



ҚАЗАҚТЕЛЕКОМ



25  
years

# Delivering Future

INTEGRATED ANNUAL REPORT  
FOR THE YEAR 2019

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# ABOUT THE REPORT

The integrated Annual Report of Kazakhtelecom JSC provides information on financial and non-financial performance of the Company for 2019.

Report limits: in terms of financial indicators - the Kazakhtelecom JSC Group, in terms of non-financial indicators - Central apparatus and 15 branches of the Company.

In terms of financial indicators, the Report has been prepared on the basis of the consolidated IFRS financial Reports for the year ended 31 December 2019 for the Kazakhtelecom JSC Group that are part of the consolidation perimeter.

Sustainable development Report has been prepared in accordance with the GRE Standards G4, the «general» option, describes the relevant activities from 1 January to 31 December 2019, and the Report cycle is annual.

Kazakhtelecom JSC issues Annual Public Non-financial Reports since 2017. All Company Reports are available on the official website of Kazakhtelecom JSC.

In order to reveal the most relevant topics in the Report, the Company has conducted an analysis of the materiality of sustainable development aspects on selected indicators and topics specified in the GRE Standards, based on an overview of the internal and external environment of the Company with the involvement of interested parties. In order to determine significant topics, a comparison of non-financial Reports of leading telecommunication companies was carried out, significant events and trends in the field of sustainable development were taken into account. Issues relevant for meetings with interested parties on sustainable development, feedback information on the Reports of the previous period were also considered. The Report shows the key results of the Company's

activities, including regional branches designated in the Data Collection Boundaries. The information for the Report, taking into account the results of the materiality analysis, was collected using the corporate Report system and special information queries on the requirements of the GRE.

The Report was approved by the Board of Directors of Kazakhtelecom JSC .

The Report does not have an external representation.



# The Company Today



The largest integrated operator in Kazakhstan

Positions of Kazakhtelecom JSC in the market

fixed telephony

**90%**

fixed internet

**85%**

mobile market

**61%**

# FOREWORD

Internet of things, smart homes and cities, cybersport, cloud video surveillance and e-commerce - Kazakhstan citizens live at a time where reality is ahead of fantasy. Smart technology is becoming an integral part of human life.

Digitalization, which covered all spheres of life, forms a demand for new digital competencies, creation of completely different business processes, which are based on digital platforms. The role of telecommunications is changing, and the requirements for solutions, products and companies working in this sector are increasing. Telecommunications operators should no longer simply satisfy, but predict, the interests of customers, thus forming new revenue-generating niches in the market.

In recent decades, the rapid development of technologies in the field of communications has led to significant changes in the activities of Kazakhtelecom JSC. We have chosen our own strategy, which allows the Company not only to develop new directions, to create innovative products, but also to resuscitate wired communication as part of various package offers. Implementation of the strategy requires serious management efforts, as it provides for the development of large-scale infrastructure projects, expansion of work within the framework of B2C, interaction with the state and corporate customers, as well as participation in major projects within the country's digital agenda.

In addition, as a responsible the Company, Kazakhtelecom JSC shares the goals of sustainable development of the UN. We recognize the importance of our impact on the economy, the environment and society and take a balanced, rational approach, taking into account the interests of stakeholders. The optimal balance of the environmental, social and economic components of the activities is the basis for the long-term sustainable development of the Kazakhtelecom JSC Group.

The Company focuses on simple ways to achieve operational efficiency, improving the quality of its services and products for the convenience of customers. In particular, focusing on improving the quality of the subscriber network, developing digital services and improving the customer experience. The main priority was not just to increase the number of connections, but to improve the quality

and long-term potential of the existing customer base. We provide services in all segments of the telecommunications market, including voice and mobile data services, fixed-line services, digital television, IP telephony, innovative services, including mobile TV and OTT-video content services, financial services, mobile advertising services, M2M, Big Data, converged services, and cloud solutions.

You are holding the Annual Report for 2019, which reflects the main technical, financial and non-financial industry indicators of Kazakhtelecom JSC. Important events and decisions that have influenced our development have been described. In addition, information on the activities of subsidiaries and plans for the forthcoming period are given.

At present, the economic and social development of any country of the world, including Kazakhstan, is based on the introduction and wide use of new technologies in the field of mobile data transmission.

The Internet of things, Big-Data, remote education, telemedicine, even social media communication – all this is impossible without basic infrastructure. Kazakhtelecom JSC last year continued the implementation of a large-scale project to provide rural settlements of Kazakhstan with broadband access to the Internet by the technology of fiber-optic communications lines. The Company has committed to build 14,500 km of optical lines in 828 villages by the end of 2020, thus covering 2.5 million residents with high-speed internet. At present, the Company has connected to the optical fiber communication links government institutions in the villages of Almaty, Aktobe, East Kazakhstan, Zhambyl, West Kazakhstan, Karaganda, Kyzylorda, Pavlodar and Turkistan regions.

As a result of the implementation of the continuous feed system of optical fiber communication links draft, government and budgetary institutions will be provided with high-quality digital communication. The network will allow almost unlimited provision of various services with the specified quality, in addition will have a positive impact on the development of innovative technology «Smart City», in which life support systems are controlled automatically by analysis of big data by artificial intelligence.

The prototype of the «smart city» on the example of the city of Aqkol was presented at the beginning of last year. Aqkol has fully covered 4G networks based on technology LoRaWAN and now intelligent systems help to ensure the effective functioning of urban services, safety and comfort of residents. Kazakhtelecom JSC is ready to scale this pilot project in other settlements of Kazakhstan.

Today, as the telecommunications market saturates, operators will move from ordinary communications and internet access to the creation of internet services, an important component of which is access to a high-grade network. Therefore, the Company continues to study and test the technology and 5G opportunities in the cities of Nur-Sultan, Almaty and Almaty region. In addition, last autumn the technology of 5G in the Tele2/ALTEL network became available on the territory of the International technopark of IT-start-ups in the range of radio frequencies 3.5 GHz.

It should be noted that the synergy of the fifth generation network development and the construction of the Continuous feed system of fiber-optic communication lines project will allow to expand the digital capabilities of Kazakhtelecom JSC. In addition, the positive effect will be generated by acquired assets - mobile operators. In 2019, a very important deal was held for they to gain control over 100% of the participation in Mobile Telecom-Service LLP, representing the brands Tele2 and ALTEL. This was a good addition to the already existing 75% shares of JSC Kcell, which allows Kazakhtelecom JSC to implement a number of ambitious projects by integrating networks of cellular operators and provide the Company with an unconditional strategic advantage in the telecommunications market of the country. It should be noted that for the deal on acquisition of 75% of shares of Kazakhtelecom JSC received a prestigious award in the nomination «Deal of the year» at the annual international award «TMT M & A Awards» 2019 in London.

For 25 years Kazakhtelecom JSC has been working to improve the quality of services provided, develops new directions and creates innovative products. In order to improve our efficiency, we continued to transform the organizational structure to a divisional management model. It allowed the Company to focus its efforts on retail and corporate segments based on the needs

of the client. The promotion and strengthening of corporate values of «CREDO» remained an important aspect. All achievements of the Company – the result of professional activity of employees. Our team improves their knowledge and skills every day to fit the Company's mission – «To become an indispensable and familiar part of everyone's life, changing, surprising and exceeding expectations». We still remain leaders in the telecommunications market: the number of fixed lines amounted more than 2,849 thousand units, including more than 2,042 thousand units in urban telecommunication network (UTN), more than 807 thousand units in rural settlement telecommunication network (CTN). The number of fixed broadband subscribers access is more than 1,700 thousand ports, the number of Pay TV subscribers – more than 750 thousand points. iD TV subscribers more than 574 thousand points, iD TV Online – 52 thousand points, cable television – 124 thousand points.

The effectiveness of our work in 2019 was confirmed by high ratings of international agencies. Thus, Fitch Ratings rated Kazakhtelecom JSC at the level of BB+ and also retained «Revision on enhance». The ratings of Kazakhtelecom JSC are associated with the strong market position of the Company in key segments of fixed services, generation of significant positive free cash flow, low level of debt burden, as well as favorable regulation. According to the agency's approach, the evaluation of the operating profile of the Company in this case may be in the investment category «BBB».

For 2020 Kazakhtelecom JSC aims to achieve less ambitious tasks, including the works on integration, strengthening of synergy effect in terms of technical and economic optimization. We will also continue to improve the quality of our services, which is a key task for the whole the Kazakhtelecom JSC Group. Besides, Kazakhtelecom JSC will develop further cloudy video surveillance, the Internet of things and use of big data for analytics, to build «the smart cities» and to advance online commerce. All this together will allow to change quality of life of Kazakhstan citizens and to make their life more convenient, more comfortable, and the main is safer.

**DIGITAL FUTURE BECOMES CLOSER TOGETHER WITH KAZAKHTELECOM JSC!**

# ADDRESS OF THE CHAIRMAN OF THE BOARD OF DIRECTORS



In the third decade of the XXI century, Kazakhtelecom JSC enters confidently as the leader of the digital industry of Kazakhstan, knowing its role and significance in solving large-scale tasks of socio-economic development of the Republic of Kazakhstan.



**N. BAIDAULETOV**

## DEAR SHAREHOLDERS, COLLEAGUES, CLIENTS AND PARTNERS!

In the third decade of the XXI century, Kazakhtelecom JSC enters confidently as the leader of the digital industry of Kazakhstan, knowing its role and significance in solving large-scale tasks of socio-economic development of the Republic of Kazakhstan.

In 2019, the Company continued to implement a number of projects that confirmed its status as a reliable partner capable of implementing key programs throughout the country.

These include the construction of fiber-optic communication lines in rural localities, the introduction of the concept of «smart cities» and the transition to the 5G standard. One of the key events was the completion of the transaction to acquire 49% of Tele2 AB's share in the joint venture in the mobile segment.

The Company's employees achieved their goals and plans in many areas of activity, and this helped to strengthen their positions Kazakhtelecom JSC as a leading telecommunications operator country operator.

The Company's performance in 2019 was confirmed by the indicators of international agencies – significant events had a positive impact on the Company's credit ratings.

Thus, FitchRatings Agency highly rated Kazakhtelecom, confirming the Company's rating at BB+, and also improved the outlook on the credit rating to «Positive».

The Board of Directors intends to continue making decisions that contribute to the development and growth of the Company's value.

The Company will continue to follow the principles of sustainable development, introduce advanced technologies, improve the quality of service and services, search for new sources of revenue, and maintain the industry's established traditions and indicative degree of social responsibility stability.

On behalf of the Board of Directors, I express my gratitude to all shareholders, colleagues, partners and clients of Kazakhtelecom JSC for the results achieved and their conscientious attitude to business.

Best regards,  
Chairman of the Board of Directors  
Kazakhtelecom JSC  
**N. Baidauletov**

# ADDRESS OF THE CHAIRMAN OF THE MANAGEMENT BOARD



Despite the general saturation of the telecommunications market, we managed to achieve successes, which confirm the correctness of the strategy chosen by us - transformation of Kazakhtelecom JSC into a full-fledged universal multi-service telecommunication operator.



**K. YESSEKEYEV**

## DEAR SHAREHOLDERS, INVESTORS, CLIENTS AND PARTNERS!

2019 was a landmark year for Kazakhtelecom JSC for two reasons. First, we have completed a cycle of strategic acquisitions and confirmed the correctness of our Development Strategy, which is aimed at achieving technological leadership, optimizing the structure and forms of management and increasing margins throughout the value chain. Secondly, 2019 is the year of the 25th anniversary of the Company's creation, which in a quarter of a century was able to overcome the path from providing traditional fixed-line services to creating innovative products.

Despite the general saturation of the telecommunications market, we managed to achieve successes, which confirm the correctness of the strategy chosen by us - transformation of Kazakhtelecom JSC into a full-fledged universal multi-service telecommunication operator.

Digital transformation, which has covered all areas of the economy and society, is a new reality that requires telecommunications companies to radically revise their business processes and approaches to working with consumers. The company operates in one of the most dynamic markets, striving not only to respond to changes, but also to anticipate them, forming new trends and needs, often defining the contours of the future.

We actively introduce new innovative services, such as a smart house and a smart city, form the market «IoT», test the capabilities of 5G. All these achievements were made possible thanks to the great experience of work and professional team. Together we managed to change approaches to work, optimize business processes and make our corporate values close to each employee.

All the most important events and decisions taken in 2019 are reflected in the Annual Report, which I am pleased to present to your attention. In it you will find the main indicators by which the Company's activity is measured - technical, financial and non-financial, industry indicators; analysis of work in different market segments; progress of drafts, as well as information on the activities of subsidiaries and plans for the forthcoming period.

Internally, we continued to implement a strategic project to build fiber-optic communications lines in rural settlements. The continuous feed system of optical fiber communication links project, which is the first of its kind and the largest all-republican public-private partnership project in the country, plays a key role in digitization of Kazakh villages. After its completion this year, 2.5 million of our fellow citizens living in remote villages will have access to advanced technologies, as well as to the opportunities provided by mobile communication today. The positive effect of the project implementation will be the development of innovative services and the organization of access to telemedicine, online education, e-commerce services and the receipt of public services online. We will make every effort to implement this project in a timely and qualitative manner.

Last year the Company continued to study the possibilities of 5G, having carried out 10 tests of this network in the field conditions in the cities of Nur-Sultan, Almaty and Almaty region. The first commercial network of 5G in Kazakhstan was deployed in the capital on the territory of the international technopark of IT-start-ups «Astana Hub». In order to ensure further predicted multiple growth of internet traffic in mobile communication networks, when moving to a new 5G standard, the preparation of a technological infrastructure solution capable of transmitting huge amounts of data has begun. It is important to note that the emergence of the 5G standard network in the country can fundamentally change the Kazakh economy and the life of Kazakhstanis.

We are very glad that we take an active part in the creation of virtual Kazakhstan. It was a great honor for us to participate in the «Smart Aqkol» project, implemented within one of the main directions of the government Programm «Digital Kazakhstan» to introduce concepts of smart cities in the country. «Smart Aqkol» is a model project that aims to form a single standard for the development of smart cities. It includes 11 directions - from safety to ecology. In addition, the prospects of using 5G technology for digitization of cities were presented, as well as the advantages of the wireless energy-efficient LoRaWAN network built in Aqkol, opportunities for the development of «e-commerce» and projects based on Blockchain technology were demonstrated.

With the development of digital technologies and the Internet of things, issues of information security as part of compliance are becoming increasingly important. Kazakhtelekom seeks to provide the highest level of data security for all its customers.

Another development for the Company and the telecommunications market of the country was the completion of the deal to acquire 49% of Tele2 AB share in the joint venture. This was a successful addition to the purchase of 75% of the shares of KCell JSC in 2018, for which the Company received a prestigious award in the nomination «Deal of the year» at the annual international award «TMT M & A Awards 2019» in London. These acquisitions have had positive dynamics on both mobile operators and Kazakhtelekom JSC. We have the opportunity to build an integrated telecommunications platform covering the whole of Kazakhstan, as well as to strengthen our market positions and operating portfolio of the Kazakhtelekom JSC Group. But most importantly, the end result of synergy will allow our clients to use a much larger range of services. Without false modesty I will say that after all the changes our Company has become an integrated operator, which provides all services and owns a first-class backbone network.

We are very glad that we take an active part in the creation of virtual Kazakhstan. It was a great honor for us to participate in the «Smart Aqkol» project, implemented within one of the main directions of the government Programm «Digital Kazakhstan» to introduce concepts of smart cities in the country.

Without false modesty, after all the changes, our Company has become an integrated operator that provides all services and owns a first-class backbone network. The effectiveness of the two deals conducted last year, as well as their positive impact on the Company's business performance and value growth are confirmed by high ratings of international agencies. Thus, Fitch Ratings rated Kazakhtelekom JSC's rating at BB+, and also kept the «Revision to increase».

For 25 years Kazakhtelekom JSC has been a reliable partner, service provider and provider of innovative services and services. In many ways, such trust has developed thanks to professionalism, high dedication and focus on the result of each employee of the Company. Implementation of our projects and introduction of innovative services is the result of coordinated work of all divisions and effective communications within the Company.

The Company pays great attention to the development of corporate culture, stimulating the involvement of employees at all levels in creating value for consumers.

We adhere to the principles of sustainable development and adopt a balanced and rational approach in our interaction with stakeholders. Optimal balance of ecological, social and economic components of activity is the basis of long-term sustainable development of the Company.

In the area of social responsibility, we seek to create safe jobs, provide social support to workers and their families, consistently reduce the rate of accidents, occupational injuries, occupational diseases and maintain a favourable social environment in the regions of activity. In the field of ecology, the Company aims to minimize the negative impact on the environment, based on an approach of deep study of environmental risks and constant monitoring.

I am sure that in the age of digital transformation, modern realities and challenges will serve as a catalyst

I am sure that in the age of digital transformation, modern realities and challenges will serve as a catalyst for the development of the Company

for the development of the Company. Applying high technologies in practice, guided by the principles of sustainable development and the best world practices of doing business Kazakhtelekom JSC remains a Company creating new opportunities for the population, business and the government. Improving the telecommunications industry and ensuring access to services for citizens remain our top priorities for 2020.

