

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

Fair value measurement

Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in the *Note 29*.

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

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

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

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

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

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

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

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

3. Summary of significant accounting policies continued

Fair value measurement continued

For assets and liabilities that are recognised in the consolidated financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The respective unit of the Group (hereinafter, the 'Working Group') determines the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted AFS financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operations. The composition of the Working Group is determined by the Management of the Group.

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

At each reporting date, the Working Group analyses the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per the Group's accounting policies. For this analysis, the Valuation Committee verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The Working Group also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Please refer to Asset retirement obligation *(Note 19)* for further information about decommissioning provision recognised.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

	Years
Buildings and constructions	10-50
Machinery	3-10
Equipment, tools and installations	2-8

Land is not depreciated.

An item of property and equipment and any significant component initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Construction-in-progress

Construction-in-progress represents property and equipment under construction and machinery and equipment awaiting installation and is recorded at cost. Construction-in-progress includes cost of construction and equipment and other direct costs. When construction of such assets is completed or when the machinery and equipment are ready for their intended use, construction-in-progress is transferred to the appropriate category of depreciable assets. Construction-in-progress is not depreciated.

3. Summary of significant accounting policies continued

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

Intangible assets have finite useful lives.

Intangible assets with finite useful lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. Expenses on amortisation of intangible assets with finite useful life are recognised in the consolidated statement of comprehensive income in the category of expenses, which corresponds to the function of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of comprehensive income when the asset is derecognised.

Intangible assets are amortised on a straight-line basis within the following estimated useful lives.

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

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's or cash-generating unit's (CGU) recoverable amount is the higher of: the fair value of an asset (cash generating unit) less costs of disposal and its value in use (cash generating unit). The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of 5 (five) years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of comprehensive income.

3. Summary of significant accounting policies continued

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

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

Subsequent measurement

For purposes of subsequent measurement financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- Financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade and other receivables.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably its non-listed equity investments under this category.

3. Summary of significant accounting policies continued

Financial assets continued

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised (i.e. excluded from the Group's consolidated statement of financial position):

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, the Group evaluates if it has retained the risks and rewards of the property, and to which extent, if any. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

Financial assets carried at amortised cost

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities comprise trade and other accounts payable, loans and borrowings and lease liabilities.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings

This category is the most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

3. Summary of significant accounting policies continued

Financial liabilities continued

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the consolidated statement of comprehensive income.

This category generally applies to interest-bearing loans and borrowings. Further details are contained in *Note 16*.

Trade and other accounts payable

Liabilities for trade and other accounts payable are recognised at fair value to be paid in the future for goods and services received, whether or not billed to the Group.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are only offset and reported at the net amount in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and the Group intends to either settle on a net basis, to realise the asset and settle the liability simultaneously.

Leases

Before 1 January 2019, a lease was classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group was classified as a finance 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 finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges were reflected directly in the consolidated statement of comprehensive income.

A leased asset was depreciated over the useful life of the asset. However, if there was no reasonable certainty that the Group would obtain ownership by the end of the lease term, the asset was depreciated over the shorter of: the estimated useful life of the asset and the lease term.

Operating lease payments were recognised as operating expenses in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

From 1 January 2019, the Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

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

	Years
Buildings and constructions	5-15

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in section Impairment of non-financial assets.

3. Summary of significant accounting policies continued

Leases continued

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases

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

Inventories

Inventories are valued at the lower of: cost of acquisition and net realisable value.

Cost comprise expenses incurred in bringing inventory to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. The same cost formula is used for all inventories having a similar nature and use. All inventories are determined based on weighted average cost method.

Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Decommissioning liability

Decommissioning liabilities are recognised in respect of the estimated future costs of closure and restoration and for environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the reporting period when the related environmental disturbance occurs. Decommissioning costs are recorded at the discounted value of expected liability settlement costs calculated using estimated cash flows and recognised as part of the initial cost of the particular asset. Cash flows are discounted at the current rate before tax, which reflects risks inherent to the decommissioning obligations. Unwinding of discount is expensed as incurred and recognised in the consolidated statement of comprehensive income as finance costs. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs, or in the discount rate applied, are added to or deducted from the cost of the asset.

Employee benefit

Social tax

The Group pays social tax according to the current statutory requirements of the Republic of Kazakhstan. Social tax expenses are charged to expenses as incurred.

Besides, the Group withholds 10% of the salary of employees paid as contributions of employees to the accumulating pension funds. Under the legislation, employees are responsible for their retirement benefits and the Group has no present or future obligation to further compensate its employees upon their retirement, except as provided below.

3. Summary of significant accounting policies continued

Employee benefit continued

Pension payments

The Group does not incur any expenses in relation to provision of pensions or other post-employment benefits to its employees. In accordance with the legal requirements of the Republic of Kazakhstan, the Group withholds pension contributions from employee salaries and transfers them into state or private pension funds on behalf of its employees. Pension contributions are the responsibility of employees, and the Group has no current or future obligations to make payments to employees following their retirement. Upon retirement of employees, all pension payments are administered by the pension funds directly.

Cash dividend and non-cash distribution to equity holders of the Parent

The Group recognises a liability to make cash or non-cash distributions to equity holders of the Parent when the distribution is authorised and the distribution is no longer at the discretion of the Group. According to the legislation, distribution is approved by the shareholders. A corresponding amount is recognised directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value remeasurement recognised directly in equity.

Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in the consolidated statement of comprehensive income.

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

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

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

Data services include revenues from GPRS, WAP services and other data services.

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

The Group may bundle services and products into one customer offering. Offerings may involve the delivery or performance of multiple products, services, or rights to use assets (multiple deliverables). In some cases, the arrangements include initial installation, initiation, or activation services and involve consideration in the form of a fixed fee or a fixed fee coupled with a continuing payment stream. Costs associated with the equipment are recognised when revenue is recognised. The revenue is allocated to separate product and services on a relative stand-alone selling price method.

The stand-alone selling prices are determined based on the list prices at which the Group sells the mobile devices and telecommunication services. Customised equipment that can be used only in connection with services or products provided by the Group is not accounted for separately and revenue is deferred over the total service arrangement period.

In revenue arrangements where more than one performance obligation, transaction price is allocated between the goods and services using relative stand-alone selling price method. Determining the transaction price for each separate performance obligation can require complex estimates. The Group generally determines the stand-alone selling price for each separate performance obligation based on prices at which the good or services are regularly sold on a stand-alone basis after considering volume discounts where appropriate.

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

(i) Call out revenue

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

3. Summary of significant accounting policies continued

Revenue from contracts with customers continued

(ii) Interconnect revenues and costs

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

(iii) Data revenue

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

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

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

(v) Roaming fees charged to other wireless operators

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

(vi) Value added services

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

Roaming discounts

The Group enters into roaming discount agreements with a number of wireless operators. According to the terms of the agreements the Group is obliged to provide and entitled to receive a discount that is generally dependent on the volume of inter operator roaming traffic. The Group uses various estimates and assumptions, based on historical data and adjusted for known changes, to determine the amount of discount to be received or granted. Such estimates are adjusted monthly to reflect newly-available information.