Best regards,  
 Chairman of the Management Board Kazakhtelekom JSC  
**K. Yessekeyev**



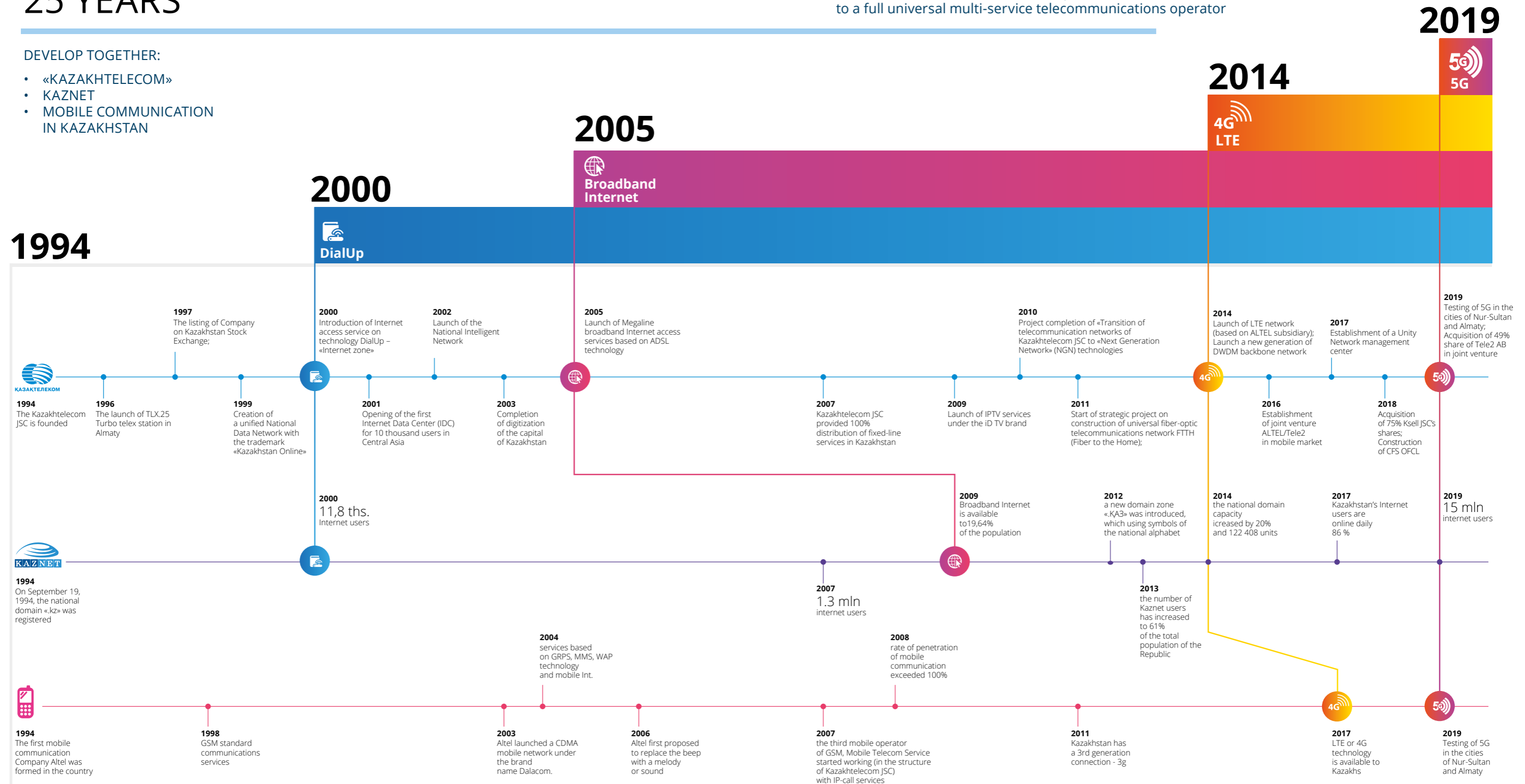
# GROWTH HISTORY

## 25 YEARS

from a traditional communication operator  
 to a full universal multi-service telecommunications operator

**DEVELOP TOGETHER:**

- «KAZAKHTELECOM»
- KAZNET
- MOBILE COMMUNICATION IN KAZAKHSTAN





## ҚАЗАҚТЕЛЕКОМ

### 1994

- The Kazakhtelecom JSC is founded;

### 1995

- Construction of the National International Trans-Asian - European fiber optic communications lines Sector (TAE FOCL) at 52 km from Almaty;

### 1996

- The launch of TLX.25 Turbo telex station in Almaty;

### 1997

- The listing of Company on Kazakhstan Stock Exchange;

### 1998

- Launch of a satellite communications system to provide telephone services in rural settlements;

### 1999

- Creation of a unified National Data Network with the trademark «Kazakhstan Online»;
- Operation of the first International Switching Center (ISC) in Almaty;

### 2000

- Introduction of Internet access service on technology DialUp – «Internet zone»;

### 2001

- Opening of the first Internet Data Center (IDC) for 10 thousand users in Central Asia;

### 2002

- Launch of the National Intelligent Network;
- Commissioning of fiber optic communications lines «Russia-Kazakhstan»

### 2003

- Kazakhtelecom JSC has won the honorary international award «International gold medal award» for quality and efficiency management;
- Completion of digitization of the capital of Kazakhstan;

### 2004

- Re-registration of the Company from an Open Joint-Stock Company (OJSC) to a Joint-Stock Company (JSC);

### 2005

- Launch of Megaline broadband Internet access services based on ADSL technology;

### 2006

- Allocation of ICT in a separate direction (Information systems directorate);

### 2007

- Kazakhtelecom JSC provided 100% distribution of fixed-line services in Kazakhstan;

### 2008

- Implementation of the draft on implementation of the Quality Management System and put into operation of the Information Balanced Indicators System;

### 2009

- Launch of IPTV services under the iD TV brand;

### 2010

- Establishment of the Directorate «Academy of infocommunication technologies»;
- Project completion of «Transition of telecommunication networks of Kazakhtelecom JSC to «Next Generation Network» (NGN) technologies;

### 2011

- Start of strategic project on construction of universal fiber-optic telecommunications network FTTH (Fiber to the Home);

### 2012

- Sale of 49% Kcell JSC's shares to TeliaSonera;
- Presentation of the largest Data Center (DC) in the CIS, developed jointly with the Hewlett-Packard;

### 2013

- The Company is recognized as the leader in corporate governance rating among the Fund's subsidiaries based on the results of independent diagnostics of corporate governance carried out in five subsidiaries of Samruk-Kazyna JSC;

### 2014

- Launch of LTE network (based on ALTEL subsidiary);
- Launch a new generation of DWDM backbone network;

### 2015

- Due to Kazakhtelecom JSC 100% digitization of fixed voice networks was held;

### 2016

- Establishment of joint venture ALTEL/Tele2 in mobile market;
- Implementation of project «Dream» on organize transit route Europe - South East Asia together with China Mobile;

### 2017

- Establishment of a Unity Network management center

### 2018

- Acquisition of 75% Ksell JSC's shares;
- Construction of CFS OFCL;

### 2019

- Implementation of project «Smart Aqkol»;
- Testing of 5G in the cities of Nur-Sultan and Almaty;
- Acquisition of 49% share of Tele2 AB in joint venture;
- Kazakhtelecom JSC became the winner in the nomination «Deal of the year» at the annual international award «TMT M & A Awards 2019».



**1994**

- On September 19, the national domain «.kz» was registered. Since then, this day designated as the birthday of KAZNET.

**2012**

- In 2012, a new domain zone «.ҚАЗ» was introduced, which using symbols of the national alphabet.

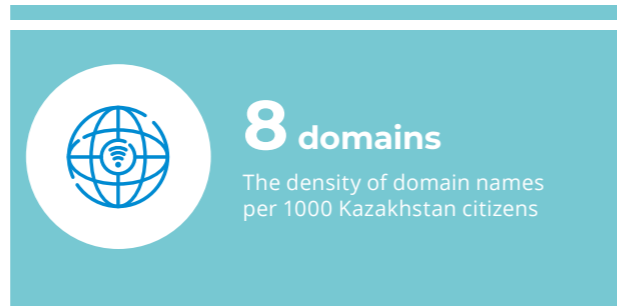


Figure 1. The growth dynamics of internet users in the country, thousand people

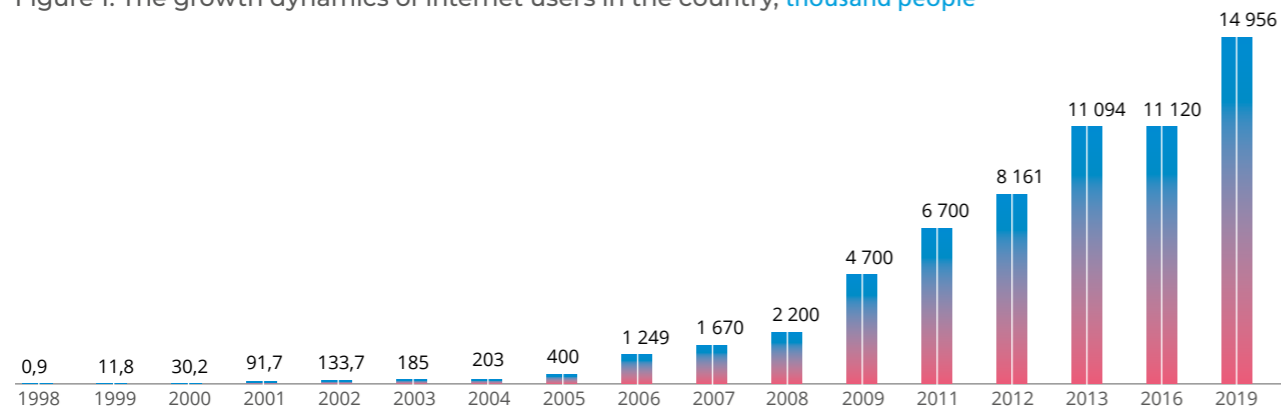
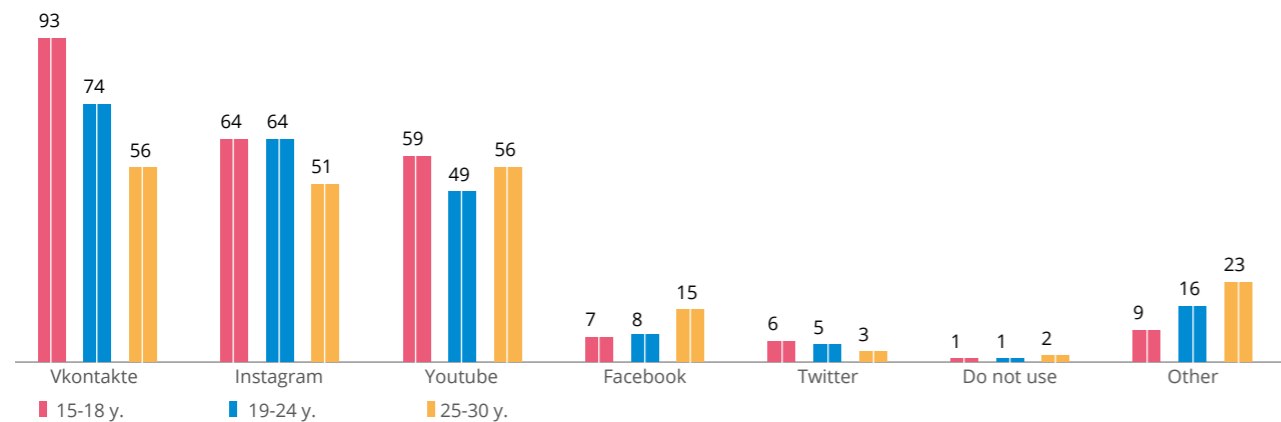


Figure 2. Young social media users, %



## SOCIAL NETWORKS IN KAZAKHSTAN

Figure 3. Users activity, %

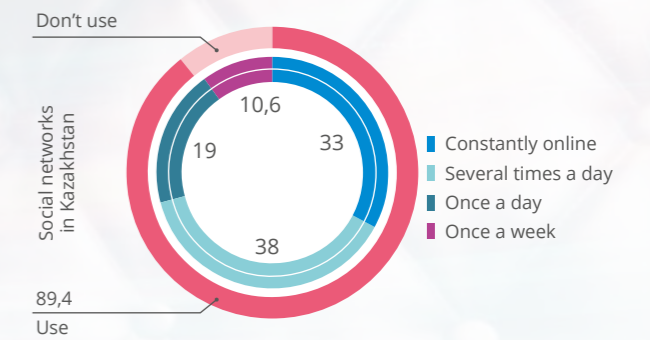
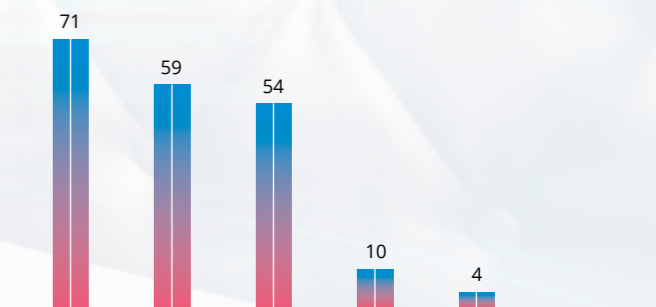


Figure 4. Social network popularity rating, %



Source: marketing data in Internet sources



## History of mobile communication

### 1994

- The development of cellular communication in Kazakhstan was started by the first national mobile communication operator Altel. The Company presented services of analog standard AMPS, operating in more than 70 countries of the world.

### 1998

- A new mobile operator KaR-Tel appeared in the republic.

### 1999

- The second Kazakh operator operating in GSM standard is GSM Kazakhstan. It carries out commercial launch of its network. The Company operates under the trademarks of Activ and KCell.
- The Altel plans to switch to a new CDMA communication technology. In April 1999, Altel had brought the number of its clients to 15,000. In addition, about 10,000 more subscribers were users of cheaper service – card network «Tumar».
- The right to provide cellular communication services was granted to Corporation «Tolkyn» (now – Mobile Telecom Service LLP) with the trademark Zharshy.

### 2003

- Altel launched a CDMA mobile network under the brand name Dalacom.

### 2004

- Altel launched a new brand – «PATHWORD» (also in the CDMA standard). One of the leading cellular operators of Russia OJSC VimpelCom buys KaR-Tel LLP, which provides communication services under the brands K-Mobile and Excess. GSM Kazakhstan cellular subscribers are presented with new services based on GRPS, MMS, WAP and mobile internet technology. EDGE technology has been launched in Almaty and Astana for KCell and Activ subscribers.

### 2005

- Brand Beeline enters Kazakhstan cellular market.
- SMS messages are open between Beeline, K-Mobile, Excess and Dalacom, PATHWORD subscribers. GSM Kazakhstan announced the launch of mobile video technology («Mobile Video Streaming») on the Kazakh market. This technology is first introduced and put into commercial use in Kazakhstan and is available to all subscribers of KCell and Activ.
- Nursat Company with the trademark EXCORD provides subscribers with city mobile numbers.

### 2006

- The largest GSM mobile operators in Kazakhstan – GSM Kazakhstan and Kar-Tel have concluded an agreement on mutual connection of networks. This agreement provides for direct interconnection and provision of services, in particular, exchange of SMS-messages between these operators.
- Altel offered Dalacom cellular subscribers a new entertainment service TONiX. The service allows to replace the standard signal of the long beep, which the second side hears when calling the subscriber, with the original melody or sound.

### 2007

- Altel Company stops operation of AMPS cellular network with the trademark «Altel». The third GSM cellular operator, Mobile Telecom Service with the Neo brand, enters the market of Kazakhstan.
- KAR-Tel LLP unites K-Mobile, Beeline and Excess brands into a single Beeline brand.

### 2008

- The level of cellular penetration in Kazakhstan has become decisive. According to official statistics, the number of subscribers per 1000 people reached 1027.1 that is more than 100%.

### 2010

- Telecommunications market of Kazakhstan for the first time Tele2, having completed the deal on purchase of the local carrier. After the integration of the Company into the business of the Tele2 Group, complete replacement of the equipment with modern ones, updates of the product portfolio and marketing platform the network starts to operate under the brand Tele2.

### 2011

- The operators Kcell and Beeline have officially launched a new line of high-speed Internet 3G.

### 2012

- Until February 2012, JSC Kcell was a subsidiary of Fintur Holdings B.V. (Fintur) with a 51% stake and Kazakhtelecom JSC with a 49% stake. The shareholders of Fintur are Sonera Holding B.V. and Turkcell Iletisim Hizmetleri A.S., whose shares were 58.55% and 41.45% respectively. On February 2, 2012, Kazakhtelecom JSC sold its stake in Kcell to Sonera Holding B.V., a subsidiary of TeliaSonera.

### 2016

- Kazakhtelecom JSC and Tele2 Group formed a joint venture (Khan Tengri Holding B.V.) on the basis of mobile operators JSC ALTEL and LLP Mobile Telecom-Service, which are merged into a single Company LLP Mobile Telecom-Service with preservation of recognizable market brands ALTEL and Tele2.

### 2017

- For the first time in Kazakhstan, Mobile Telecom-Service LLP launched LTE Advanced (4G) technology, which allows to download data at a speed of up to 225mbit/s.

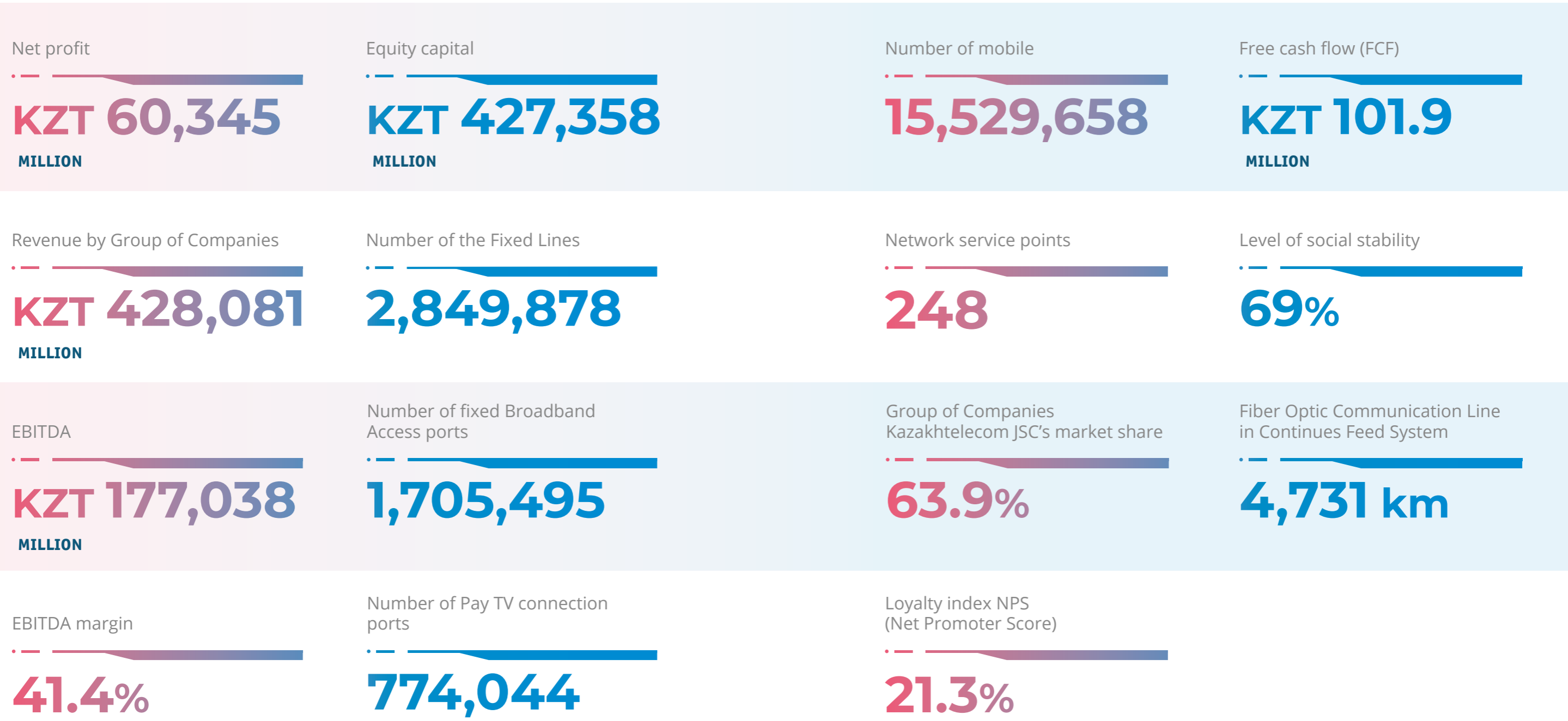
### 2018

- Kazakhtelecom JSC acquired 75% of shares of JSC Ksell owned by Telia Company and Fintur Holdings B.V.

### 2019

- Kazakhtelecom JSC completed the transaction and became the owner of 100% of shares of Khan Tengri Holding B.V., which is the only participant of mobile operator of LLP Mobile Telecom-Service.

# THE COMPANY IN NUMBERS



Key Performance Indicators of the Kazakhtelecom JSC Group

	Unit of measure	2014 actual	2015 actual	2016 actual	2017 actual	2018 actual	2019 actual
<b>Financial indicators</b>	<b>KZT million</b>						
Sale Revenues of services	KZT million	208,223	189,754	205,820	210,225	222,726	<b>428,081</b>
Net profit	KZT million	7,484	24,388	55,832	24,718	42,883	<b>60,345</b>
EBITDA	KZT million	61,580	66,745	73,718	76,445	79,196	<b>177,038</b>
EBITDA margin, %	%	29.6	35.2	35.8	36.4	35.6	<b>41.4</b>
Capital investments (the calculation excluding VAT)	KZT million	55,154	38,699	15,014	29,109	47,853	<b>72,795</b>
Average Revenue Per User (ARPU)	KZT	3,413	3,582	3,605	4,623	5,017	<b>5,038</b>
ROACE	%	6.1%	8.64%	16.35%	7.72%	9.2%	<b>12.06%</b>
<b>Efficiency Indicators</b>							
ROIC (Return On Invested Capital)	%	6	9.8	10.1	8.6	6.3	<b>8.37</b>
Number of Employees	Ppl	29,000	28,343	25,117	23,610	22,517	<b>24,469</b>
Total Revenue Per Employee	KZT ths.	7,180	6,912	8,194	8,904	9,891	<b>17,495</b>
<b>Information on Assets</b>							
Total Assets	KZT million	417,693	436,494	468,962	471,314	793,395	<b>1,079,050</b>
Long-term Credits	KZT million	56,426	27,300	53,795	24,968	135,838	<b>339,138</b>
Equity capital	KZT million	270,309	292,421	343,798	359,108	380,907	<b>427,358</b>
<b>Operational Indicators</b>							
Number of the Fixed Lines	lines	4,063,258	3,878,525	3,670,696	3,425,559	2,978,472	<b>2,849,878</b>
Number of fixed Broadband Access ports	ports	1,543,138	1,502,632	1,592,146	1,686,785	1,700,977	<b>1,705,495</b>
Number of Pay TV connection ports	ports	530,630	607,762	670,127	735,419	792,172	<b>774,044</b>
Number of mobile subscribers	ports	851,264	2,028,979	6,439,746	6,914,398	16,128,949	<b>15,529,658</b>
<b>Macroeconomic indicators</b>							
Total Population of Kazakhstan	ths people	17415.7	17669.9	17918.2	18157.3	18395.6	<b>18611.1</b>
GDP Growth	%	104.2	101.2	101.1	104.1	104.1	<b>104.3</b>
Consumer Price Index	%	107.4	113.6	108.5	107.1	105.3	<b>105.4</b>
KZT to US dollar Exchange Rate, average annual rate	KZT	179.19	221.73	342.16	326.00	344.71	<b>382.75</b>

KEY EVENTS OF 2019

JANUARY



- Kazakhtelecom JSC implemented Smart Aqkol Project in cooperation with akimat of Akmola region and partner companies;
- The President of the Republic of Kazakhstan Nursultan Nazarbayev visited the Smart Aqkol Situation Center.

FEBRUARY

- Kazakhtelecom JSC concluded a tripartite memorandum with the Inter-industry center of identification and electronic business systems of the National academy of sciences of Belarus and the Russian service provider e-PASS.ru
- Kazakhtelecom JSC held a forum on digital marking of goods;
- Kazakhtelecom JSC presented innovative services in the field of information communications at Mobile World Congress 2019 in Barcelona;
- Kazakhtelecom and Ericsson sign memorandum on cooperation in development of 5G-technologies of radio access in Kazakhstan
- Kazakhtelecom JSC presented the project on deployment of the first cloud communication node CORD;
- Kazakhtelecom JSC and US Multinational Company Cisco signed memorandum of understanding for development and testing of Telco Cloud solutions;

MARCH

- Shares of Kazakhtelecom JSC and Kcell JSC are included in the list of securities admitted for trading on the St. Petersburg exchange;

APRIL



- Kazakhtelecom JSC launched branch of Servisnaya fabrica LLP;
- Kazakhtelecom JSC announces the introduction of new products - transport for connection of M2M resource accounting sensors and smart lighting.

MAY

- The Management Board of Kazakhtelecom JSC included two new chief directors - on innovation Nurlan Meirmanov, as well as on providing and supporting business Timur Khudaiberdiyev;
- Kazakhtelecom JSC demonstrated the possibilities of 5G within Astana economic forum-2019;
- TOP 15**  
Kazakhtelecom JSC entered into the TOP-15 of the largest companies of Kazakhstan in «Transparency Rating»;
- Kazakhtelecom JSC has concluded an agreement on acquisition of 49% share of AB Tele2 in the joint venture.

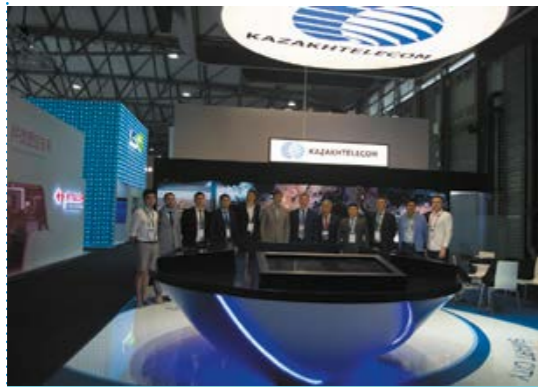
## JUNE

Kazakhtelecom JSC hosted the annual republican contest «The best cable welder of fiber optic cable»;

### BB+

Fitch Ratings affirms Kazakhtelecom JSC rating at BB+;

Kazakhtelecom JSC and Ericsson tested the possibilities of 5G technology in Almaty;



Kazakhtelecom JSC participated in Mobile World Congress Shanghai 2019;

Kazakhtelecom JSC and China's largest telecommunications operator «China Mobile International Limited» signed a Memorandum of Cooperation

## JULY



Kazakhtelecom JSC demonstrated the project «Smart Arys»;

## AUGUST

Kazakhtelecom JSC summed up the results of the project «CREDO – the way to a culture of success»;

Kazakhtelecom JSC successfully conducted field testing of 5G technology;

Minister of Digital Development, Innovation and Aerospace Industry of the Republic of Kazakhstan Askar Zhumagaliyev highly appreciated the level of digitization of Pavlodar region.



Kazakhtelecom JSC and Huawei conducted pilot 5G testing in Nur-Sultan;

Kazakhtelecom JSC signed Memorandum of Cooperation on implementation of pilot project «Smart City» in Aksai of West Kazakhstan region;

Kazakhtelecom JSC signed four memorandums on cooperation on implementation of innovative project within the framework of the Government Programm «Digital Kazakhstan», including the launch of pilot projects Smart City in Aktau, Turkistan and Arys;

Kazakhtelecom JSC became a partner of the global trading platform for business «Qoovee.com»;

## SEPTEMBER

## OCTOBER



Photo: profit.kz

Kazakhtelecom JSC participated in «Mobile 360 – Eurasia 2019» conference in Moscow;

Kazakhtelecom JSC projects were awarded «WOW! HR KZ»;

Kazakhtelecom JSC and Development Bank of Kazakhstan signed an agreement on opening a credit line for the public-private partnership draft;



Subscribers of Kazakhtelecom JSC became available the TV channel «M-1 Global» in the package ID TV;

Project «CREDO» is recognized as the best at the international conference «Intercom» in Moscow;

Kazakhtelecom JSC launched commercial 5G network based on ALTEL infrastructure in Nur-Sultan;

Net profit of the Kazakhtelecom JSC Group of companies for 9 months of the current year amounted to more than KZT 51 billion;

## NOVEMBER

Kazakhtelecom JSC presented opportunities of the Company for development of Almaty as a «smart» city;

Team of Kazakhtelecom JSC became the bronze prize-winner of the second open Eurasian championship within «WorldSkills Hi-Tech 2019»;

Kazakhtelecom JSC held a republican contest on Abayev readings - 2019;

Kazakhtelecom JSC signed Memorandum of Cooperation on implementation of BIG DATA in Kazakhstan with Russian IT-structure «ICS Holding»;



Kazakhtelecom JSC awarded the international award «TMT M & A AWARDS 2019»

## DECEMBER

Kazakhtelecom JSC plans to launch pilot projects «Smart City» in Karaganda region;



Kazakhtelecom JSC participated in the international «Third IoT Forum Kazakhstan 2019».

# BRIEF REVIEW

## CORPORATE PROFILE

The Kazakhtelecom Joint Stock Company (the Company, Kazakhtelecom JSC) is the largest operator of fixed telephony in Kazakhstan, recognized as the leader in the provision of communication services, including rural settlements communication services, as well as one of the largest operators of the National Data Transmission Network.

Location address: The Republic of Kazakhstan, 010000, Nur-Sultan, Yessil district, Sauran str.12.

The Kazakhtelecom JSC was established in accordance with Decree №666 «On founding the national shareholder Company «Kazakhtelecom» issued by the Cabinet of Ministers of the Republic of Kazakhstan on July 17th, 1994 through the transfer of the assets of governmental enterprises, joint-stock companies and telecommunications organizations into the authorized stock Company of national scale to render a wide range of communication services throughout the entire territory of the Republic. The primary state registration by the Justice of the Republic of Kazakhstan on December 1st, 1994.

The Company is a commercial organization which issues shares for the purpose of raising funds for carrying out its activities, which have the main purpose of generating revenue for the benefit of shareholders.

The activities of the joint-stock Company shall be carried out within the framework of the Charter approved by the decision of the Extraordinary general meeting of shareholders №49 of January 18th, 2013, which defines the legal basis for its organization and functioning.

The main objectives of Kazakhtelecom JSC are:

- profit from commercial activities and their use for the benefit of shareholders;
- creation of modern telecommunication networks in the territory of the Republic of Kazakhstan and their integration into the world telecommunication network;
- provision of all types of telecommunication services to users in the territory of the Republic of Kazakhstan and abroad.

Kazakhtelecom JSC carries out activities as a communication operator of the Republic of Kazakhstan for creation, installation, operation and maintenance of the public telecommunications network and private telecommunication systems, the function of the operator of the public telecommunications network, including the operator of long-distance and international communication.

The Company is represented great attention to the development of transit potential and increase of transit telecommunication flows through Kazakhstan, as it has a network of main fiber-optic communications lines connecting all border areas, providing communication with China, Russia, Europe and the Central Asian republics. Kazakhtelecom JSC is represented throughout the entire territory of the country, having a network of 248 network service points as well as its own network of 15 data centers. The 23 thousand people employed in the Kazakhtelecom JSC Group.

## CAPITAL STOCK STRUCTURE

The main shareholder of the Company is Sovereign Wealth Fund Samruk-Kazyna JSC (hereinafter referred to as SWF Samruk-Kazyna JSC, Fund), with 100% participation of the government in the authorized capital, which holds 51% of ordinary shares of the Company.

At the beginning of 2020 the authorized capital of Kazakhtelecom JSC was KZT 12,136,529.0 ths., consisting of 10,922,876 ordinary shares and 1 213,653 preferred shares. The nominal value of one share is KAZ 1.000. The percentage of the preferred shares of Kazakhtelecom JSC of the total number of emitted stock equals to 10%.

The Skyline Investment Company is a large shareholder of Kazakhtelecom JSC along with SWF Samruk-Kazyna JSC S.A. In 2019, there were no changes in the line-up of large shareholders.

Table 1. Owners of ordinary shares of Kazakhtelecom JSC as of 01.01.2020

Shareholders	Number of shares	Share (%) <sup>1</sup>
Samruk-Kazyna FNW JSC	5,570,668	51.00
SKYLINE INVESTMENT COMPANY S.A.	2,671,481	24.46
ADR («BNY Mellon» nominal holder)	1,046,250	9.58
Other shareholders with less than 5% <sup>2</sup>	1,634,477	14.96
<b>Total ordinary shares announced</b>	<b>10,922,876</b>	<b>100</b>

As of 01.01.2020, the members of the Management Board, the members of the Board of Directors of Company are not owners of ordinary shares of Kazakhtelecom JSC, cross holding of shares is absent.

Starting from October 16th, 1997, the ordinary and preferred shares of Kazakhtelecom JSC have been transferred to the official list of Kazakhstan Stock Exchange (hereinafter referred to as the Stock Exchange) under the A category from October 16th, 1997. Since September

1, 2008 have been transferred to the first category of the official list of the Exchange. At the moment the shares of the Company are included in the Premium category of the official list of the Stock Exchange and are traded on its main site.

Changes in the Company shares value are given in Table 2.

Table 2. The ordinary and preferred shares value of Kazakhtelecom JSC for 2015–2018 (Closing price as of last available date)<sup>3</sup>

Type of the share	31.12.2015		31.12.2016		31.12.2017		31.12.2018		31.12.2019	
	price	price	Rate of a gain, %	price	Rate of a gain, %	price	Rate of a gain, %	price	Rate of a gain, %	
Ordinary shares (1 pc.)	9,280	14,523.0	56.5	20,505.0	121.0	33,499.0	261.0	27,100.0	192.0	
Preference shares (1 pc.)	6,812	7,828	14.9	8,500	24.8	12800	87.9	13,600.0	99.6	

Besides, in 2019 for financing of the transaction on repayment at Tele2, (Sweden) of a 49% share of Khan Tengri Holding B.V. Kazakhtelecom JSC issued and placed bonds for the total amount of KZT 120,000,000,000. On June, 2019, the Company's bonds placed for the total amount of KZT 80,000,000,000 on the platform of Kazakhstan Stock Exchange JSC.