The Group accounts for discounts received as a reduction of roaming expenses and discounts granted as reduction of roaming revenue. The Group considers terms of the various roaming discount agreements to determine the appropriate presentation of amount of receivable from and payable to its roaming partners in its consolidated statements of financial position.

Costs to obtain a contract

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

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Trade receivables

A receivable is recognised if an amount of consideration that is unconditional is due from the customer (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in section 'Financial instruments – initial recognition and subsequent measurement'.

Contract liabilities

A contract liability is recognised if a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

3. Summary of significant accounting policies continued

Contract balances continued

Interest income

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as AFS, interest income is recorded using the effective interest rate (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The interest income is recorded as part of finance income in the consolidated statement of comprehensive income.

Dividends

Revenue is recognised when the Group's right to receive the payment is established, which is generally when shareholders approve the dividend.

Expense recognition

Expenses are recognised as incurred and reported in the consolidated statement of comprehensive income in the period to which they relate on the accrual basis.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Taxes

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

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

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

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

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

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

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

3. Summary of significant accounting policies continued

Taxes continued

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Contingent assets and liabilities

Contingent assets are not recognised in the consolidated financial statements. Where an inflow of economic benefits is probable, they are disclosed.

Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Related parties

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

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

4. Reclassification of comparative information

Certain amounts in the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flow for the year ended 31 December 2018 were reclassified to conform with the presentation adopted in the consolidated statements for the year ended 31 December 2019. The Group changed the presentation of its consolidated financial statements as new presentation provides information that is more relevant to users of the consolidated financial statements.

In thousands of tenge	As originally presented	Reclassifications	Note	As adjusted
Consolidated statement of financial position as at 31 December 2018				
Non-current assets				
Property and equipment	88,675,636	(238,290)	1	88,437,346
Intangible assets	40,605,754	(490,758)	1	40,114,996
Advances paid for non-current assets	–	729,048	1	729,048
Total non-current assets	**132,716,720**	**–**		**132,716,720**
Current assets				
Trade and other receivables	22,580,797	(22,580,797)	2, 3	–
Trade receivables	–	13,787,025	2	13,787,025
Other current non-financial assets	–	5,275,663	3, 5	5,275,663
Other current financial assets	–	1,010,707	3	1,010,707
Due from related parties	1,018,003	(1,018,003)	2	–
Total current assets	**34,355,934**	**(3,525,405)**		**30,830,529**
Current liabilities				
Trade and other payables	18,000,475	(18,000,475)	4, 6	–
Trade payables	–	14,047,602	4	14,047,602
Other current non-financial liabilities	–	2,910,727	6	2,910,727
Other current financial liabilities	–	1,716,864	6	1,716,864
Contract liabilities	7,297,746	(3,525,405)	5	3,772,341
Due to related parties	674,718	(674,718)	4	–
Total current liabilities	**81,195,439**	**(3,525,405)**		**77,670,034**

4. Reclassification of comparative information continued

In thousands of tenge	As originally presented	Reclassifications	Note	As adjusted
Consolidated statement of comprehensive income for the year ended 31 December 2018				
Revenue from contracts with customer	149,700,750	–		149,700,750
Cost of sales	(99,431,482)	(10,001,664)	7, 10	(109,433,146)
Gross profit	**50,269,268**	**(10,001,664)**		**40,267,604**
General and administrative expenses	(19,226,774)	5,152,289	7	(14,074,485)
Impairment of financial assets	–	(1,906,060)	7	(1,906,060)
Selling and marketing expenses	(9,805,296)	6,755,435	7	(3,049,861)
Other income	1,009,590	(1,009,590)	8	–
Other expenses	(1,191,787)	1,191,787	8	–
Operating profit	**21,055,001**	**182,197**		**21,237,198**
Finance income	1,102,558	(321,421)	8	781,137
Finance costs	(9,894,089)	173,292	8	(9,720,797)
Net foreign exchange loss	–	(420,195)	8	(420,195)
Other income	–	552,473	8	552,473
Other expenses	–	(166,346)	8	(166,346)
Profit before income tax	**12,263,470**	**–**		**12,263,470**
Income tax expense	(3,732,438)	–		(3,732,438)
Profit and total comprehensive income for the year	**8,531,032**	**–**		**8,531,032**
Consolidated statement of cash flows for the year ended 31 December 2018				
Profit for the year	8,531,032	(8,531,032)	9	–
Profit before tax	–	12,263,470	9	12,263,470
Adjustment for:				
Change in income tax	1,667,855	(1,667,855)	10	–
Changes in working capital				
Change in trade and other receivables	(4,350,433)	4,350,433	10	–
Long-term receivable	(1,392,789)	1,392,789	10	–
Change in trade receivables	–	(5,729,424)	10	(5,729,424)
Change in other current non-financial assets	–	5,969,790	5, 10	5,969,790
Change in other current financial assets	–	(575,588)	10	(575,588)
Change in taxes payable other than income tax	1,176,645	939,201	10	2,115,846
Change in trade and other payables	(6,886,386)	6,886,386	10	–
Change in trade payable	–	(5,897,842)	10	(5,897,842)
Change in other current non-financial liabilities	–	509,414	10	509,414
Change in other current financial liabilities	–	(2,003,504)	10	(2,003,504)
Change in contract liabilities	1,290,166	(3,525,405)	5, 10	(2,235,239)
Due from related parties	(207,511)	207,511	10	–
Due to related parties	(502,615)	502,615	10	–
Other	2,197	(2,197)	10	–
Income tax paid	–	(5,088,762)	10	(5,088,762)
Net cash flows from operating activities	**27,570,566**	**–**		**27,570,566**

1 Advances paid for non-current assets in the amount of 729,048 thousand tenge were presented as separate line in the consolidated statement of financial position.
2 Trade receivables in the amount of 12,769,022 thousand tenge were reclassified from trade and other receivables and presented as separate line in the consolidated statement of financial position. Additionally, trade receivables from related parties in the amount of 1,018,003 thousand tenge were reclassified from due from related parties to trade receivables.
3 Other current non-financial assets, including VAT recoverable, prepaid other taxes, advances to suppliers, prepaid expenses in the amount of 6,674,090 thousand tenge, 1,201,942 thousand tenge, 513,529 thousand tenge and 411,507 thousand tenge, respectively, were reclassified from trade and other receivables and presented as a separate line in the consolidated statement of financial position. Additionally, other receivables in the amount of 1,010,707 thousand tenge were reclassified from trade and other receivables to other current financial assets.
4 Trade payables in the amount of 13,372,884 thousand tenge were reclassified from trade and other payables and presented as separate line in the consolidated statement of financial position. Additionally, trade payables to related parties in the amount of 674,718 thousand tenge were reclassified from due to related parties to trade payables.
5 The management of the Group identified that in 2018 prepaid VAT and contract liabilities were presented on a gross basis rather than on a net basis. As of 31 December 2018, the Group netted off prepaid VAT with contract liabilities in the amount of 3,525,405 thousand tenge.
6 Accrued salaries and bonuses to employees in the amount of 1,716,864 thousand tenge were reclassified from trade and other payables to other current financial liabilities. Additionally, other payables in the amount of 2,910,727 thousand tenge were reclassified from trade and other payables to other current non-financial liabilities.