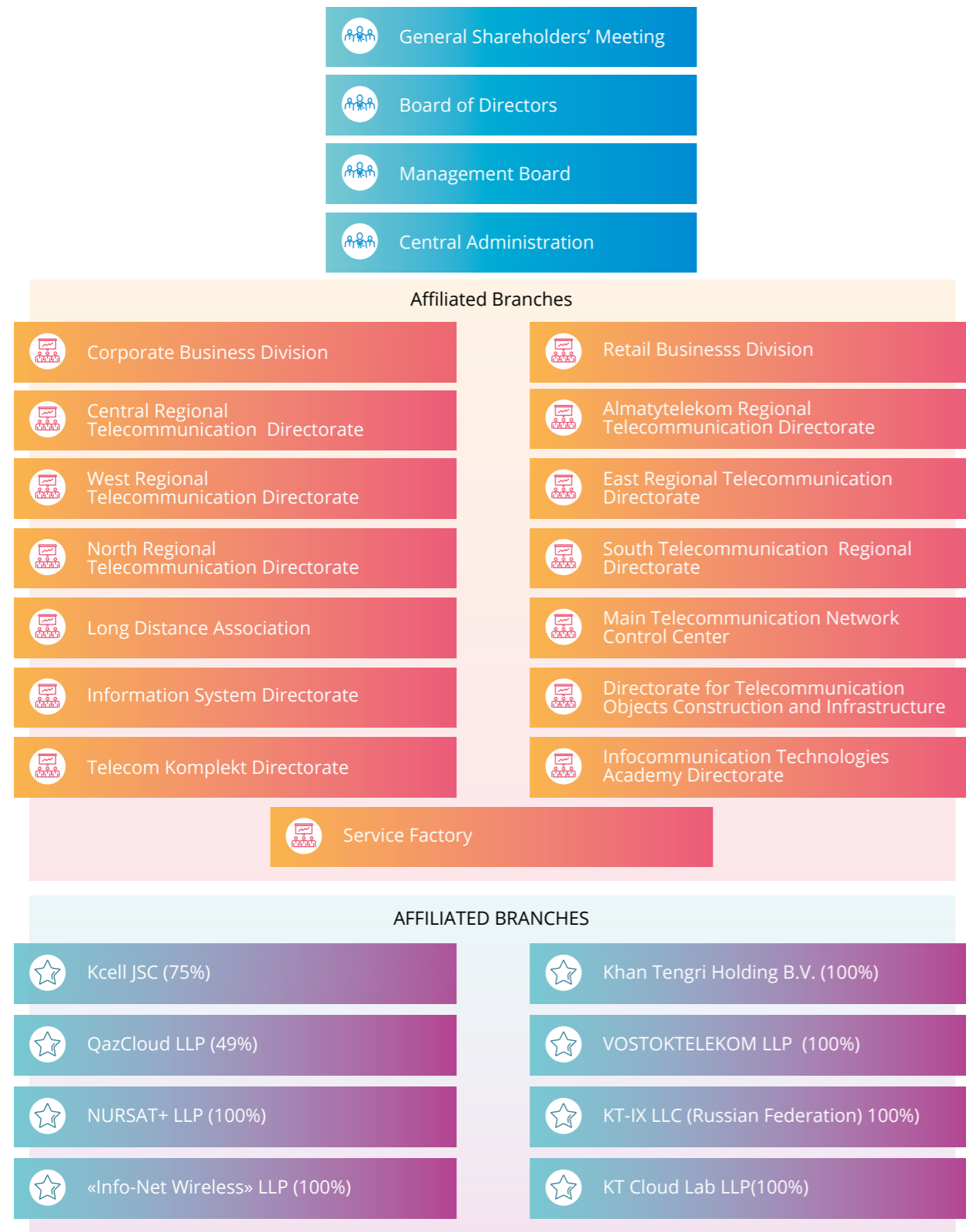
<sup>1</sup> The share is calculated from the total number of ordinary shares offered

<sup>2</sup> Including shares purchased by Kazakhtelecom JSC

<sup>3</sup> Growth rate is calculated relative to 2015



### Organizational structure of Kazakhtelecom JSC



### The Kazakhtelecom JSC Group's Structure

Subsidiaries strengthen the position of the Kazakhtelecom JSC Group in the mobile segment of the telecommunications market and contribute

to the development of traditional telecommunication services, as well as related services for the industry with growth potential.

The Kazakhtelecom JSC Groups Structure as of 31.12.2019<sup>1</sup>



<sup>1</sup> In March, 2019 measures on voluntary liquidation of subsidiary organization of Kazakhtelecom JSC – NURSAT LLP were completed. The order №1388 of the Ministry of Justice of the Republic of Kazakhstan «On registration of termination of the Company 's activities» was received.

# MERGERS AND ACQUISITIONS

Kazakhtelecom JSC seeks to make the most effective use of profitable opportunities for acquisition of high-quality assets that strengthen the Company's market position.

Large deals of the Company:

- On June 28th, 2019, the deal on acquisition of 49% of the shares Khan Tengri Holding B.V. belonging to Tele 2 Sverige A.B. As a result of which Kazakhtelecom JSC became the only shareholder of Khan Tengri Holding B.V. with ownership 100% of shares.
- On December 21st, 2018, the 75% of voting shares of Kcell JSC were acquired.

# INDUSTRY REGULATORY ENVIRONMENT OVERVIEW

The Telecommunication Committee of the Ministry of Digital Development, Defense and Aerospace Industry of the Republic of Kazakhstan (hereinafter – the Committee of the MDDDAI of the Republic of Kazakhstan) regulates and controls the activities of the Company.

In accordance with subparagraphs 51), 52), 53), 67) of article 138 of the Business Code of the Republic of Kazakhstan, the Company's activities are monitored in the field of communication, informatization, electronic document and electronic digital signature, in the spheres of natural monopoly.

The Committee of the MDDDAI of the Republic of Kazakhstan is also an authorized body within the natural monopolies in telecommunication market. In addition, the terms of protection

competition with respect to the Company regulates and controls Regulation and Development Protection Committee of the Ministry of National Economy of the Republic of Kazakhstan

Adopted in December 27th, 2018, a new Law of the Republic of Kazakhstan «On Natural Monopolies» put into operation in 15 January 2019. The main goals are define the legal framework, ensure transparency and transparency of procedures of government regulation of activities in the spheres of natural monopolies, ensure protection of the interests of consumers and subjects of natural monopolies, stimulate improvement of the quality of regulated services and satisfaction of demand for them.

During 2019, used in the activities of Kazakhtelecom JSC the Business Code of Kazakhstan was amended.

Thus, the article 211 of the Business Code is deleted in connection an output of the new Law of the Republic of Kazakhstan of April 3, 2019 «On amendments and additions to some legislative acts of the Republic of Kazakhstan on issues of special economic and industrial zones, attracting investment, development and promotion of exports, as well as social security». In according to which the subject of the natural monopoly from the beginning of the activity, which not related to regulated services (goods, works), must notify the competition authority. At present, such obligation of the subject of natural monopoly have before the authorized body on the basis of the Law of the Republic of Kazakhstan «On Natural Monopolies».

In addition, in 2019, various general amendments were made to some legislative acts of the Republic of Kazakhstan used in the activities of Kazakhtelecom JSC, such as the Civil Code, the Tax Code, the Code of Administrative Offences, the Law «On the Securities Market», the Law «On Permits and Notifications», the Law «On Joint Stock Companies», the Law «About limited and additional liability partnerships».

In terms of tariff regulation, the activity of Kazakhtelecom JSC in 2019 was subject to government regulation in three directions:

## 1. Natural monopoly services

In accordance with article 15 of the Law «On Natural Monopolies», the government regulation of the activity of a natural monopoly subject is carried out by the approval of a tariff.

## 2. Universal telecommunication services

The List of universal telecommunication services approved by the Government of the Republic of Kazakhstan dated №238, dated 2 May, 2017 includes the following types services:

- 1) Local telephone services;
- 2) Individual Internet access services with a connection speed of at least 1.536 Kbps.

## 3. Services provided to law enforcement agencies, as well as to the operator of the «Electronic Government» information and communication infrastructure

At the same time, the Company shall agree with the state authorities on issues of permissions to use the radio frequency spectrum and numbering resource for activities within a framework of introducing new services, for further upgrading of a telecommunication network.

On October 31, 2015 the Law «On Public-Private Partnership» was adopted. The adoption of this Law plays a key role in the implementation of the project on the construction of fiber-optic communications lines in rural settlements within the framework of public-private partnership.

In accordance with the State Programm «Digital Kazakhstan» in order to reduce the «digital gap» of the regions of the Republic of Kazakhstan, the project of public-private partnership «Provision of broadband access to rural settlements of the Republic of Kazakhstan with use of fiber-optic communication line technology» (hereinafter – PPP Project) in 2018 and continued in 2019.

Measures of state support are provided in order to implement objectives of the PPP Project as type of state consumption guarantees of the following services:

1. broadband Internet access for schools;
2. broadband Internet access for other state agencies;
3. regional IP VPN for the General Prosecutor's Office;
4. republican IP VPN for other state agencies.

In accordance with paragraph 14 of the «Procedure for Trade in Telecommunication Services», the Council of the Eurasian Economic Commission approved a unified approach to the establishment by EEMA member governments of pricing for traffic transit services.



# Strategy



The financial effect of the Orleu 2.0 Program for 2019 amounted to

**KZT 4.35 billion**

# MISSION AND VISION

The Mission and Vision of Kazakhtelecom JSC remain unchanged, but are supported by a new content of strategic directions of development and initiatives.

## KEY STRATEGIC INITIATIVES

Kazakhtelecom JSC selected three main strategic directions of development to implement the new strategy:

CHP1 The First Choice Brand – to maintain long-term leadership in the telecom market with increased revenue and optimized marketing and sales costs.

CHP2 Digital Platform – digital transformation of the main business and network, as well as monetization of the unique market position with the application of new digital business models and partnerships.

CHP3 Efficient Organization – transition to the optimal organizational structure of the Group and launch of a large-scale efficiency program.

# MISSION

▶ **TO BECOME AN IDISPENSIBLE AND FAMILIAR PART OF EVERYONE'S LIFE, CHANGING, SURPRISING AND EXCEEDING EXPECTATIONS!**

## PERSPECTIVE

Kazakhstan's leading integrated service provider in the infocommunication market



### The first choice brand

Maintaining long-term leadership in the telecom market with increased revenue and optimization of marketing and sales costs



### Digital platform

Digital transformation of the core business and network, as well as monetization of a unique market position using new digital business models and partnerships




### Effective organization

Transition to the optimal organizational structure of the Group and launch of a large-scale program to increase operational efficiency

# STRATEGIC OBJECTIVES, TARGETS AND KEY INDICATORS FOR THE IMPLEMENTATION OF THE STRATEGY

The implementation of the new strategy will allow achieving the following strategic goals over a 5 year (target state for 2024).

The main goal of the new strategy is to increase the shareholder value and, accordingly, the investment attractiveness of the Group by increasing revenues from the main activities in related industries, as well as optimizing the cost base.



**THE FIRST CHOICE BRAND**

**The increase in EBITDA**

Kazakhtelecom by **50-57%**

The retention of EBITDA by 2024 relative to the level of 2019

**Retention of market share**

Maintaining a mobile market share of **66-68%**, fixed line communications **73-75%**


**Cost reduction**

Reducing mobile operators marketing and sales costs by **15-20%**

**Churn Reduction**

The B2B broadband Internet subscribers churn reduction by **15%**

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**DIGITAL PLATFORM**

**30%**  
of sales via online channels

**40%**  
Reduce customer service costs


**20%**  
Reduce marketing costs

**30%**  
MAU og the site and apps at level

**30-50%**  
Reducing the number of calls to call centers and physical departments

**20%**  
Increase customer satisfaction - NPS growth

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**EFFICIENT ORGANIZATION**

**15-20%**  
Reduction of capital expenditures

**5-10%**  
Reduction of capital expenditures within a fixed business due to price optimization (including through consolidation), specifications and purchase volumes.

**740.000**  
subscribers transferred from copper lines to FTTX

**>2.000**  
Migration more than 2 thousand rural localities to wireless networks

# OUR VALUES



## Client

### To surpass expectations of the client

- Key meanings:
- Strive to accurately and fully meet the needs of external and internal clients;
  - Constantly improve customer service based on customer feedback;
  - Be one step ahead - anticipate the expectations of the client, it is pleasant to surprise him.



## Responsibility

### Committed – responsible for the result

- Key meanings:
- Be personally responsible for the final result;
  - Exercise autonomy in decision-making;
  - Focus on results rather than processes.



## Entrepreneurship

### Entrepreneurial courage of market leader

- Key meanings:
- Show entrepreneurial initiative: boldly put forward new ideas, be ready to risk and win;
  - Be ambitious, strive for achievements;
  - Constantly look for new opportunities for business development.



## Digital culture

### Digital communication technologies in work and life

- Key meanings:
- Be open new and strive for development;
  - Be innovative: change your business with digital technology;
  - Be prepared for change.



## Outstanding decisions

### The quality of solutions for business success

- Key meanings:
- Make decisions, take into account the interests of all parties and all the diversity of factors;
  - Use non-standard approaches to solving problems;
  - Maintain the balance of IQ EQ DQ<sup>1</sup> - making decisions by combining logic, knowledge of new technologies, social and psychological trends of the new world.

<sup>1</sup> IQ + EQ + DQ – intelligence, emotional intelligence, digital intelligence

# OUR SUSTAINABLE DEVELOPMENT INITIATIVES



# MACROECONOMIC ENVIRONMENT AND PROSPECTS

## TELECOMMUNICATION MARKET REVIEW IN 2019

(Presented according to the Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan, marketing data on the communication market in Internet sources and expert estimates)

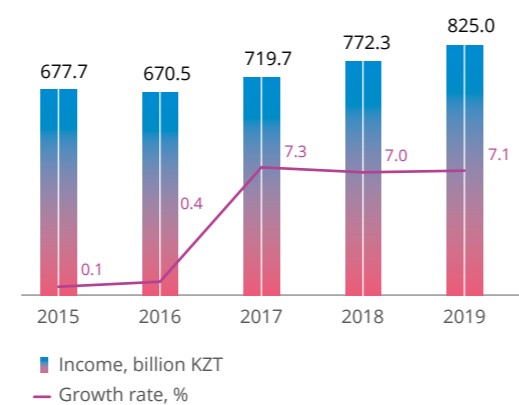
### Main trends in the telecommunications market in 2019

- Following the results of 2019 the total volume of the market of communication services was KZT 825 billion, having exceeded an indicator of previous year for 7.1%.
- In revenue breakdown on types of service mobile communication which driver of development are data transmission services continues to dominate. Despite the decline in the share of mobile communications in total revenues, it still generates more than half of the total market volume – 53.1%.
- The share of revenue from the fixed telephony from year to year is reduced, having decreased in 2019 to 6.7%.
- The share of a segment of services of data transmission and Internet access in the fixed networks shows a tendency to reduction, despite growth in revenues in absolute expression in recent years.
- The segment of services of Pay TV in 2019 provided 4.4% of comprehensive revenue of communication services.
- With growth of the retail market also the volume of services to telecom operators increases that affects growth of a share of a segment in consolidated revenues from a telecom services.
- On merge, absorption and leaving, in the considered period, it is necessary to distinguish the following from large deals:
  - Integration of subscriber bases of Pay TV operators ALMA-TV and Icon (in case of nominal existence, as a legal entity, Icon does not provide Pay TV, having transferred its subscriber base to ALMA-TV company);
  - Bankruptcy of Arna JSC with rehabilitation management procedure to improve the Company;
  - Merger of regional companies Skysilk LLP and Bikada LLP (Aktau).

## Telecommunications market in 2019

According to the results of 2019, the total volume of the telecommunication market amounted to KZT 825 billion exceeding the previous year's by 7.1%.

Figure 5. Volume and growth rate of Kazakhstan's telecommunications market 2015–2019



(Source: iKS Consulting)

The revenue structure by service type continues to be dominated by mobile communication, the driver of which is data services. Despite the decline in the share of mobile communications in total revenues, it still generates more than half of the total market volume – 53.1%.

The share of revenue from fixed telephony is decreasing year by year, falling to 6.7% in 2019. Segment reduction in physical terms is influenced by mobile and IP substitution, which is a natural process for the mature market. As one measure to compensate for this drop, operators providing services in fixed and mobile networks provide converged offerings including fixed and mobile telephony services in a single package. According to the results of 2019,

the share of revenue from converged services in the total market volume amounted to 1.7%.

The share of data services and Internet access in fixed networks has shown a declining trend in recent years, despite the growth of revenues in absolute terms. This means that revenues from this type of services are growing slower than the entire market. The slowdown in revenue growth is due to the maturity of the market, high level of service penetration and active competition between the market leaders - Kazakhtelecom JSC and Beeline JSC, which provide households with similar service packages and, accordingly, have to compete at the price.

The reduction of the share of revenues from fixed Internet access and data transmission services is also influenced by the development of IT services by operators. Despite the fact that the majority of IT revenues come from infrastructure projects, every year the share of IT services and business solutions on the basis of the Internet provided by communication operators grows.

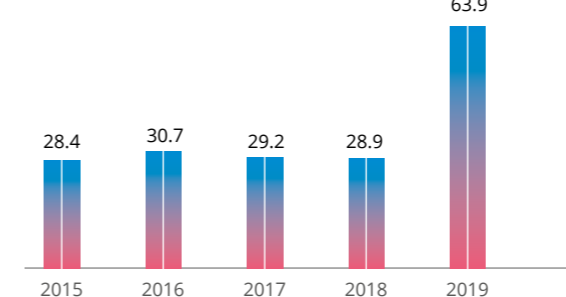
The Pay TV service segment in 2019 provided 4.4% of total revenues from communications services. The contained growth of revenues with an actively growing subscriber base is due to the fact that almost one third of subscribers use free basic packages of TV programs provided by «OTAU TV» with the support of the state.

With the growth of the retail market, the volume of services to telecom operators is also increasing, which affects the growth of the segment's share in the total revenue from telecom services. The main revenue for telecommunications operators is the rental of network infrastructure and the provision of data links and Internet access.

## Positions of the Group of Companies Kazakhtelecom JSC in the market

In 2019, the market share of the Group of Companies Kazakhtelecom JSC was 63.9%.