4. Reclassification of comparative information continued

7 For the year ended 31 December 2018 expenses related to operating activities of the Group, including mainly salary of personnel, rent expenses of Kcell stores and mobile service tax, in the total amount of 10,001,664 thousand tenge from general and administrative expenses and selling and marketing expenses were reclassified to cost of sales. Impairment of financial assets in the amount of 1,906,060 thousand tenge was reclassified from general and administrative expenses and presented as a separate line in the consolidated statement of comprehensive income.

8 For the year ended 31 December 2018 foreign exchange gain and losses were reclassified from other income and expenses in the amount of 457,117 thousand tenge and 1,025,441 thousand tenge, respectively, and from finance income and costs in the amount of 321,421 thousand tenge and 173,292 thousand tenge, respectively, and were presented as separate line 'net foreign exchange gain' in the statements of comprehensive income. Additionally, other income and expenses in the amount of 552,473 thousand tenge and 166,346 thousand tenge, respectively, were presented separately.

9 In consolidated statement of cash flows the Group changed the starting point for determination of cash flows from operating activity from profit for the year to profit before tax. Additionally, the Group presented the income tax paid in the amount of 5,088,762 thousand tenge in accordance with the requirements of IAS 7 *Statements of Cash Flows*.

10 In accordance with reclassifications made in the consolidated statement of comprehensive income, and in the consolidated statement of financial position, the Group made respective reclassifications in the consolidated statement of cash flow.

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

5. Critical accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Other disclosures relating to the Group's exposure to risks and uncertainties includes:

- Financial instruments and financial risk management objectives and principles *Note 29*.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Determining the lease term of contracts with renewal and termination options – Group as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

Leases – estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Useful lives of property and equipment and intangible assets

The Group assesses the remaining useful lives of items of property and equipment and intangible assets at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

5. Critical accounting judgements, estimates and assumptions continued

Impairment of non-financial assets

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

Decommissioning liability

Decommissioning liabilities are recognised in respect of the estimated future costs of closure and restoration and for environmental rehabilitation costs in the reporting period when the related environmental disturbance occurs. Decommissioning costs are recorded at the discounted value of expected liability settlement costs calculated using estimated cash flows and recognised as part of the initial cost of the particular asset. Cash flows are discounted at the current rate before tax, which reflects risks inherent to the decommissioning obligations. Unwinding of discount is expensed as incurred and recognised in the consolidated statement of comprehensive income as finance costs. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs, or in the discount rate applied, are added to or deducted from the cost of the asset.

Provision for expected credit losses

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

For trade and other receivable, the Group has applied the standard's simplified approach and has calculated expected credit losses based on lifetime of these financial instruments. The Group used a provision model that is prepared taking into account Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in *Note 10*.

For funds in credit institutions (cash and cash equivalent, bank deposits), the Group calculated expected credit losses based on the 12-month period. The 12-month expected credit losses is the portion of lifetime expected credit losses that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime expected credit losses.

The Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due. Also it is considered a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

Thus, as at 31 December 2019 provision for expected credit losses was created in the amount of 8,605,489 thousand tenge *(Notes 10)*. Changes in the economy, industry or specific customer conditions would have impact to these allowance recorded in the consolidated financial statements.

Costs to obtain a contract

The Group considers commission to sales agents to be an additional cost to obtain a contract, and capitalises such costs as an asset on expenses under contracts with customers. The Group depreciates the costs to obtain a contract with customers on a systematic basis, which corresponds to the timing of the provision of services to customers. The Group reviews depreciation periods if the expected service dates have changed.

Contract liabilities

Deferred revenues are recognised as contract liabilities and recognised over the expected period of the customer relationship. In making its judgments, management considered the detailed criteria for the recognition of revenues from contract with customers set out in IFRS 15, industry practice and the Group's historical churn rate.

5. Critical accounting judgements, estimates and assumptions continued

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

As at 31 December 2019, deferred tax assets of the Group were equal to 129,539 thousand tenge (at 31 December 2018: nil tenge). Further details are contained in *Note 27*.

In 2019 the Group reconsidered the tax treatment of deductibility of doubtful debts from individuals, and derecognised deferred tax assets on the allowance on expected credit losses related to the trade receivables from individuals in the amount of 1,377,725 thousand tenge *(Note 27)*.

Fair value measurement of financial instruments

When the fair value of financial instruments and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on data in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the fair value reported in the consolidated financial statements. For more details on the fair values refer to *Note 29*.

6. Segment information

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

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

7. Share capital and earnings per share

Share capital of the Group is as follows:

	31 December 2019		31 December 2018	
	Share	**Number of shares**	Share	Number of shares
Kazakhtelecom JSC	**75.00%**	**150,000,000**	75.00%	150,000,000
Raiffeisenbank JSC	**11.82%**	**23,641,857**	11.14%	22,282,367
Other	**13.18%**	**26,358,143**	13.86%	27,717,633
	100%	**200,000,000**	100%	200,000,000

The total authorised number of ordinary shares is 200,000,000 shares with a par value of 169 tenge per share, all of which are issued and fully paid. On 21 December 2018, the 75% stake in the Company owned by Fintur and TeliaSonera Kazakhstan was sold directly to Kazakhtelecom JSC.

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

In thousands of tenge	**2019**	2018
Profit for the period attributable to equity shareholders	**10,117,399**	8,531,032
Weighted average number of ordinary shares	**200,000,000**	200,000,000
Earnings per share (Kazakhstani tenge), basic and diluted	**50.59**	42.66

The Group has no dilutive or potentially dilutive securities outstanding.

7. Share capital and earnings per share continued

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

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

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

In thousands of tenge	**31 December 2019**	31 December 2018
Net assets, excluding intangible assets	**32,751,664**	27,960,293
Number of ordinary shares in issue	**200,000,000**	200,000,000
Cost of ordinary share, calculated in accordance with listing requirements of KASE (Kazakhstani tenge)	**163.8**	139.80

During year ended 31 December 2019 and 2018, the Group declared and paid dividends in the amount of 5,972,000 thousand tenge and 11,678,000 thousand tenge, respectively. Dividends per share as at 31 December 2019 were equal to 29.86 tenge (as at 31 December 2018: 58.39 tenge).

8. Property and equipment

Movements of property and equipment in 2019 and 2018 were as follows:

In thousands of tenge	Land	Buildings and construction	Machinery	Equipment, tools and installations	Assets under construction	Total
Cost						
At 1 January 2018	2,122,199	19,154,171	205,640,035	30,096,875	16,964,923	273,978,203
Additions	–	123,935	–	1,010,949	13,034,613	14,169,497
Transfer between the groups	–	374,922	8,084,799	180,748	(8,640,469)	–
Transfer to advances paid to non-current assets	–	–	–	–	(538,327)	(538,327)
At 31 December 2018	2,122,199	19,653,028	213,724,834	31,288,572	20,820,740	287,609,373
Additions	**–**	**444,984**	**153,188**	**3,281,901**	**8,228,127**	**12,108,200**
Provision for dismantling *(Note 19)*	**–**	**–**	**541,649**	**–**	**–**	**541,649**
Transfer between the groups	**–**	**–**	**10,682,847**	**–**	**(10,682,847)**	**–**
Disposals	**–**	**–**	**–**	**(111,925)**	**–**	**(111,925)**
At 31 December 2019	**2,122,199**	**20,098,012**	**225,102,518**	**34,458,548**	**18,366,020**	**300,147,297**
Accumulated depreciation						
As at 1 January 2018	–	(5,892,669)	(151,954,662)	(22,450,790)	–	(180,298,121)
Depreciation charge	–	(646,165)	(15,336,475)	(2,891,266)	–	(18,873,906)
At 31 December 2018	–	(6,538,834)	(167,291,137)	(25,342,056)	–	(199,172,027)
Depreciation charge	**–**	**(369,755)**	**(13,535,603)**	**(3,054,406)**	**–**	**(16,959,764)**
Disposals	**–**	**–**	**–**	**111,925**	**–**	**111,925**
Impairment	**–**	**–**	**(1,844,104)**	**–**	**–**	**(1,844,104)**
At 31 December 2019	**–**	**(6,908,589)**	**(182,670,844)**	**(28,284,537)**	**–**	**(217,863,970)**
Net book value						
At 31 December 2018	2,122,199	13,114,194	46,433,697	5,946,516	20,820,740	88,437,346
At 31 December 2019	**2,122,199**	**13,189,423**	**42,431,674**	**6,174,011**	**18,366,020**	**82,283,327**

During 2019, the Group recognised an impairment loss of 1,844,104 thousand tenge, which represented the write-down of certain property and equipment to the recoverable amount as a result of technological obsolescence and damage. Loss was recognised in the consolidated statement of comprehensive income as an operating expense.

As at 31 December 2019 and 2018, assets under construction are represented by equipment for installation for base transmission stations, mobile switch servers and other telecommunication equipment and services works.

As at 31 December 2019, the gross carrying value of property and equipment, which has been fully depreciated and still in use, was 150,824,435 thousand tenge (31 December 2018: 125,217,497 thousand tenge).

9. Intangible assets

Movements of intangible assets for 2019 and 2018 were as follows:

In thousands of tenge	Software and licenses	Intangible assets in progress	Total
Cost			
At 1 January 2018	83,765,166	456,750	84,221,916
Additions	4,635,982	733,692	5,369,674
At 31 December 2018	88,401,148	1,190,442	89,591,590
Additions	**8,094,366**	**–**	**8,094,366**
Disposal	**(677,778)**	**–**	**(677,778)**
At 31 December 2019	**95,817,736**	**1,190,442**	**97,008,178**
Accumulated amortisation			
At 1 January 2018	(41,718,335)	–	(41,718,335)
Amortisation charge	(7,758,259)	–	(7,758,259)
At 31 December 2018	(49,476,594)	–	(49,476,594)
Amortisation charge	**(9,389,738)**	**–**	**(9,389,738)**
Disposal	**677,778**	**–**	**677,778**
At 31 December 2019	**(58,188,554)**	**–**	**(58,188,554)**
Net book value			
At 31 December 2018	38,924,554	1,190,442	40,114,996
At 31 December 2019	**37,629,182**	**1,190,442**	**38,819,624**

As at 31 December 2019, the carrying amount of the 3G license was 2,000,000 thousand tenge (31 December 2018: 2,333,333 thousand tenge) and its remaining amortisation period was 6 years. As at 31 December 2019, the carrying amount of the 4G license was 19,211,111 thousand tenge (31 December 2018: 20,944,444 thousand tenge) and its remaining amortisation period was 11 years.

As at 31 December 2019 and 2018, intangible assets in progress represented by supplementary configuration of software related to Amdocs billing system which is on development stage.

As at 31 December 2019, the gross carrying value of intangible assets, which has been fully depreciated and still in use, was 36,192,358 thousand tenge (31 December 2018: 27,630,351 thousand tenge).

10. Trade receivables

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

In thousands of tenge	**31 December 2019**	31 December 2018
Trade receivable from subscribers	**23,734,679**	21,400,065
Trade receivable from interconnect services	**406,524**	330,859
Trade receivables from roaming operators	**301,760**	456,470
Trade receivables from dealers and distributors	**40,328**	629,826
Trade receivables from related parties *(Note 28)*	**887,217**	659,913
Less: allowance for expected credit losses	**(8,605,489)**	(6,680,113)
	16,765,019	16,797,020
Less: long-term portion of trade receivable from subscribers	**(1,118,077)**	(3,009,995)
	15,646,942	13,787,025

During 2019 movements in the allowance for expected credit losses were as follows:

In thousands of tenge	**2019**	2018
Allowance for expected credit losses at the beginning of the year	**(6,680,113)**	(5,642,354)
Charge for the year	**(2,256,120)**	(1,906,060)
Write-offs for the year	**330,744**	868,301
Allowance for expected credit losses at the end of the year	**(8,605,489)**	(6,680,113)

10. Trade receivables continued

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

In thousands of tenge	Total	Days past due					
		Current	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	Over 180 days
31 December 2019							
Estimated total gross book value for default	**25,370,508**	**12,248,762**	**1,553,273**	**775,924**	**361,595**	**836,939**	**9,594,015**
Expected credit losses	**8,605,489**	**39,720**	**42,357**	**63,650**	**56,657**	**345,107**	**8,057,998**

In thousands of tenge	Total	Days past due					
		Current	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	Over 180 days
31 December 2018							
Estimated total gross book value for default	23,477,133	10,884,651	1,759,729	1,489,327	644,178	1,014,154	7,685,094
Expected credit losses	6,680,113	38,096	268,376	11,254	133,627	202,978	6,025,782

As at 31 December 2019 and 2018 the Group's trade receivables were denominated in the following currencies:

In thousands of tenge	**31 December 2019**	31 December 2018
Tenge	**16,463,259**	16,340,550
US dollars	**301,760**	456,470
	16,765,019	16,797,020

11. Inventories

As at 31 December 2019 and 2018, inventories comprised:

In thousands of tenge	**31 December 2019**	31 December 2018
Handsets and accessories	**6,070,988**	3,877,810
Start packages	**158,668**	334,955
SIM-cards	**71,444**	76,310
Marketing materials	**61,215**	60,146
Other materials	**273,927**	378,871
	6,636,242	4,728,092

12. Other current non-financial assets

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

In thousands of tenge	**31 December 2019**	31 December 2018
Advances paid	**2,928,205**	513,529
VAT recoverable	**1,890,908**	3,148,685
Prepaid taxes other than income taxes	**1,883,164**	1,201,942
Prepaid expenses	**2,120**	411,507
	6,704,397	5,275,663

13. Other current financial assets

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

In thousands of tenge	**31 December 2019**	31 December 2018
Other receivables	**913,631**	727,715
Due from employees	**336,165**	228,603
Other	**121,499**	54,389
	1,371,295	1,010,707

As at 31 December 2019 and 2018, other current non-financial assets were fully denominated in tenge.