Figure 6. Dynamics of market share of Kazakhtelecom JSC



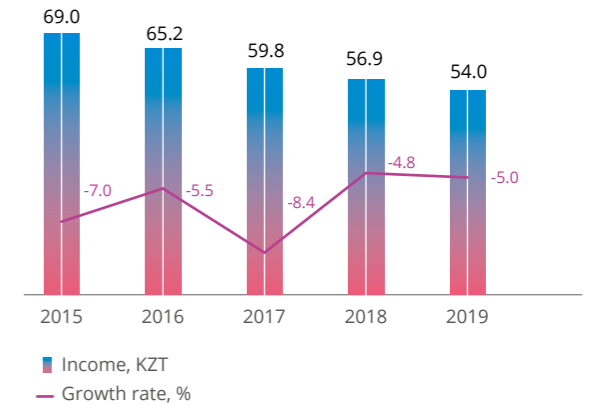
At the end of 2018 Kazakhtelecom JSC acquired 75% of shares of Kcell JSC. In 2019, Kazakhtelecom JSC and Mobile Telecom Service LLP merged, which led to a sharp increase in the total share of the telecommunication market of the Group of Companies Kazakhtelecom JSC.

In terms of market segments, the position of Kazakhtelecom Group of Companies is as follows::

- The fixed telephony – 90%;
- Mobile market – 61% (including shares of Kcell JSC and Mobile Telecom Service JSC);
- Fixed internet – 85%;
- IP telephony – 58%;
- Pay TV – 42%;
- ICT services – 18%;
- Operator business – 59%.

## The fixed telephony

Figure 7. Fixed telephony market dynamics, 2015–2019



Source: iKS-Consulting assessment

Revenues from fixed telephony services at the end of 2019 amounted to KZT 54.03 billion, having decreased by 4.99% compared to 2018.

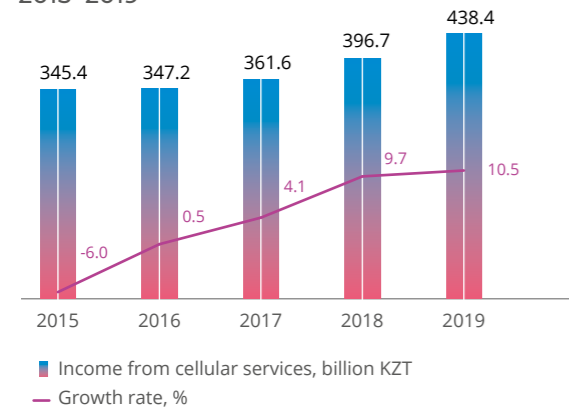
Over the past decade, the fixed telephony market has declined in all directions - local, long-distance and international. At the same time, if before 2013 the market of local telephony grew due to the increase of telephone lines and only long-distance/international traffic migrated to mobile networks and OTT services was reduced, since 2014, the decline has also affected revenues from local telephony due to the decline in the market in the physical dimension - the churn and the refusal of part of the population and enterprises from fixed telephone lines as a means of communication in principle.

One tool to contain the rate of decline in revenues is package offers from fixed telephony operators – both service packages offering various services in a «wholesale cheaper» bundle and traffic packets providing a certain amount of minutes at the expense of a fixed fee. However, despite the efforts of operators, it is no longer possible to completely prevent the decline in revenues from fixed telephony services and to resist mobile and IP/OTT substitution.

### Mobile communication

According to the results of 2019, the volume of the mobile communication market in Kazakhstan amounted to KZT 438.4 billion, showing an increase of 10.5% compared to 2019. The market showed not only an exit from the negative peak in 2015, but also the largest revenue in history.

Figure 8 . Revenues from cellular services, 2015–2019



Source: iKS-Consulting

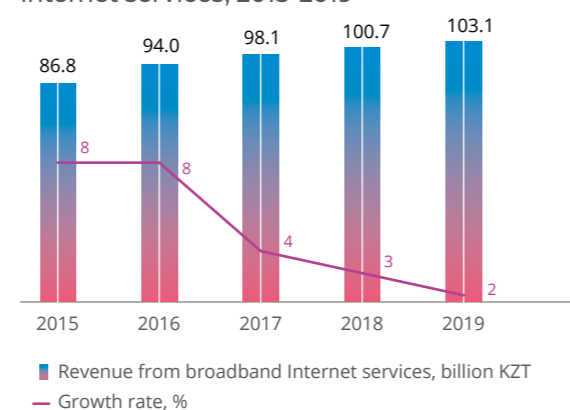
The cellular market is focused primarily on the mass consumer. Until 2015, the strategies of all operators were aimed at winning the largest market share by the number of subscribers. In many ways, this race for subscribers provoked price wars, which negatively affected the profitability of subscribers and the total revenue of operators. In addition, the devaluation of tenge (KZT), which had a negative impact on the economy of the country, led Kazakh enterprises to reduce their budgets for the payment of communication services to employees. These factors forced cellular operators to adjust their market strategies in terms of improving the quality of the subscriber base and developing the corporate segment through special services and ready-made

solutions. As a result, since 2016 the share of revenues from services to corporate clients began to increase annually and according to the results of 2019 amounted to almost 10%. It should be noted that if in earlier stages of market development Kcell was the leader in the specific weight of business clients in the common subscriber base, now the development of the corporate sector has become a priority for all operators and the indicator of the share of revenue from business users at the level of 9-11% in revenue is fair for all companies.

### Fixed Internet Access Market

The volume of the BB market in fixed communication networks amounted to KZT 103.1 billion in 2019, which is 2.4% higher than in the previous year

Figure 9. Revenue from fixed-line broadband internet services, 2015-2019



Source: iKS-Consulting

Despite slower growth and supply-side pressures in mobile networks, the broadband internet access market continues to perform well. The increase in revenue is due to the increase in the number of subscribers, including in small towns and rural areas. All players strive to offer combo packages from wired and/or mobile telephony, internet access, television. Besides Kazakhtelecom JSC, activity in the part of offering services to households is saved Beeline and ALMA-TV.

### The data transmission market

The volume of the channel rental market in 2019 amounted to KZT 26.5 billion, having increased by 4.3% compared

to the previous year. Channel rental services are aimed exclusively at corporate users - companies that have a network of offices within the city or country and have a need to unite them. Thus, all revenues from channel rental services are generated by enterprises.

The growth of the channel rental market fits into the development strategy of operators of the corporate segment and the growth of services used by Companies. Office consolidation plays a critical role in offering end-to-end solutions. According to the results of 2019, the number of ports involved in the organization of data transmission channels amounted to 51.4 thousand. This is 5.3% higher than the previous year. In general, the market maintains stable positive dynamics with a growth rate of 5-6% subscribers per year.

The growth rate of the number of subscribers is slightly faster than the growth rate of the market in monetary terms, which is due to the gradual natural decrease in the cost of the service as the market develops and saturates.

### IP-telephony market

Revenues from IP telephony services in 2019 amounted to KZT 7.3 billion, which is 3% higher than in the previous year.

The number of IP telephony subscribers (telephone lines) in 2019 was 302 thousand, an increase of 3.1% compared to 2018.

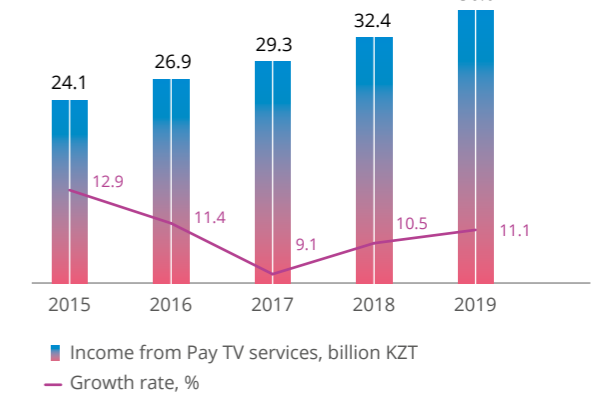
Despite the fact that the IP telephony market is increasing annually, both in monetary and in kind, the growth rate of subscribers and revenues is falling year by year, indicating the proximity of the market to saturation. This is because a very limited number of enterprises are in need of long distance/international telephony services. During the peak of the traditional telephony market, calls to long-distance/international destinations were regularly made from no more than 400.000 telephone lines. Considering that according to the results of 2019 providers of IR-telephony installed 302 thousand. IP lines, the need of corporate users to reduce the cost of long distance/international calls is close to being met.

By observing this trend, operators «enrich» IP telephony services, shifting the focus from cheaper outgoing communication to managing corporate intra-phone telephony and incoming calls through virtual PBX services.

### The market of Pay TV

The market of Pay TV is a relatively small but steadily growing segment of Kazakhstan's telecommunications market. In 2019, revenue from Pay TV services increased by 11.1% compared to the previous year, amounting to KZT 36 billion in absolute terms.

Figure 10. Revenue from Pay TV services, 2015-2019



Source: iKS-Consulting

The revenue from Pay TV services is traditionally dominated by households. Their share in 2019 accounted for KZT 34.9 billion, which corresponds to 96.9% of total revenue. Revenues from services to businesses amounted to KZT 1.1 billion or 3.1%, of which KZT 0.12 billion was received in the B2G segment.

The number of Pay TV subscribers in 2019 was 3.618 thousand, which is 4.9% higher than a year earlier. It is noteworthy that in the last two years, the growth rate of revenue has slightly outpaced the growth rate of the subscriber base, which is due to the growth in the intensity of consumption of Pay TV services by subscribers.

In 2019, the penetration of Pay TV among Kazakh households was 66.1%. In the enterprise segment, this figure was 24.4%.



### Operator market of telecommunication services

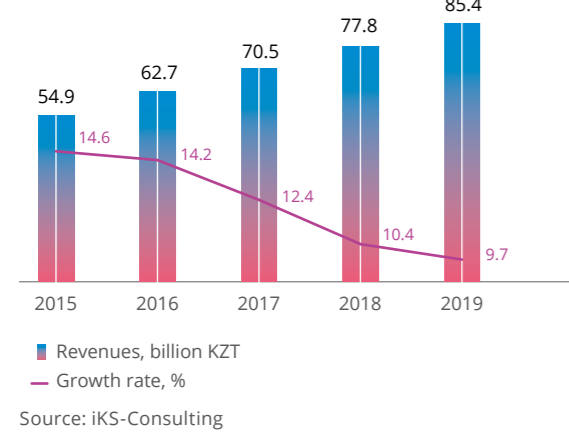
In the operator segment of services revenues are generated in the following directions:

- Lease trunks;
- Provision of Internet access channels (IP transit);
- Connecting and skipping telephone traffic
- Transit of international traffic;
- Lease cable infrastructure.

The operator services market may be supplemented by mobile interconnect services provided by cellular operators to each other. However, in the framework of this study revenues from the services of the interconnect are taken into account in the volume of the mobile communication market.

The volume of operator market of telecommunication services in 2019 amounted to KZT 85.4 billion, having increased by 9.7% compared to 2018.

Figure 11. Revenue from mobile operator services, 2010–2019



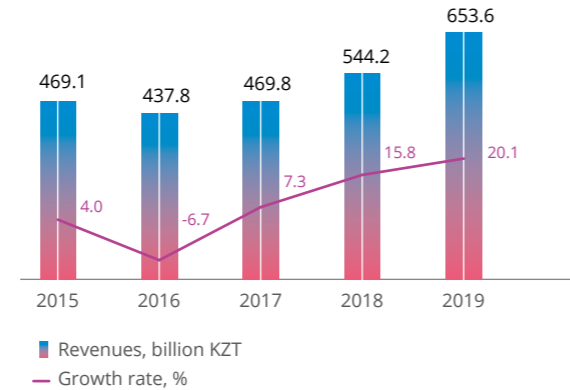
Source: iKS-Consulting

In 2019, the largest share in the revenue structure fell on network infrastructure rental services - 36% or KZT 30.72 billion. A little less – KZT 28.54 billion or 33.4% of total revenues generated services for renting data channels. The third position is occupied by international traffic and IP transit services – KZT 19.04 billion or 22.3% of total revenue in the segment. The remaining 8.3% or KZT 7.07 billion was accounted for by connecting operators to the public network.

### The ICT market

In 2019, the ICT market volume was KZT 653.6 billion an increase of 20.1% compared to 2018.

Figure 12. Dynamics of revenue from IT services, 2010–2019



Source: iKS-Consulting

The decline in market volume in 2016 was due to another round of tenge devaluation, which significantly reduced the demand for telecommunications equipment, mainly imported and, consequently, significantly increased in currency terms.

Within the framework of Orleu, the product portfolios and digital platforms were developed in 2019.

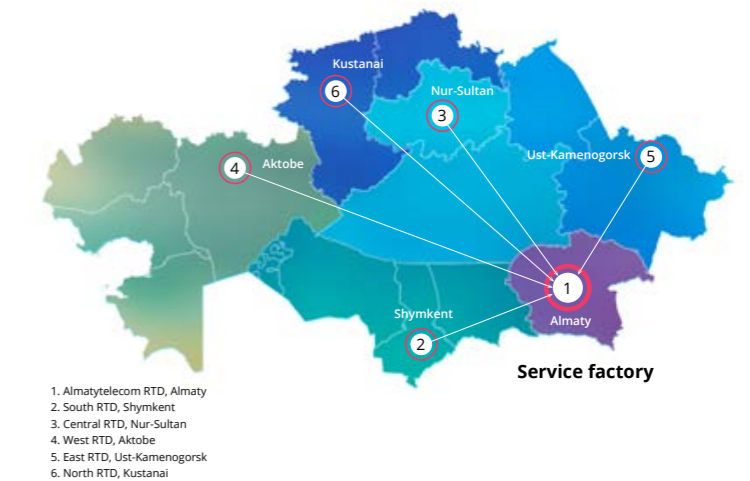
Thus, in March and September 2019, online cinemas «ivi» and «okko» were put into commercial use on more advantageous terms for Kazakhtelecom JSC subscribers compared to the market. New TV channels with the highest ratings have been signed for iD-TV service. The service «Protection of Internet and VPN channels» on the basis of IPS Firewall for B2B segment subscribers is started. The Value Added Services (VAS) implementation and activation scheme has been changed to increase their usage from 4% to 45%.

Within the framework of creation of Open Digital Platform 20 partner IT-services on ISMET.kz, the system of digital servicing for small and medium businesses and corporate clients of the Company of Kazakhtelecom JSC and Operators of Fiscal Data clients has been introduced.

The construction of wireless energy efficient LoRa networks, which are a necessary element of telecommunication infrastructure for building «smart cities», continued. There are 234 base stations in 13 cities.

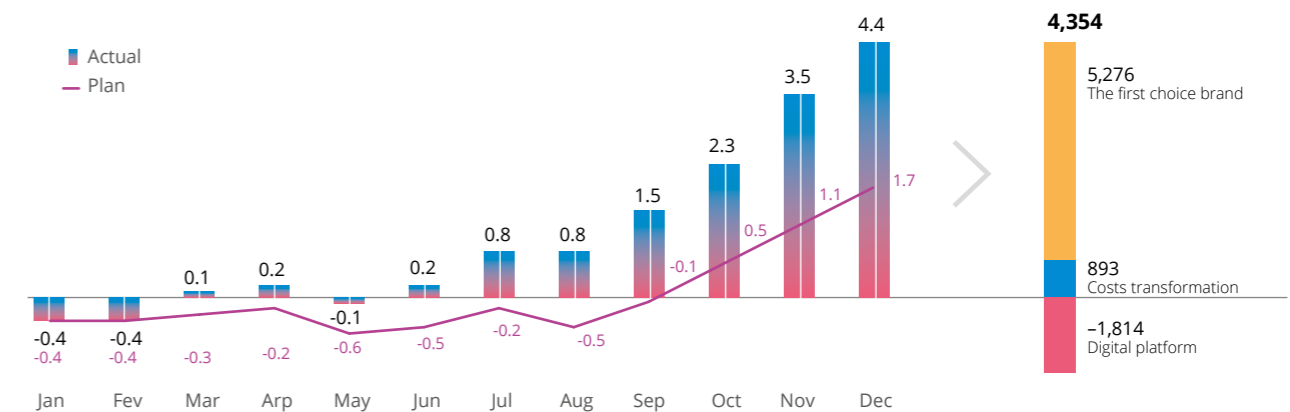
Following the aims of digital channels of promotion, sales and customer service, part of the client path on verification of purchase of services by Kazakhtelecom JSC was digitized by means of sms-messages. Some types of electronic interaction with B2B customers was introduced as well in 2019: concluding standard contracts, invoicing and signing completed works acts and outgoing correspondence.

### Service factory



### The financial impact of the Orleu 2.0 Program for 2019 was KZT 4.35 billion, or 262% of the plan.

Figure 13. Communicative financial impact for 2019, KZT billion



## Sustainable development initiative #1. IMPROVING EFFICIENCY THROUGH THE DIGITAL TRANSFORMATION PROGRAM

# ORLEU MODERNIZATION PROGRAM

The 2019 was the year of the completion of the six-year Orleu Modernization Program and the start of the large-scale Digital Transformation Program of the Company.

In 2019, the focus of the Company's attention was directed towards the creation of multi-level digital service platforms, which allowed to launch services «Virtual data center» and «Infrastructure as service». The possibility of integration with external cloud services («AWS», «mail.ru», «IT-grad») for joint provision of «cloud» services is realized. To solve the task of centralized data management, a productive environment on 42 servers has been developed, allowing to form business case models, analyze client profiles B2B, B2C, conduct marketing companies and build predictive models of high precision.

In the last year, in the framework of the construction of efficient organizational architecture of the Company and centralization of support functions, the branch «Service Factory» was established, to which all active common service centers of the Company - financial, legal, HR, administrative have been transferred. In addition, the functions

of the administrative and economic activities of all subsidiaries, namely real estate management, transport support and economic functions, were centralized.