14. Financial assets at fair value through other comprehensive income

As at 31 December 2019 financial assets at fair value through other comprehensive income in the amount of 4,964,633 thousand tenge were represented by investments in US treasury bills acquired in August 2019. The Group recognised the financial assets at fair value through other comprehensive income as the contractual cash flows are solely principal and interest and the financial assets is held within a business model for collecting contractual cash flows and selling financial assets. Nominal amount is 12,880,000 USD (equivalent to 5,021,171 thousand tenge at the date of acquisition), with maturity till August 2020 and yield to maturity at 1.7%. Fair values of debt instrument is determined by reference to published price quotations in an active market (Level 1).

15. Cash and cash equivalents

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

In thousands of tenge	**31 December 2019**	31 December 2018
Cash on current bank accounts	**5,548,613**	6,015,852
Bank deposits with original maturity of less than 90 days	**3,255,562**	–
Cash on hand	**20,873**	13,190
	8,825,048	6,029,042

As of 31 December 2019, short-term bank deposit for the amount of 138,712 thousand tenge represents overnight deposits in tenge placed in Citibank Kazakhstan JSC at interest rate 7.5% and 3,116,850 thousand tenge represents three-month term deposit in tenge placed in Altyn Bank JSC at interest rate 8.4%.

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

In thousands of tenge	**31 December 2019**	31 December 2018
Tenge	**4,923,274**	5,259,475
US dollars	**3,767,034**	746,612
Russian roubles	**18,117**	1,253
Other	**116,623**	21,702
	8,825,048	6,029,042

16. Borrowings

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

	Currency	Effective interest rate	Maturity date	**31 December 2019**	31 December 2018
Eurasian Development Bank	Tenge	12.54%	20 May 2024	**28,956,330**	29,749,590
Halyk Bank of Kazakhstan JSC	Tenge	11.62%	12 May 2022	**–**	21,688,817
Bank of China Kazakhstan JSC	Tenge	11.08%	20 August 2022	**5,059,792**	–
SB Alfabank JSC	Tenge	12.86%	7 June 2019	**–**	10,086,666
VTB Bank JSC	Tenge	11.9%	1 February 2020	**5,087,740**	–
Bonds	Tenge	11.84%	16 January 2021	**22,828,110**	5,193,713
				61,931,972	66,718,786
Less: non-current portion				**(55,548,314)**	(14,935,969)
				6,383,658	51,782,817

Borrowings are repayable as follows:

In thousands of tenge	**31 December 2019**	31 December 2018
Current portion of borrowings	**6,383,658**	51,782,817
Maturity between 1 and 2 years	**21,705,566**	–
Maturity between 2 and 5 years	**33,842,748**	14,935,969
Maturity over 5 years	**–**	–
Total non-current portion of borrowings	**55,548,314**	14,935,969
Total borrowings	**61,931,972**	66,718,786

16. Borrowings continued

The Group's borrowings are denominated in Kazakhstani tenge and represents unsecured loans and bonds. The borrowings have financial and non-financial covenants. Breaches in meeting the covenants would permit the bank to immediately call loans and borrowings. As of 31 December 2019, there have been no breaches of the covenants.

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

As at 31 December 2019 current portion of borrowings includes principal amount and interest accrued of VTB Bank JSC loan in the amount of 5,087,740 thousand tenge and interest accrued for other borrowings in the amount of 1,295,918 thousand tenge.

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

17. Trade payables

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

In thousands of tenge	**31 December 2019**	31 December 2018
Trade payables to third parties	**20,042,873**	13,372,884
Trade payables to related parties *(Note 28)*	**1,131,675**	674,718
	21,174,548	14,047,602

As at 31 December 2019 and 2018, the Group's trade payables were denominated in the following currencies:

In thousands of tenge	**31 December 2019**	31 December 2018
Tenge	**17,293,105**	6,461,873
US dollar	**3,813,337**	7,585,729
Other currency	**68,106**	–
	21,174,548	14,047,602

18. Contract liabilities

As at 31 December 2019 and 2018, trade contract liabilities comprised of the following:

In thousands of tenge	**2019**	2018
Contract liabilities as at 1 January	**3,772,341**	6,007,580
Deferred during the year	**106,270,472**	96,868,440
Recognised as revenue during the year	**(105,893,448)**	(99,103,679)
Contract liabilities as at 31 December	**4,149,365**	3,772,341

19. Asset retirement obligation

Decommissioning liabilities

Provision for decommissioning liabilities is recorded at the discounted value of expected costs to bring the sites and facilities to their original condition using estimated cash flows and is recognised as part of the cost of the specific asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability.

Movements in provision for decommissioning liabilities for the years ended 31 December 2019 and 2018 were as follows:

In thousands of tenge	**2019**	2018
Provision for decommissioning liabilities as at 1 January	**1,285,482**	1,285,482
Additional provisions *(Note 8)*	**541,649**	–
Amortisation of discount *(Note 26)*	**143,084**	–
Provision for decommissioning liabilities as at 31 December	**1,970,215**	1,285,482

19. Asset retirement obligation continued

Decommissioning liabilities continued

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

	2019	2018
Discount rate	**6.98%**	11.5%
Inflation rate	**5.5%**	5.47%
Period of fulfillment of obligation	**12 years**	13 years

20. Other current financial liabilities

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

In thousands of tenge	31 December 2019	31 December 2018
Accrued salaries and bonuses to employees	**3,171,814**	1,716,864
	3,171,814	1,716,864

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

As at 31 December 2019 and 2018 the Group's trade other current financial liabilities were denominated in tenge.

21. Other taxes payable

In thousands of tenge	31 December 2019	31 December 2018
Property tax	**501,561**	420,838
Other taxes	**–**	1,165,018
	501,561	1,585,856

22. Revenue from contracts with customers

In thousands of tenge	2019	2018
Voice and other services	**78,688,600**	77,515,304
Data service	**51,429,794**	45,799,748
Sale of handsets	**19,092,662**	18,432,075
Value added services	**7,445,805**	7,953,623
	156,656,861	149,700,750
Over time	**137,564,199**	131,268,675
At a point of time	**19,092,662**	18,432,075
	156,656,861	149,700,750

23. Cost of sales

In thousands of tenge	2019	2018
Depreciation and amortisation	**26,473,640**	23,075,156
Interconnect fees and expenses	**24,729,118**	24,411,218
Cost of SIM-card, scratch card, start package sales and handsets	**16,449,940**	15,026,175
Personnel costs	**9,391,657**	9,924,129
Transmission services	**9,197,019**	9,647,353
Repair and maintenance	**7,551,863**	6,786,443
Fees for use of frequency range	**5,577,710**	5,170,688
Electricity	**3,510,649**	3,378,055
Mobile service tax	**1,846,300**	1,911,251
Rental of base stations	**1,010,484**	5,894,770
Security and safety	**390,667**	230,583
Materials	**280,549**	122,491
Rent expenses	**196,737**	892,273
Other	**2,588,663**	2,962,561
	109,194,996	109,433,146