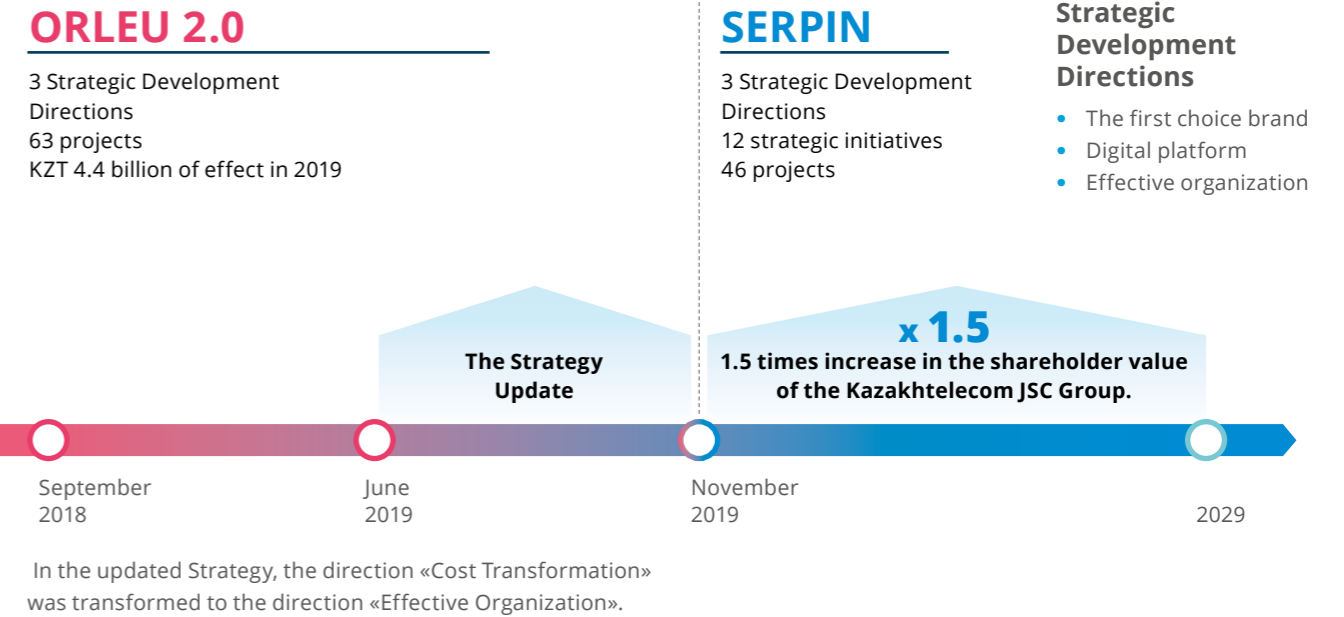
In order to improve the organizational structure the following works were carried out:

1. The service installation functions were transferred from technical units to B2C and B2B.
2. The functions for working with accounts receivable, sales support, entering payments and conducting recalculations were centralized by transferring from Regional Telecommunications Directorate to B2C and B2B
3. The purchasing functions centralized from Kcell JSC to the Telecom Komplekt Directorate.

The Orleu Modernization Program resulted in the free cash flow effect equaling to KZT 4.4 billion in 2019 and from 2014 to 2019 it cumulatively provided KZT 110 billion.

In 2020, the Company faces even greater challenges in improving organizational structure, developing markets and new services, digitization and operational efficiency.

At the end of 2019, the Strategy updating resulted in the development of a new Serpin Transformation Program



Key achievements of the Orleu 2.0 Project for 2019

**22,700** sq. meters  
real estate was sold within the Property Management Optimization Project

**2,700** staff  
was transferred to a new branch Service Factory

**KZT 345** million  
received from the 828 draft product convergence (Fixed Data Operator Agreement with Kcell)

**13,800**  
units of goods sold and delivered under the E-commerce project for KZT 496 million

**53%**  
customers who contacted call center "160" to complain of the services were retained within the churn management project

**by 2 times**  
was reduced Installation order deadline within the B2C project

**KZT 75** million  
gained from external monetization of Big Data.

**234**  
LoRa Base Stations installed in 13 cities within the Smart City Project

**42** servers  
were installed in the Data Processing Center in Pavlodar within the Big Data Project



## Business and financial review

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Number of fixed broadband  
Internet ports

**1,705,495**

Number of Pay TV  
points

**774,044**

# MAIN ACHIEVEMENTS BY PRODUCT AND SEGMENT

## B2C

At the beginning of 2019, a new Commercial Strategy of the Company in the retail segment was developed. As part of the strategy, a new business model and a new line of product offers aimed at creating long-term relationships with customers were presented and implemented. By concluding a long-term contract, customers have the opportunity to receive: a guarantee of no increase in price, a significant improvement in the parameters of services and a significant discount to basic tariffs. The 2019 results confirmed the high efficiency of the new business model and the new tariff line. In just one year, every fifth subscriber switched to long-term contracts.

**72%**  
of all long-term contracts are concluded for 3 years

As part of the development of product offerings, an agreement was concluded on the joint provision of services with Kcell JSC. In 2019, the package product offer «Ultra» with the best of the available on the market parameters of Internet, TV and mobile communication services was brought to the market. In the 4th quarter of 2019, a large-scale advertising campaign for the «Black» and «Ultra» packages was carried out.

Qualitative improvements have been made to the TV product:

- the content has been extended to 170 TV channels,
- the HD format for broadcasting on ADSL networks has been introduced.

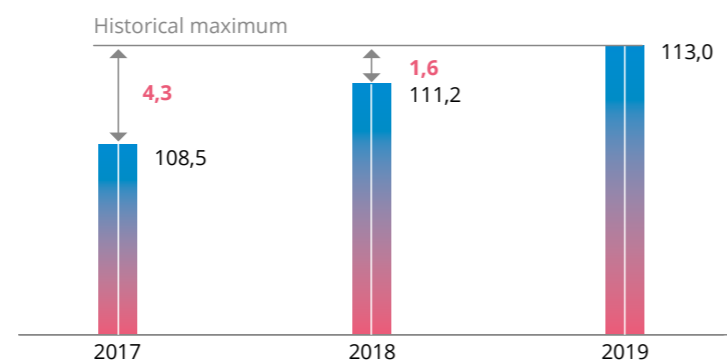
The implemented measures allowed to increase the volume of sales of services in 2019 by KZT 0,5 billion and reduce the natural outflow of customers by 12 thousand units or 1,2% compared to the level of 2018.

As a result, at the end of 2019, a historic maximum was achieved in revenue in the retail segment in the amount of

**KZT 113 billion**

The payment discipline of our customers was significantly improved, which, can cause increase in cash receipts to a 5% by 2018 and a decrease in the level of overdue receivables by almost 2 times.

Figure 14. Historical maximum



## NEW BUSINESS MODEL: BENEFITS OF LONG-TERM CONTRACTS

The new business model is aimed at increasing the customer lifetime value (CLV) indicator by introducing a system of long-term contracts with customers, where mutual guarantees are provided. The Company provides the client with the opportunity to obtain higher parameters and a list of services at a reduced price when concluding a long-term contract (up to 3 years). In addition, the client is guaranteed no price increase for the duration of the contract. The client secures a guarantee of long-term loyalty to the Company.

The system of long-term contracts contributes to a significant increase the customer lifetime value (CLV) of the subscriber and reduce the cost of maintaining and increasing the customer base.

## THE MAIN DRIVERS OF BUSINESS IN 2019: ABOUT THE MOST POPULAR PACKAGES FROM THE NEW LINE

A new line of product offers, developed in accordance with the new business model, includes several package solutions.

### The Ultra Package

The flagship of the new line is «Ultra» revolutionary package. This is – an uncompromisingly solution, which includes all the best on the market today:

- Internet with high-speed parameters up to 500 Mbps, which allows satisfying the whole spectrum of needs of even the most discerning customers;
- mobile communication with internet traffic 15/30 GB and unlimited voice traffic on the Kcell, Activ, Tele2, ALTEL networks, as well as landline phones on the Republic of Kazakhstan. At the same time,

- a choice of a mobile communication provider (ALTEL or Kcell) and the number of SIM cards is provided to client;
- premium iD TV digital television package, which includes 170 television channels. The TNT, Piyatnitsa! («Friday! International»), «Cinema Mood!» TV Channels Groups and Viasat Premium HD are TV channels is the most rated entertainment;
- as a bonus, the package includes home fixed telephony services with unlimited traffic to all landline and rural numbers, as well as to Tele2 and ALTEL mobile networks.

### The Black Package

The «Black» package also includes 4 services: fixed Internet up to 500 Mbit/s, premium package iD TV, mobile communication from ALTEL and home phone with unlimited call traffic to Tele2/ALTEL networks and to landline numbers.

### The Silver Package

The «Silver» package offers the home telephone, fixed Internet and the possibility of choosing between the services of digital TV or mobile communication services to client.

## SERVICE MANAGEMENT: 3 MAIN AREAS

### 1. Staff training in new service standards

In 2019 service standards were improved and a number of training events were held for front office employees, aimed at strengthening and developing business competencies and improving the quality of service in order improving the quality of service and the loyalty of subscribers. Systematic monitoring of staff performance and error management is carried out according to the updated standards for control the quality of the service provided.

### 2. Organization of feedback: focus on digital

The Company is actively developing remote service operations, increasing their share in the self-service mode in order to reduce customer service time. At the moment, an updated version of the Personal Account is available to subscribers. The subscriber, independently without visiting the offices, can quickly and comfortably manage his services. Also, a pilot project for servicing subscribers with an automated bot is launched on the www.telecom.kz corporate portal. The mechanism for working with subscribers in social networks is reconstructed.

### 3. Improving containment methods

In 2019, an updated «Save Desk» line of tariffs was developed and implemented for keep the outflow. A line of contracted product offers has been launched designed to increasing the life of subscribers in the Company and proactive retention of the outflow for up to 3 years. In 2019, the motivation system for employees working with outflows was changed - the staff was transferred to a unified motivation program that provides for bonuses based on the performance of an individual outflow plan in the reporting period. In 2019, proactive work with outflow, work to retain subscribers who were at risk was launched. These measures allowed fulfilling the planned outflow indicators in the B2C segment and increasing the outflow retention rate to 52% in 2019.

### CONNECTION OF SERVICES: INSTALLATION PROCESS FASTER FOR 5 TIMES

The Company attached great importance to improving the processes of connecting and installing services. In 2019, three main tasks were implemented in this direction: reducing the time for connecting services with technical capabilities, connecting a package of services in one visit, and increasing the level of customer-oriented service.

Thus, the time of connecting the services to the subscriber, with the availability of technical capabilities, was reduced by 5 times. If in 2018 the average connection time was 126 hours (5 days), then according to the results of 2019, the average connection time of services was 26 hours (1 day).

In 2019, the average connection time was

**26**  
hours

In order to increase customer loyalty, the installation process is optimized for one visit to complete the connection of all services. At the end of 2019, the indicator for complete installation in one visit grew to 85% compared to 35% in 2018.

The Company seeks to ensure a high level of customer service from the moment of the first contact. The year 2019 was aimed at improving the quality of communication with the client on the part of technical personnel, namely, on the part of installers. During 2019, systematic training of installers was conducted in terms of improving the quality of service. At the end of 2019, the NPS brigade for service installation was 76%, compared to 25% in 2018. In 2020, it is planned to introduce the SMS-measurement of the process of installing service.

### SALES AND PROMOTION: LEAD GENERATION PROJECT AND ADVERTISING CAMPAIGN

In 2019, the Retail Business Division began «laying the foundation» for the future of digital active sales. In July last year, a lead generation project started in order to promote the «Ultra» package offer in the digital environment.

The lead generation tool organically combines advertising and sales. While at the same time minimizing the number of actions that a potential subscriber must perform to connect the target product.

This project and a similar approach in sales have a lot of advantages. Firstly, it is – flexibility, that allows to expand the Company at 180 degrees. Secondly, the optimization potential – in that tool, we are able to not only analyze the entire sales funnel, finding and eliminating barriers and bottlenecks, but also test creative approaches, educational telecommunications projects and hypotheses, which ultimately leads to an increase in ROI and overall efficiency. Thirdly, scalability – in a matter of days we can launch a campaign for the whole of Kazakhstan, but using classical approaches it is practically impossible. In addition, the project reduces the impact of the human factor. Of course, it is impossible to completely abandon human participation in the sales process, especially complex package solutions. However, lead generation allows minimizing a person's negative impact on potential interest in a product among potential subscribers.

### The project has proved to be very prospectively.

Due to flexibility and optimization potential, the number of connected subscribers increased by 4,6 times in November compared to July. Constant analyst and elimination of «bottlenecks» allowed to increase conversion from successful calls to request for connection by 1,7 times. By the end of 2019, the total ROI project increased 4 times.

### B2B, B2G

In 2019, the revenue of corporate market amounted to **KZT 120 billion 386 million**, in segments B2B, B2G, B2O, according to the results activities of the Company.

In 2019, in the structure of revenues in the corporate segment of Kazakhtelecom JSC, the largest share in the amount of 33,30% was revenue from the provision of data network services. The share of revenues from the leasing services of the transport network channels amounted to 15,92%. The share of revenue by agreement with international operators amounted to 10,26%.

As a result of initiatives, the average revenue for ADSL increased by 2,2%, for FTTx - by 7% compared to last year. A significant growth came

Revenue from the sale of services for 2019 compared with 2018 increased by

**+113,0%**

in basic services - FTTx and IP VPN, which are the most highly profitable and, from a technological point of view, significant for the further development and growth of ARPU service customers:

- in FTTX provided connection growth came **by 13%**;
- in IP VPN – **by 17%**.

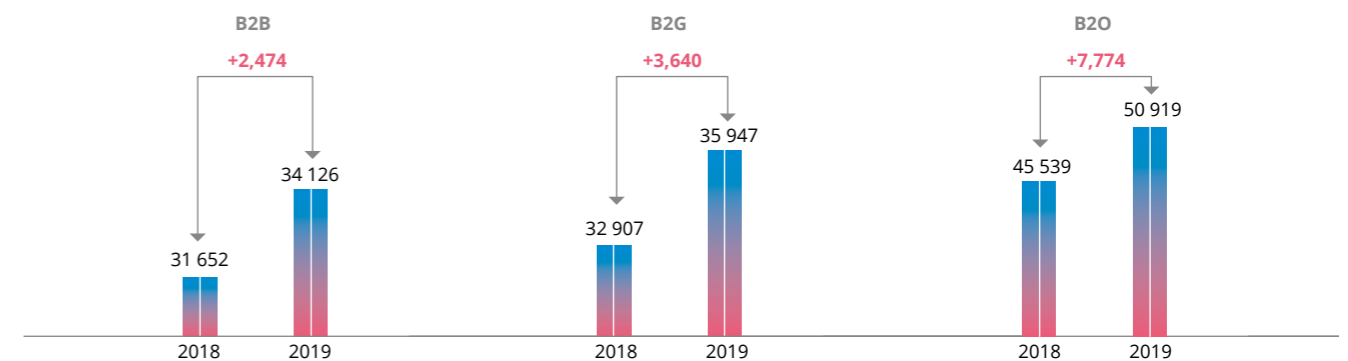
In the implementation of the strategic objective «Kazakhtelecom JSC – a business partner of the digital economy» in the corporate segment, in 2019 the revenue growth from new services compared to the previous year amounted to 232%.

Despite the aggressive competitive environment in the corporate market, the percentage of customer retention increased by 4 times. 51% of customers withheld long-term contracts. The corporate indicator of the loyalty level NPS B2B in 2019 was 22,9%, an increase of 6,2% compared to the previous year.

The client portfolio of B2B companies at the end of 2019 is more than 90 thousand customers, B2G more than 15 thousand state-owned enterprises. According to the results of 2019, about 11 thousand new customers were attracted to the Kazakhtelecom JSC corporate segment, among them more than 3 thousand legal entities, 7 thousand individual entrepreneurs and 400 state enterprises.

In 2019, the B2B segment focused on areas such as expanding the product line, personalization and digitalization of services.

Figure 15. Revenue growth 2019/2018 in B2B/B2G/B2O segments



## EXPANSION AND DIFFERENTIATION OF THE PRODUCT LINE

The segmented and targeted approach to studying the needs of various categories of corporate clients allowed the Company to develop and offer a number of new products aimed at increasing the effectiveness and efficiency of their activities. A mandatory criterion in the development of new products is not only innovation and novelty, but also the possibility of combining with the Company's already used products.

The product «Wi-Fi SOHO» is offered for small business. Its providing free wireless internet access with sms-authorization for visitors of organizations that are our corporate customers. The client is given the opportunity not only to offer his visitors high-quality Internet access, but also to personalize the home page at his own discretion, as well as to view the connection analyst. It is noteworthy that the Wi-Fi SOHO product can also be provided in cases where the organization uses Internet access from a third-party operator, while all the functionality of the product is fully preserved. For its part, Kazakhtelecom JSC takes all responsibility for ensuring the availability of the service, the necessary authorization procedures and analytics of Wi-Fi connections.

The product «Wi-Fi Target» offered for representatives of medium-sized business, it is a more complex yet more efficient tool. In addition to wireless internet access with sms-authorization, the Company offers customers the possibility of using various marketing tools for extended analytics and interactive interaction with visitors. Conducting of surveys, advertising of goods and services, various notifications and analysis of preferences is only part of the possibilities of «Wi-Fi Target» product. In the future, it is planned to create additional product-based services and capabilities that will allow customers to take full advantage of personal communications with customers.

The targeted approach to clients' needs allowed the Company to develop a specialized product «Gamer», intended for game computer clubs, which allows to get priority access to European game servers, and end-users - maximum satisfaction from online games with international rivals. Kazakhtelecom JSC takes an active part in the development of cybersport in the Republic of Kazakhstan. The Company aims at popularizing cybersport and raising its level, thus developing new products in this direction. The introduction of the tariff «Gamer» will give a new impulse to the development of cybersport in Kazakhstan, based on infrastructure and access to high-speed Internet.