24. General and administrative expenses

In thousands of tenge	2019	2018
Depreciation and amortisation	**3,474,343**	3,557,008
Personnel costs	**2,885,499**	2,214,560
Taxes other than corporate income tax	**1,124,284**	5,044,884
Consulting services	**450,618**	780,549
Repair and maintenance	**321,184**	330,982
Representative expenses	**102,251**	169,279
Business trips	**50,540**	159,786
Trainings	**32,907**	128,386
Inventories	**29,902**	167,566
Security and safety	**28,044**	230,151
Insurance	**23,603**	32,093
Other	**401,509**	1,259,241
	8,924,684	14,074,485

25. Selling expenses

In thousands of tenge	2019	2018
Marketing and advertising	**1,848,944**	1,863,810
Amortisation of cost to obtain a contract	**338,285**	264,519
Commissions for dealers and cash collection	**205,164**	493,898
Other	**494,828**	427,634
	2,887,221	3,049,861

26. Finance cost/finance income

Finance costs and finance income for the years ended 31 December comprised:

In thousands of tenge	2019	2018
Finance costs		
Interest expense on loans	**8,358,366**	9,720,797
Interest on lease liabilities (Note 3)	**2,914,490**	–
Unwinding of discount (provision for decommissioning liability) (Note 19)	**143,084**	–
Other	**84,071**	–
	11,500,011	9,720,797
Finance income		
Recognition of discount on long-term loans	**903,893**	–
Interest income on cash balances and deposit	**404,036**	781,137
Other	**107,428**	–
	1,415,357	781,137

27. Income tax expenses

In thousands of tenge	**2019**	2018
Current income tax expense	**(4,299,740)**	(6,893,128)
Adjustments in respect of income tax of previous year	**75,644**	(173,416)
Deferred income tax benefit	**1,471,104**	3,334,106
	(2,752,992)	(3,732,438)

The Group are subject to taxation in the Republic of Kazakhstan. Tax rate for the Group and subsidiaries was 20% in 2019 and 2018.

A reconciliation of income tax expenses applicable to profit before taxation at the statutory rate of 20% (2018: 20%), with the current corporate income tax expenses for the years ended 31 December is set out below:

In thousands of tenge	**2019**	2018
Profit before taxation	**12,870,391**	12,263,470
Income tax at statutory income tax rate of 20%	**2,574,078**	2,452,694
Non-taxable income	**(1,163,209)**	–
Non-deductible expenses	**1,019,810**	1,106,328
Recognition of tax loss carry forward	**(1,377,725)**	–
Derecognition of deferred tax assets of expected credit losses	**1,150,148**	–
Adjustments in respect of income tax of previous year	**(75,644)**	173,416
Adjustments in respect of deferred income tax of previous year	**625,534**	–
Total income tax expenses	**2,752,992**	3,732,438

Non-taxable income represents income from reversal of tax and related fines and penalties provision in the amount of 5,816,045 thousand tenge. Non-deductible expenses mainly represented by expenses such as representative expenses, fines and penalties, taxes at own expenses, and other expenses which are in accordance with tax code are non-deductible.

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

	Consolidated statement of financial position		**Consolidated statement of comprehensive income**		**The effect of the application of new standards (Note 3)**
In thousands of tenge	**31 December 2019**	31 December 2018	**2019**	2018	**2019**
Deferred tax assets					
Expected credit losses	**343,373**	1,336,023	**(992,650)**	237,193	–
Accrued bonuses to employees	**359,580**	69,248	**290,332**	36,788	–
Tax loss carry forward	**1,377,725**	–	**1,377,725**	–	–
Lease liabilities	**350,213**	–	**187,863**	–	**162,350**
Provision for unused vacation	**116,361**	118,579	**(2,218)**	(7,022)	–
Asset retirement obligation	**394,043**	257,096	**136,947**	–	–
Deferred services	**650,877**	620,753	**30,124**	(187,107)	–
Other	**132,618**	23,325	**109,293**	(12,016)	–
Deferred tax assets	**3,724,790**	2,425,024	**1,137,416**	67,836	**162,350**
Deferred tax liabilities					
Property and equipment and intangible asset	**(3,389,878)**	(3,802,600)	**412,722**	3,344,030	–
Other	**(205,373)**	(126,339)	**(79,034)**	(77,760)	–
Deferred tax liabilities	**(3,595,251)**	(3,928,939)	**333,688**	3,266,270	–
Deferred tax assets/(liabilities) net	**129,539**	(1,503,915)	**1,471,104**	3,334,106	**162,350**

The Group performs offsetting of tax assets and liabilities only if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred tax assets and deferred tax liabilities relating to income tax collected by the same taxation authority.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. In accordance with legislation of the Republic of Kazakhstan, tax losses may be deferred for 10 (ten) years from the date of their origination. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

27. Income tax expenses continued

As at 31 December 2019, the Group has not recognised deferred tax assets in relation to the temporary difference in the amount of 813,119 thousand tenge (as at 31 December 2018: 670,727 thousand tenge) related to investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not expect to reverse them in the foreseeable future.

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

In thousands of tenge	**2019**	2018
Deferred tax assets	**1,377,725**	–
Deferred tax liabilities	**(1,248,186)**	(1,503,915)
	129,539	(1,503,915)

28. Related party disclosures

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Group's primary transactions with related parties are consulting services, technical assistance and operational support, transmission rent, roaming and interconnect.

As at 31 December 2019, the Group recognised an allowance for expected credit losses in the amount of 98,302 thousand tenge in respect of receivables from related parties (31 December 2018: nil).

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

Related party transactions were made on terms agreed between parties that may not necessarily be at market rate. Sales and purchases with related parties during 2019 and 2018, and the balances with related parties as at 31 December 2019 and 31 December 2018, were as follows:

In thousands of tenge	**2019**	2018
Sales of goods and services		
Entities of Telia Company group (previous shareholder)	–	538,393
Entities of Samruk Kazyna group	**197,372**	7,825
Entities of Kazaktelecom group	**11,673,881**	62,203
Government entities	**303,461**	8,115
Purchases of goods and services		
Entities of Telia Company group (previous shareholder)	–	1,748,785
Entities of Samruk Kazyna group	**745,165**	44,949
Entities of Kazaktelecom group	**18,988,216**	12,303
Government entities	**25,705**	2,982

In thousands of tenge	**31 December 2019**	31 December 2018
Trade receivables *(Note 10)*		
Entities of Samruk Kazyna group	**65,448**	452,534
Entities of Kazaktelecom group	**816,404**	199,106
Government entities	**5,365**	8,273
Trade payables *(Note 17)*		
Entities of Samruk Kazyna group	**155,618**	14,823
Entities of Kazaktelecom group	**975,617**	658,622
Government entities	**440**	1,273

Compensation to key management personnel

For the years ended 31 December 2019 and 2018, the total compensation to key management personnel included in the accompanying consolidated statement of comprehensive income under general and administrative expenses was 118,274 thousand tenge and 353,715 thousand tenge, respectively. Compensation to key management personnel consists of wages fixed in the employment agreement, as well as remuneration based on the performance for the year.

29. Financial instruments and financial risk management objectives and principles

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

Impairment losses on financial assets

Impairment losses on financial assets for the year ended 31 December 2019, comprise accruing reserve for trade receivables in amount of 2,256,120 thousand tenge (*Note 10*).

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. As at 31 December 2019, the Group had no loans or borrowings with floating interest rates and was not subjected to the risk of changes in market interest rates.

Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

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

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rates of US dollar to tenge, with all the variables held constant, of the Group's profit before income tax (due to changes in the fair value of monetary assets and liabilities). There is no impact on the Group's equity.

	2019		2018	
In thousands of tenge	**Increase/ (decrease) in exchange rate**	**Effect on profit before tax**	Increase/ (decrease) in exchange rate	Effect on profit before tax
US dollars	**12%**	**626,411**	10%	468,761
	-9%	**(469,808)**	-10%	(468,761)

Credit risk

Credit risk is the risk that the Group will incur finance costs because its customers, clients or counterparties failed to discharge their contractual obligations. The Group is exposed to credit risk associated with its operating activities (primarily with respect to trade receivables) and financial activities, including bank deposits and financial organisations, foreign exchange transactions and other financial instruments.

Trade receivables

Financial instruments in which the Group's credit risk is concentrated are primarily trade receivables. The credit risk associated with these assets is limited due to the large number of the Group's customers and the continuous monitoring procedures for customers and other debtors.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than three years and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Notes 10 and 13.

29. Financial instruments and financial risk management objectives and principles continued

Financial instruments and cash deposits

In accordance with the financial policy, the Group places free cash in several of the largest Kazakhstani banks (with the highest credit ratings). To manage the credit risk associated with the placement of free cash in banks, the Group's management periodically conducts procedures for assessing the solvency of banks. To facilitate such an assessment, deposits are primarily placed in banks, where the Group already has comparable credit obligations, a current checking account and can easily monitor the activities of such banks.

In thousands of tenge	Rating 2019	Rating 2018	Cash balance 2019	Cash balance 2018	Balance on deposit accounts 2019	Balance on deposit accounts 2018
Citibank Kazakhstan JSC	**A+**	A+	**3,119,666**	383,744	**138,712**	–
Halyk Bank Kazakhstan JSC	**BB**	BB	**1,315,728**	1,551,546	**–**	–
Kaspi Bank JSC	**BB-**	BB-	**514,064**	699,999	**–**	–
Credit Suisse (Schweiz) AG	**A+**	A-	**465,918**	–	**–**	–
SB Sberbank JSC	**B**	BB+	**95,959**	45,667	**–**	–
Altyn Bank JSC	**BBB-**	BB	**35,023**	3,293,520	**3,116,850**	
Halyk Finance JSC	**BB**	BB	**1,232**	–	**–**	–
Bank of China Kazakhstan JSC	**A+**	BBB+	**430**	–	**–**	–
Eurasian Bank JSC	**B-**	B	**359**	36,930	**–**	–
Bank CenterCredit JSC	**B**	B	**143**	4,343	**–**	–
Forte Bank JSC	**B-**	B	**33**	–	**–**	–
Alfa Bank JSC	**BB-**	BB-	**31**	103	**–**	–
SB VTB Bank JSC	**BB+**	BB+	**27**	–	**–**	–
Total			**5,548,613**	6,015,852	**3,255,562**	–

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances.

The Group monitors its risk of a shortage of funds using a liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivables, other financial assets) and projected cash flows from operations.

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

In thousands of tenge	On demand	1 to 3 months	3 months to 1 year	From 1 to 5 years	More than 5 years	Total
At 31 December 2019						
Borrowings	**–**	**7,383,593**	**4,253,352**	**70,368,300**	**–**	**82,005,245**
Trade and other payables	**–**	**21,174,548**	**–**	**–**	**–**	**21,174,548**
Lease liabilities	**–**	**1,457,075**	**4,371,226**	**22,919,508**	**4,618,657**	**33,366,466**
Other current financial liabilities	**–**	**3,171,814**	**–**	**–**	**–**	**3,171,814**
	–	**33,187,030**	**8,624,578**	**93,287,808**	**4,618,657**	**139,718,073**
At 31 December 2018						
Borrowings	–	27,956,380	29,575,636	25,506,565	–	83,038,581
Trade and other payables	–	14,047,602	–	–	–	14,047,602
Other current financial liabilities	–	1,716,864	–	–	–	1,716,864
	–	43,720,846	29,575,636	25,506,565	–	98,803,047

29. Financial instruments and financial risk management objectives and principles continued

Cash flow risk

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

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

Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to the holders of common shares, return equity to shareholders or issue new shares. No changes were made by the Group in the capital management objectives, policies or processes in 2019 and 2018.

Fair values

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

The table below presents fair value hierarchy of assets and liabilities of the Group. Disclosure of quantitative information of fair value hierarchy of financial instruments as at 31 December 2019 was as follow:

In thousands of tenge	Date of valuation	Price quotation on active market (Level 1)	Significant observable in-puts (Level 2)	Significant unobservable in-puts (Level 3)	Total
Assets for which fair values are disclosed					
Financial assets at fair value through other comprehensive income	31 December 2019	**4,964,633**	–	–	**4,964,633**
Short-term trade receivables	31 December 2019	–	–	**15,646,942**	**15,646,942**
Long-term trade receivables	31 December 2019	–	–	**1,146,506**	**1,146,506**
Other current financial assets	31 December 2019	–	–	**1,371,295**	**1,371,295**
Liabilities for which fair values are disclosed					
Borrowings	31 December 2019	–	–	**61,777,730**	**61,777,730**
Trade payables	31 December 2019	–	–	**21,174,548**	**21,174,548**
Other current financial liabilities	31 December 2019	–	–	**3,171,814**	**3,171,814**

29. Financial instruments and financial risk management objectives and principles continued

Fair values continued

The table below presents fair value hierarchy of assets and liabilities of the Group. Disclosure of quantitative information of fair value hierarchy of financial instruments as at 31 December 2018 was as follow:

In thousands of tenge	Date of valuation	Price quotation on active market (Level 1)	Significant observable in-puts (Level 2)	Significant unobservable in-puts (Level 3)	Total
Assets for which fair values are disclosed					
Short-term trade receivables	31 December 2018	–	–	13,787,025	13,787,025
Long-term trade receivables	31 December 2018	–	–	3,009,995	3,009,995
Other current financial assets	31 December 2018	–	–	1,010,707	1,010,707
Liabilities for which fair values are disclosed					
Borrowings	31 December 2018	–	–	66,718,786	66,718,786
Trade payables	31 December 2018	–	–	14,047,602	14,047,602
Other current financial liabilities	31 December 2018	–	–	1,716,864	1,716,864

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

In thousands of tenge	**Carrying amount 31 December 2019**	**Fair value 31 December 2019**	**Unrecognised gain/(loss)**	Carrying amount 31 December 2018	Fair value 31 December 2018	Unrecognised gain/(loss)
Financial assets						
Cash and cash equivalents	**8,825,048**	**8,825,048**	**–**	6,029,042	6,029,042	–
Financial assets at fair value through other comprehensive income	**4,964,633**	**4,964,633**	**–**	–	–	–
Short-term trade receivables	**15,646,942**	**15,646,942**	**–**	13,787,025	13,787,025	–
Long-term trade receivables	**1,118,077**	**1,146,506**	**28,429**	3,009,995	3,009,995	–
Other current financial assets	**1,371,295**	**1,371,295**	**–**	1,010,707	1,010,707	–
Financial liabilities						–
Borrowings	**61,931,972**	**61,777,730**	**(154,242)**	66,718,786	66,718,786	–
Trade payables	**21,174,548**	**21,174,548**	**–**	14,047,602	14,047,602	–
Other current financial liabilities	**3,171,814**	**3,171,814**	**–**	1,716,864	1,716,864	–
Total unrecognised change in unrealised fair value			**(125,813)**			–

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that their fair value approximates to the carrying amount. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Financial liabilities carried at amortised cost

The fair value of loans obtained is measured by discounting future cash flows using rates currently existing for outstanding amounts with similar terms, credit risk and maturity.