## DIGITALIZATION OF SALES AND CUSTOMER SERVICE

The initiatives of the Company in the field of digitization primarily affect sales and servicing of clients of Kazakhtelecom JSC. For small business we offer an online Product Designer Unibox, thanks to which clients can draw up for themselves an individual set of services and in a short time integrate services into their daily activities. Also, last year, in order to improve the quality of service, a project was launched to introduce the «paperless format» of the service, which allows clients to conclude contracts and receive certificates of work and invoices without visiting corporate sales centres. Instead, all materials are posted electronically on the portal «ISMET.KZ». In addition, it became possible for customers to pay for services, sign documents through digital signatures and receive details on the services they use in the personal account of the portal. As a result of the transition to a «paperless format», the service time was reduced from 1-2 days to 10 minutes. The number of contracts and additional agreements concluded in 2019 amounted to more than 2,5 thousand. Subscribers received about 5,5 million acts of work and invoices in electronic format.

The appearance on the market in 2019 of three new Fiscal Data Operators (FDOs) did not affect the leading positions of Kazakhtelecom JSC, which remains due to the optimization and digitalization of the Company's business processes and the provision of services to end users. The growth of the customer base of FDO of Kazakhtelecom JSC's amounted to more than 200% according to the results of 2019, exceeding the Company's revenue expectations.

The Company on an ongoing basis interacts and regularly discusses the tasks and development plan for the FDO sphere with the State Revenue Committee of the Ministry of Finance of the Republic of Kazakhstan in terms of integrating the FDO system with state databases.

As part of the project, a new service «Online registration of cash register» has been launched in the tax authorities, which allows you to register cash registers online. Also, the services of automatic documentation and online payment for the FDO service through the ISMET.KZ portal were improved, the issuance of «X» and «Z» reports of entrepreneurs on the FDO portal was automated. A call center for end users of FDO services has been modernized, receiving calls around the clock daily.

The Company, together with the State Revenue Committee of the Ministry of Finance of the Republic of Kazakhstan, carried out the action «Demand a check – win a prize!» using the specialized app «Tandau», in accordance to increase civic engagement and develop tax literacy of the population, as well as increase tax revenues to the budget, from May 1 to August 8, 2019. According to the results of the action, 100 winners were determined. The action was attended by over 25 thousand users who registered about 800 thousand checks.

In order to improve the quality of providing FDO services, the Company carried out an increase in the capacity of the associated IT infrastructure, expanding the coverage area due to the development of a network of mobile operators acting as technological partners of Kazakhtelecom JSC. On an ongoing basis, interaction with technical service centers is carried out to increase service points in the Republic of Kazakhstan.

## B2O

The restructuring of the mobile communications market and the trend towards a decrease in the volume of mobile voice traffic, in general, did not affect the business of Kazakhtelecom JSC in the carrier segment, which showed growth in this area by more than 350%. The main driver of growth was the attraction of additional international volumes of voice traffic and the application of an effective pricing policy for mobile operators in international areas.

Last year, there was an increase in demand for Internet services by Kazakhtelecom JSC by more than 110%. Traffic from cellular subscribers. Kazakhtelecom JSC received additional revenue in proportion to the increase in sales of Internet services to cellular operators by leasing republican communication channels used for internal transit.

In 2019, for the first time in the history of Kazakhtelecom JSC, transit channels with a capacity of 100 Gb/s were organized under IRU (Indefeasible rights of use) conditions in the Europe-Asia direction for the main Chinese telecom operators. The total volume of services of transit communication channels increased by 25%. The volume of external internet access channels increased by 23% in 2019, and the cost of the service was reduced by 15%.

In 2020, the growth of international B2O is forecasted through transit channels and IPLC. The main growth is planned to be achieved through the sale of transit channels in the direction of China - Europe, as well as channels to Central Asia.

**+ 23%**  
volume of external Internet access channels for 2019

**-15%**  
reduced the cost of Internet access services for 2019

**THE PROJECT «PROVIDING RURAL SETTLEMENTS WITH BROADBAND ACCESS USING FIBER-OPTIC COMMUNICATION LINES TECHNOLOGY»**

Kazakhtelecom JSC takes an active and direct part in the state program «Digital Kazakhstan», designed at improving the standard of living of each resident of the country through the use of digital technologies.

Under the program, the Company continues to implement a large-scale project to provide broadband Internet access to rural localities of the Republic of Kazakhstan using fiber-optic communication lines, which resulted

in the construction of 4731 km of fiber-optic communication lines in 2019 to connect 699 state institutions in 206 rural localities.

Currently, 1153 state institutions in 381 rural localities have been connected using fiber-optic communication lines, including 396 schools, 332 medical institutions, and 425 administrative and strategic public administration facilities.

Connecting state institutions to the FOCL provided access to the Unified system of electronic document management of state bodies, as well as access to state Internet portals, which allowed us to provide a greater range of services to the population.

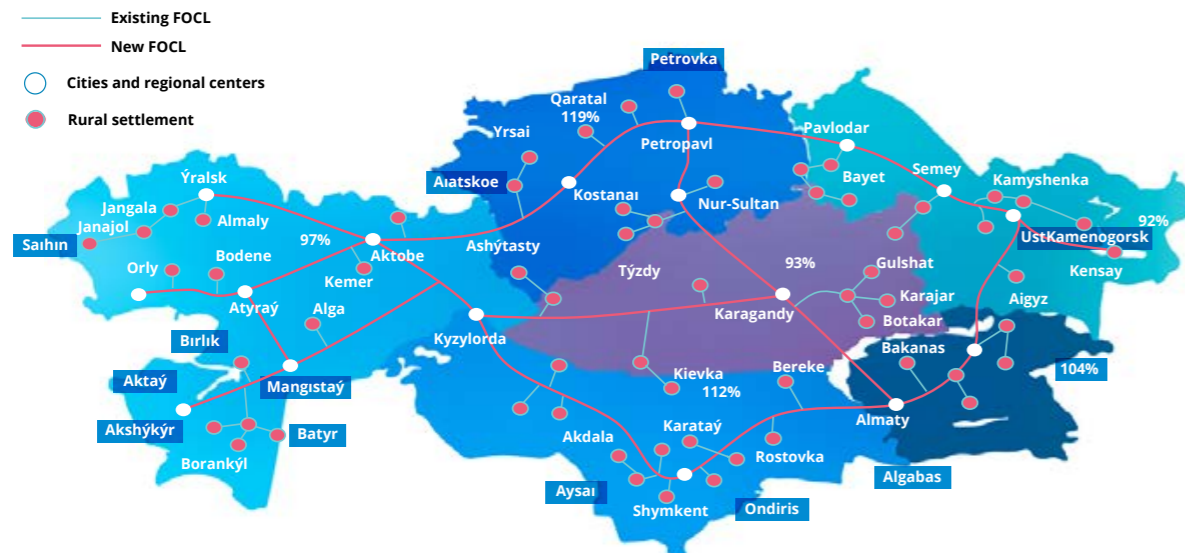
Opportunities have been created for citizens to learn and acquire skills in working with information technologies through distance learning, advanced training and retraining courses, telemedicine services and electronic government services.

**The total project implementation period is 14 years (2018-2032)**

**The following stages:**

- construction period: **October, 2018 to 2020 (3 years);**
- service period: **from 2018 to 2032 (14 years).**

The project provides for the connection of 2,496 state institutions (state institutions/budget organization) in 828 continues feed system of RK. Company needs to build more than 14,5 thousand kilometers of FOCL.



# NEW BUSINESSES AND INNOVATIVE ACTIVITIES



**CLOUD-BASED VIDEO SURVEILLANCE**

In 2017, Kazakhtelecom JSC launched a project for cloud-based video surveillance. The first stage of the project was aimed at preparing the infrastructure for connecting 16,940 video cameras to the «cloud» video surveillance platform, which provides for the collection and storage of video data from cameras installed in the entrances of apartment buildings in 18 cities of the Republic of Kazakhstan. The advantage of cloud-based video surveillance is online access to video from a smartphone and other devices through the developed mobile application and web portal. In addition, it is possible to view archived videos with a storage duration of up to 7 days, the security of video data storage in Tier 3 data centers. Video streaming from cameras is carried out via VPN channels, thereby providing the necessary level of security, protection and data storage. Integration with the Center for Operational Management of the Ministry of Internal Affairs at the republican, landline and district levels. Geography of the service: the cities of Nur-Sultan, Almaty, Shymkent and 14 regional centers. In 2018, the 2nd stage of the project was implemented, within the framework of which the resources and the platform for the cloud-based video surveillance were expanded, including for connecting 11,440 cameras on the B2B segment.

In 2019, the formation of a «cloud» video surveillance infrastructure was completed:

- over 30,000 video cameras installed;
- expansion of servers for video storage up to 15 Petabytes;
- expansion of the network interface with the cloud-based video surveillance platform up to 200 Gb/s.

In addition, a cloud-based video surveillance product was launched for B2B / B2G segments. Pilot projects were carried out with government authorities on online access to video cameras installed in public places.

**16 940**

video cameras are ready to be connected to the «cloud» surveillance platform



**BLOCKCHAIN**

Kazakhtelecom JSC in 2019 launched a new business direction on the provision of Blockchain computing and infrastructure resources on the concept of Baas (Blockchain-as-a-Service) On the basis of geographically distributed Tier II and higher data processing centres in 4 cities of the Republic of Kazakhstan: Pavlodar, Karaganda, Shymkent and Aktobe, which are connected by secure data transmission channels. The system is managed by Hyperladger fabric and it is in full compliance with the existing blockchain construction principles.

In addition, Kazakhtelecom JSC is a member of the National Association for the Development of Blockchain and Cryptotechnology in the Republic of Kazakhstan LLP, with the aim of participating in the process of standardization of blockchain technology in the Republic of Kazakhstan.

Also in 2019, the product «Blockchain resource provisioning platform development» was launched on the market.



### IOT PRODUCTS BASED ON THE LORA NETWORK

In 2019, the Company completed the 2nd stage of the deployment of the LPWAN wireless data network based on the technology LoRa in 13 cities of Kazakhstan for remote collection of readings from counter of the Housing and Utilities Sector. This allowed Kazakhtelecom JSC to further develop IoT in the country, and energy and utilities to transmit readings without laborious costs, thanks to inter-machine interaction. The advantages of the network are its high scalability due to the large coverage radius of up to 5 km, the long life of the battery of end devices and the openness of its protocol for a wide range of devices.

In total, the project installed 324 base stations and 4000 sensors in apartments and houses broadcast information to a single data center with any time interval. Thus, energy companies will be able to track the volume of consumption of services and ensure the transmission of reliable readings from meters.

Within the framework of this project:

- 324 base stations in 14 cities;
- 37 000 apartment buildings;
- 1 800 000 households;
- 1 600 000 sensors for hot / cold water, electricity, lighting, hatches in cities;
- 5 000 km squares urban area.



### THE SMART CITY PROJECT «SMART AQQOL»

In 2019, within the framework of one of the main directions of the State Program «Digital Kazakhstan» in the landline Aqqol of the Akmola region, the implementation of the Project «Smart Aqqol», where Kazakhtelecom JSC acts as the operator of the project «Smart City». Actually «Smart Aqqol» is a demonstration platform of possibilities and decisions of Kazakhtelecom JSC for building smart cities.

Inside this situational stand there is a stand for the demonstration of infrastructure and projects «Smart City» implemented by Kazakhtelecom JSC in Aqqol, namely:

- «Cloud» video surveillance and video analytics;
- «Smart Metering» (smart Housing and Utilities Sector);
- «Smart Home» («Smart House»);
- Optical infrastructure of Kazakhtelecom JSC;
- Optical transport network;
- Optical networks within cities;
- Optical infrastructure inside houses;
- Data centers;
- 5G testing in Kazakhstan.



### 5G

Kazakhtelecom JSC closely studies trends and considers 5G technology to create infrastructure services and new business opportunities. In 2018, the Company began work on the active introduction of 5G technology in Kazakhstan.

10 5G tests were conducted in the cities of Nur-Sultan, Almaty and Almaty region in the field, in accordance with the Roadmap for testing and implementing 5G technology in the Republic of Kazakhstan. The radio frequency range was 3.5 GHz and 28 GHz.

At the same time, hardware and software from different manufacturers and for various application cases were used. To test 5G technology in the «non-stand-alone» mode, the core elements of the Tele2/ALTEL and Kcell network were updated, which allowed testing on commercial networks using subscriber devices. Also, on October 24, 2019, in test mode, a 5G base station was launched on the territory of the Astana Technological Park of IT start-ups «Astana Hub» in the radio frequency band 3.5 GHz for permanent testing of 5G solutions by residents of «Astana Hub».

In accordance with the instructions of the Office of the Prime Minister of the Republic of Kazakhstan and within the framework of the implementation of the Roadmap for testing and implementing 5G technology in the Republic of Kazakhstan, the development of the concept of introducing 5G technology in the republic has begun. The concept will include technical, regulatory, financial, economic and sanitary-epidemiological aspects of the introduction of 5G technology in the country. At the end of 2019, the first part of this concept was completed, which is planned to be completed in May 2020.



### TELCO CLOUD

As part of the Increasing the shareholder value strategy of Kazakhtelecom JSC, the active development of technological and infrastructure projects has begun. One of these projects is «Migrating data networks to SDN / NFV», within the framework of which it is planned to create a new architecture, including the replacement of a large number of nodes and data centers with a high-performance platform of virtualized network and computing services. For these purposes, in 2018, the target CORD architecture (Central Office as a Data Center) was selected and prepared for implementation on the Kazakhtelecom JSC network, including OCP (Open Compute Platform) server equipment and Leaf & Spine switching factory. Also, as part of this project, a Proof of concept (PoC) was conducted, within the framework of which the operation of the VIM virtual environment based on RedHat OpenStack was tested and VNF (virtualized network function) - end services in the virtual environment were tested:

- CGNAT;
- vCPE;
- DPI / Secure internet;
- Firewall/IPS/AntiDDoS;
- vEPC for mobile networks.

Organized CORD-HUB at the technological site in Almaty. According to the ETSI MANO reference model, this solution includes the following components:

- LSO (Lifecycle Service Orchestrator);
- NFV orchestrator;
- VNF manager;
- VIM (Virtual Infrastructure Manager);
- CORD-SDN.





## COOPERATION WITH CONTENT PROVIDERS

In 2019, the Google Global Cache caching platform's bandwidth was increased to 129 Gbit/s. Taking into account all caching platforms (Google, Facebook, Vk.com, Akamai), the total cached traffic is on the order of 1 050 Gbit/s out of 2 142 Gbit/s and saves KZT 4,8 billion. Also, in 2019, a pilot was organized at the direct interface with the Amazon Web Services point of presence in Frankfurt (AWS Direct Connect). Within the framework of this pilot, for 2 clients, network connections were established between local client Data Centers and Amazon Web Services using a secure VPN channel.



## E-COMMERCE

The development of e-commerce services is carried out on the basis of online stores – «chocomart.kz» and «intermarket.kz».

As part of the development of e-commerce in 2019, the following activities were carried out:

- Signing contracts with partners and increasing the assortment matrix;
- Implementation of the functionality for displaying relevant goods along with the selected product to increase the basket and the implementation of the functionality by notification to the client from the moment of ordering the goods in order to improve the service;
- The opening of the self-export point. The completion of integration with the network of posts «Mypost» and «Tastamat». Reduced delivery times to regions through new logistics partners;
- Development of service «Sale together with installation of goods from «chocomart.kz»;
- Signing an agreement with Kcell JSC on the sale of smartphones;
- Placing «Shop» section on www.telecom.kz site to ensure the development of the ecosystem of the products of the Kazakhtelecom JSC;
- Completion of technical integration with Eurasian Bank and Caspi Bank. Start of sales of goods in instalments and credit.



## FINTECH

«Fintech» is a payment system «ktpay», developed by the Kazakhtelecom JSC Group.

As part of the project, in 2019, the «ktpay» product worked as an internal mechanism for collecting payments only on the resources www.telecom.kz and ISMET.kz. During the period of work (from May to December 2019), over 15 thousand transactions were accepted and processed for a total amount of KZT 68 million (payments for communication services, utilities and transport services). Also, on the «ktpay» service (web, ios, android), a new function for displaying arrears by periods and interest (with details) has been implemented.

During the period of operation (from May to December 2019) more than

**15 000**  
transactions were accepted and processed for  
**KZT 68 mln**



## BIG DATA

Project «Big Data» is realized in Kazakhtelecom JSC since 2018. The system is capable of solving specific business cases: identifying the causes of customer outflows, anticipating consumer tendencies and forming targeted offers for buyers.

Kazakhtelecom JSC focuses on «Big Data» services, as the project is of great importance for different directions of «Digital Kazakhstan» program. In 2019 «Big Data» platform was installed on the service server, internal and external data sources were connected, universal client data models were built for B2C and B2B segments.



## CLOUD ACCOUNTING FOR EDUCATIONAL INSTITUTIONS

In 2019, the Big Data platform was installed on the service server, internal and external data sources were connected, and universal client data models were built for the B2C and B2B segments.

The Cloud Accounting Service was launched in 2018. According to the results of last year, more than 300 educational institutions in the cities of Pavlodar, Aksu, Ekibastuz and Taldykorgan are connected to the service. The cloud system automates the accounting, personnel and movement of the population (students), which is the most relevant in the context of the introduction of per capita financing in education. As a result of introducing the service, state and local government bodies will be able to receive reliable and up-to-date information on the results of the financial and economic activities of educational institutions and the actual use of budget funds with reference to students and teachers. On average, a cloud-based accounting system saves one educational institution about 58% per year.