29. Financial instruments and financial risk management objectives and principles continued

Valuation techniques and assumptions continued

Changes in liabilities arising from financial activities

Changes in liabilities arising from financial activities for 2019 were as follows:

In thousands of tenge	1 January 2019	**Loan obtained**	**New leases**	**Principal repaid**	**Interest accrued**	**Interest paid**	**Reclassific**
Borrowings: non-current portion	14,935,969	**32,024,647**	**–**	**–**	**8,358,366**	**(6,911,123)**	**8,399**
Borrowings: current portion	51,782,817	**5,000,000**	**–**	**(42,000,000)**	**–**	**–**	**(8,399**
Long-term lease liabilities	22,191,923	**–**	**1,843,485**	**–**	**–**	**–**	**(2,921,**
Short-term lease liabilities	2,689,887	**–**	**236,187**	**(2,649,442)**	**2,914,490**	**(2,914,490)**	**2,921,**
Total	91,600,596	**37,024,647**	**2,079,672**	**(44,649,442)**	**11,272,856**	**(9,825,613)**	

Changes in liabilities due to financial activities for 2018 were as follows:

In thousands of tenge	1 January 2018	Loan obtained	Reclassification	Principal repaid	Interest accrued	Interest paid	Commissi recognis
Borrowings: non-current portion	12,000,000	21,790,000	(27,615,976)	–	9,720,797	–	(275,8
Borrowings: current portion	58,417,722	10,000,000	27,615,976	(35,210,000)	–	(9,040,881)	
Total	70,417,722	31,790,000	–	(35,210,000)	9,720,797	(9,040,881)	(275,8

ation	Modifications	Cancellation of leases	Commission recognised	Discount recognised	31 December 2019
,159	**–**	**–**	**(354,811)**	**(903,893)**	**55,548,314**
,159)	**–**	**–**	**–**	**–**	**6,383,658**
,796)	**534,635**	**(28,726)**	**–**	**–**	**21,619,521**
,796	**–**	**–**	**–**	**–**	**3,198,428**
–	**534,635**	**(28,726)**	**(354,811)**	**(903,893)**	**86,749,921**

on ed	The effect of application IFRS 9	31 December 2018
84)	(682,968)	14,935,969
–	–	51,782,817
84)	(682,968)	66,718,786

30. Commitments and contingent liabilities

Operating environment

Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstan economy will largely depend on these reforms, as well as on the effectiveness of the Government's actions in the area of economy, financial and monetary policy.

Capital commitments

The Group generally enters into contracts for the completion of construction projects and purchase of equipment. As at 31 December 2019, the Group had contractual commitments totalling 5,213,491 thousand tenge, excluding VAT (as at 31 December 2018: 4,295,229 thousand tenge, excluding VAT).

Taxation

Tax legislation and regulatory framework of the Republic of Kazakhstan are subject to constant changes and allow for different interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 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 December 2019. Management believes that as at 31 December 2019 its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained, except as provided for or otherwise disclosed in these consolidated financial statements.

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

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

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

- Additional charge on withholding tax for services provided by non-resident legal entities in the amount of 2,196,555 thousand tenge;
- Additional VAT on software technical support services provided by non-resident legal entities in the amount of 779,916 thousand tenge;
- Related fines and penalties in the amount of 2,839,574 thousand tenge.

The Group recognised income from reversal of the tax and related fines and penalties provision in the total amount of 5,816,045 thousand tenge in the consolidated statement of comprehensive income for the year ended 31 December 2019. As the Group has already paid withholding tax for services provided by non-resident legal entities in the amount of 2,196,555 thousand tenge and additional VAT and withholding tax for services charge in the amount of 779,916 thousand tenge, the Group recognised these prepaid taxes and expects to offset against future taxes accrual. Fines and penalties in the amount of 2,839,574 thousand tenge was not paid as of 31 December 2019, and the Group had recognised provision on the full amount of the fines and penalties in previous year. Thus, the Group recognised the reversal of the provision on fines and penalties for the total amount of 2,839,574 thousand tenge. As at 31 December 2019, the Group had remaining liability for fine and penalty in the amount of 187,793 thousand tenge (as at 31 December 2018: 2,910,727 thousand tenge).

New technical regulations

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

30. Commitments and contingent liabilities continued

Cases related to the abuse of dominant position

Tariffication of Kcell's mobile Internet services

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

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

The Group did not agree with the order issued by the Committee. On 3 July 2019, the Group appealed to the Court. The management of the Group believed that the appeal would be successful and assessed the probability of outflow of cash as possible.

On 25 October 2019, Specialised Inter-district Economic Court of Almaty issued the resolution to cancel administrative proceedings due to the lack of an offense. However, the Committee has the right to appeal within 180 days after announcement of the resolution. As of 31 December 2019, the Committee has not yet appealed. The term for appeal will be ended in April 2020. The management of the Group believes that as of 31 December 2019 the probability of outflow of cash is remote.

Billing cycle of mobile phone plans

On 27 December 2019, the Company received a notification from the Committee on Regulation and Protection of Competition of the Ministry of National Economy of the Republic of Kazakhstan ('Committee') prescribing that the Group should bring its existing and legacy mobile phone plans in line with Rules for provision of mobile services ('Rules'), namely to set a calendar month as default billing cycle, as follows from the definition of the term 'accounting period'. According to the Committee, by establishing a one-day, a weekly, a 28-day or a 30-day billing cycle on mobile phone plans the Group breaches article 174.1 of the Business Code of the Republic of Kazakhstan. The Committee also sees the reduction of billing cycle as possible abuse of the dominant position through violation of the rights of consumers. The Group sent a letter to the Ministry of National Economy ('MNE') describing the wrong interpretation by the Committee of the provisions of the Rules and requesting to suspend the Notice until the time when amendments to the Rules come into force. As at 31 December 2019, no response from MNE was received. The management of the Group believes that the Committee's claims against the Group are not supported and any outflow of economic resources related to the above matter is possible.

31. Subsequent events

On 31 January 2020 the Group has fully repaid loan in the amount of 5,132,207 thousand tenge obtained from SB JSC VTB Bank Kazakhstan.

On 20 January 2020 the Group paid a coupon interest to bondholders in the amount of 1,250,855 thousand tenge.

On 6 February 2020 the Group's common shares and global depositary receipts (GDRs) were included in official list of the Astana International Exchange ('AIX'). Bidding started on 7 February.

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