## OPEN DIGITAL PLATFORM FOR BUSINESS

The project «Open Digital Platform» for business or «ISMET.kz» is implemented within the framework of initiatives to create an information base for Kazakh business. Digital business services are aggregated on the platform, which allow automation of daily business processes of entrepreneurs, organization of efficient business management, finding new markets of their products, easy access to measures of state support and much more.

In 2019, the Company carried out large-scale work on the development and promotion of the project. Today, the platform hosts more than 30 services for business and 25 services of Kazakhtelecom JSC. Using «ISMET.kz», you can carry out international trade using the «Qoovee service». In November 2019, ISMET.KZ and Qoovee organized a large-scale international forum in the landline of Almaty, which was attended by 450 entrepreneurs from 8 countries.

As part of the project, significant work has been done on the development of the electronic workflow service. Formation and signing of electronic contracts, Act of the executed works, electronic invoice, reconciliation acts on services of Kazakhtelecom JSC is carried in the personal cabinet of users of Open Digital Platform «ISMET.KZ». The electronic workflow has been integrated with the Company's corporate systems: CRM-2.0 and billing system for invoicing (ACP).

The most necessary online services for the successful conduct of your business contains in the ISMET.KZ mobile application:

- «Cloud» accounting for accountants;
- Cash registers with automatic data transmission for stores;
- Electronic workflow for HR services;
- Checking counterparties for lawyers;
- Electronic payments to the budget for individual entrepreneurs;
- Applications for service stations and tire fitting;
- Accounting system for cafes and restaurants.

About

**3 million documents** were digitized for customers of Kazakhtelecom JSC in 2019.

# TELECOMMUNICATION INFRASTRUCTURE AND NETWORK DEVELOPMENT

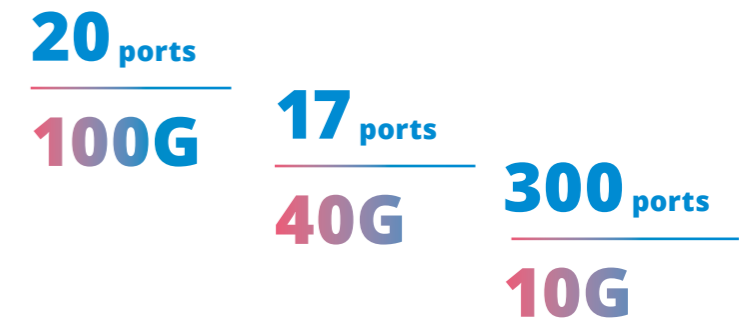
## TRANSMISSION TRANSPORT NETWORK DEVELOPMENT

In 2019, work continued on the construction of the DWDM transmission network as part of projects to expand the capacity of the existing National Information Super Transmission (NIST):

- total capacity of external Internet channels has been increased from 940 to 1200 Gbit/s;
- The installed capacity of the DWDM transmission network equipment was expanded to:
  - 1'380 Gbps for the expand border crossings;
  - 2\*100G (1 + 1) and 24 \* 10G for the transit traffic transit;
  - 8\*100GE and 53\*10GE for the pass the Communication and data transmission module traffic.
- To ensure traffic protection, an additional I/O structure was organized at the ROADM junction stations in the cities of Karaganda, Pavlodar, Ust-Kamenogorsk, Taldykorgan, Taraz, Petropavlovsk and Kostanay;
- FOCLs built to connect 1,270 corporate clients. In total, from the beginning of the project, FOCLs were built to connect 9,932 corporate clients.

## COMMUNICATION AND DATA TRANSMISSION MODULE TRAFFIC NETWORK

The data transmission network is expanded to



The migration of access level equipment to new SDN networks in the cities of Atyrau, Kokshetau, Taldykorgan, Shymkent has been completed.

The construction of the SDN network in Almaty was completed.

Increased throughput of Cache-servers from 1360 Gbit / s to 1680 Gbit / s.

## INTRODUCTION AND DEVELOPMENT OF IPTV SERVICE

- The number of client equipment (STB) has been increased to provide 59,700 additional iDTV connection points;
- A system for automatically notifying subscribers of receivables has been introduced;
- FTTH network capacity increased by 85 310 ports;
- The hardware-software complex of the Wi-Fi network was put into operation in the Data Center of Pavlodar; client equipment delivered to 1 900 access points.

## LOCAL TELECOMMUNICATION NETWORKS

The local telecommunications network of the republic is represented by 6 117 switching points (SP). Of these, 3 201 SPs on the urban telephone network (UTN), 2 916 SPs on the rural telephone network (RTN).

The total installed capacity was

**5,209,054**  
 numbers

6,998 schools, including 5,242 in the continuous feed system, 6,994 schools were telephoned, of which 5,238 were in rural areas, as of January 1, 2020.

5,395 schools are connected to using broadband internet technology, including 3,884 rural schools (excluding other providers).

The installed capacity of the UTN was

**3,883,536**  
 numbers

The number of fixed lines as of January 1, 2020 amounted to 2,849,878 units, including UTN - 2,042,681 units, RTN - 807,197 units. At the same time, the outflow of individuals compared to the previous year amounted to minus 128 594 units, of which, for the UTN, minus 81 296 units, for the RTN, minus 47 298 units.

The installed capacity of RTN was

**1,325,518**  
 numbers

As part of the optimization of the Company's telephone network in 2019:

- 45 370 telephony subscribers switched from copper lines to the FTTH network;
- decommissioned Automatic Long-Distance Telephone exchange of the cities of Nur-Sultan and Taraz;
- mobile operators networks were transferred from Automatic Long-Distance Telephone exchanges to SSW software switches.

Total capacity used was

**2,867,784**  
 numbers

According to the action plan for the implementation of the operational-search measures system, 96 switching systems were certified.

### Network Management Centralization

Within the framework of the Orleu Transformation Programme the project on centralization of telecommunications network management has been implemented. According to the results of 2019:

- the system for measuring, analyzing and diagnosing subscriber connections through an access network was developed and implemented;
- the processes for ensuring network security, monitoring services, quality management and resource performance was centralized;
- the formation of the first line of technical customer support with centralization of customer service functions of Kazakhtelecom JSC was completed;
- the hardware and software system for monitoring life support systems of hermetic zones was put into operation.

The involved RTN capacity was

**816,234**  
 numbers

# FINANCIAL REVIEW

## SUSTAINABLE DEVELOPMENT INITIATIVE # 2: ENSURING ECONOMIC PERFORMANCE AND FINANCIAL STABILITY

In 2019, the Company achieved positive results in the implementation of the Long-term Strategy.

According to the results of work for 2019:

- the number of fixed lines in the Kazakhtelecom JSC network was 2,849,878 lines, or 95% of the fact of 2018. The decrease in the number of fixed lines is explained by the refusal of users of fixed telephony services in favor of mobile communications, which is in line with global trends;
- the number of Internet access broadband subscribers amounted to 1,705,495 ports, or 100% to the fact of 2018;
- the number of pay TV subscribers amounted to 774 044 points, or 98% to the fact of last year, including 640 969 points on iD TV.

Consolidated revenue from the sale of services for Kazakhtelecom JSC amounted to

**KZT 428 081**  
 million

The plan is implemented at 102%

thanks to the implementation of a strategy aimed at improving the efficiency of operational activities and optimizing costs, EBITDA margin amounted to

**41,4%**

Consolidated net profit amounted to

**KZT 60 345**  
 million

The volume of capital investments of the Kazakhtelecom JSC Group for 2019 amounted to 152% to the fact of the last year, or

**KZT 72 795**  
 million

Earnings before taxes, interest on loans and depreciation - EBITDA - higher than planned by 117%. As a result, EBITDA by the end of 2019 amounted to

**KZT 177 038**  
 million

Consolidated expenses from core activities for the Kazakhtelecom JSC Group in the reporting period amounted to

**KZT 348 161**  
 million

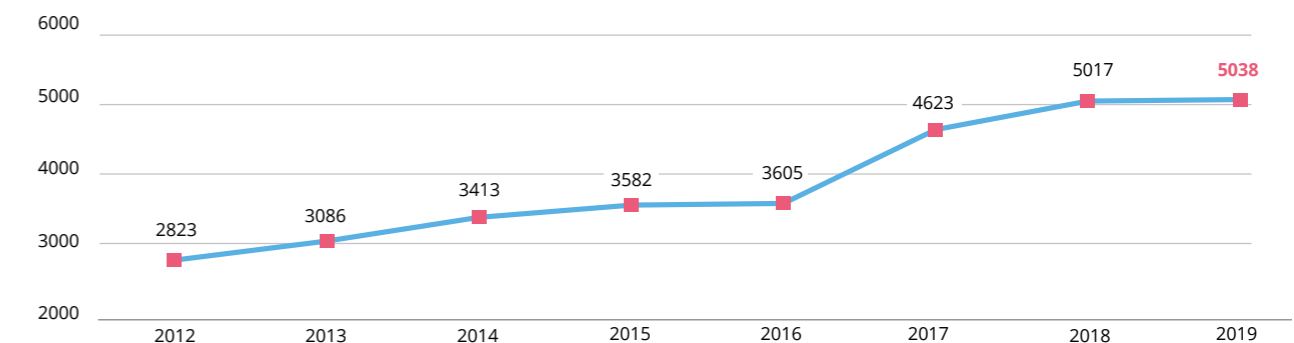
Consolidated revenue from the sale of services for Kazakhtelecom JSC amounted to

**KZT 428.081**  
 million

**KZT 5.038**

ARPU (average revenue per user)

Figure 16. Dynamics of changes in ARPU, 2012-2019 (KZT)



The largest share in 2019 is occupied by revenue:

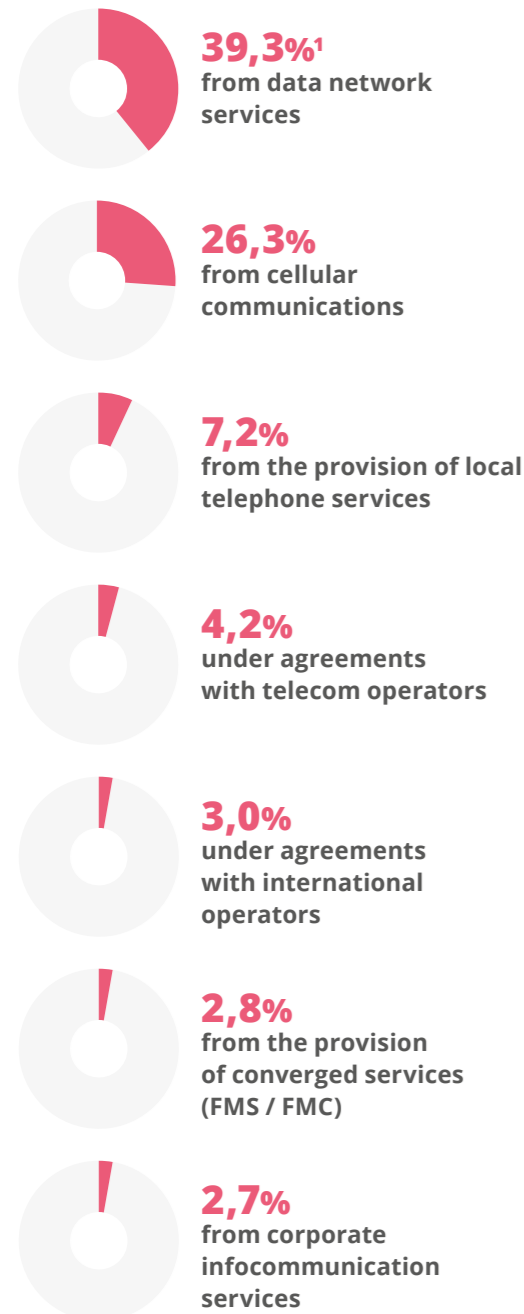


Figure 17. Revenue structure for the Kazakhtelecom JSC Group

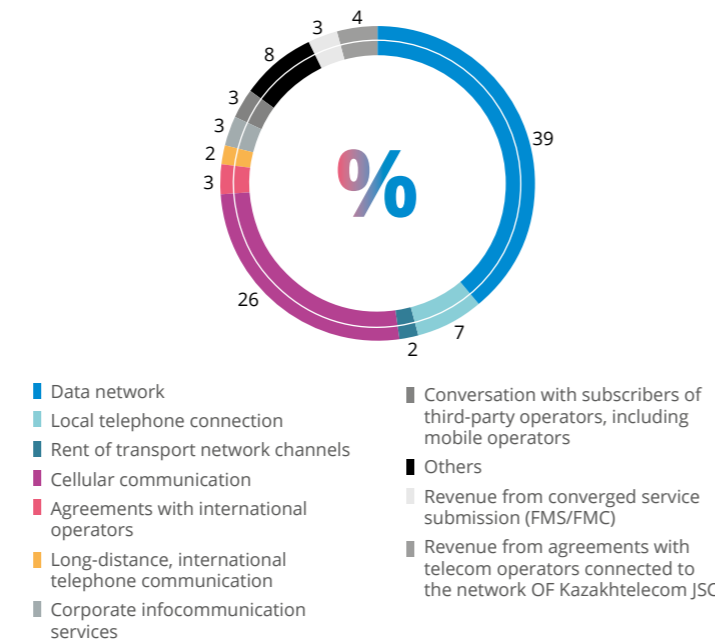
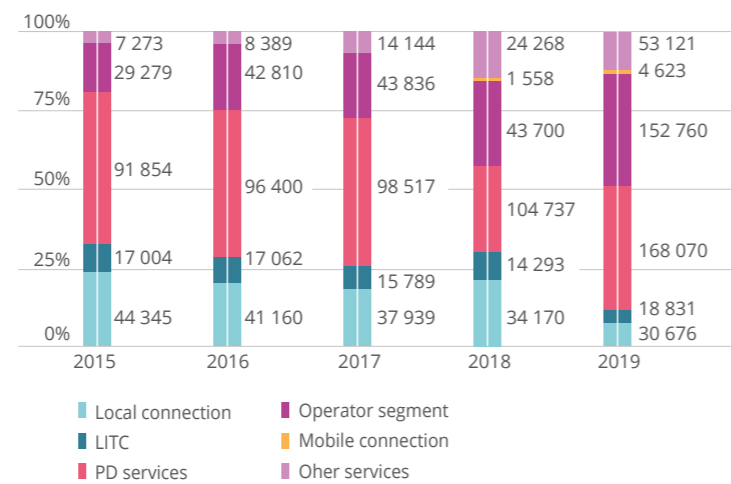


Figure 18. Dynamics of the most significant revenue over 5 years, KZT million



The last few years there has been a decrease in the volume of fixed telephony connections and a decrease in voice traffic. As a result, there is a decrease in the growth rate of revenue from Long-Distance and International Telephone Communications services in the subscriber segment, due to:

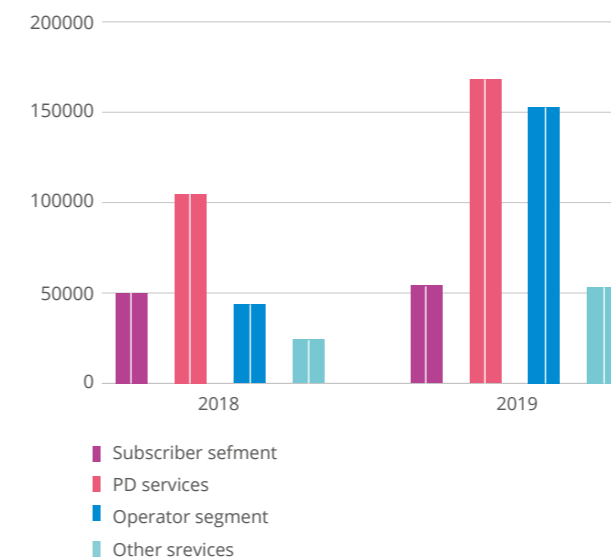
- high level of mobile penetration and low tariffs of mobile operators;
- the growing popularity of alternative types of dialers and substitute services (VoIP, Skype, What's up, etc.).

There is also a slowdown in the growth of fixed Broadband Internet Access, which is associated with increased competition, including due to the development of mobile Broadband Internet Access.

**In order to compensate for the drop in revenue from «mature» services and create a balanced Product portfolio of Kazakhtelecom JSC:**

1. Follows a strategy of active growth and increasing market share in segments where extensive growth is still possible, namely:
  - Pay TV;
  - New services.
2. It timely implements additional services such as converged services, data center services, system integration services, «cloud» computing (SaaS, PaaS), content services for a wide range of users (thematic web portals, mobile commerce, mobile marketing, multimedia content and more).

Figure 19. Changes in the structure of revenue in 2019 relative to 2018, KZT million



With the increase in the penetration of Broadband Internet Access to the Internet and the development of IT technologies, the style of consumption of services has changed. More and more consumers are inclined to consume voice services using VoIP technology through Internet applications, which affected the consumption of traditional telephony services. Data network services remain in the lead.

**KCELL JSC**

The company became a part of Kazakhstan JCS Group in December 2018. The acquisition of 75% of the voting shares of Kcell JSC allowed Kazakhtelecom KSC to significantly expand its presence in the mobile communications market in accordance with long-term development strategy.

**Kazakhtelecom JSC based on both of its mobile operators is working to create a single mutually beneficial platform for effective cooperation which assumes:**

- the mutual use of radio frequency and network resources and infrastructure on an equal footing/creation of a unified communication network;
- reducing of costs for the construction and maintenance of both elements of the networks themselves and the corresponding support systems (billing, technological management, maintenance of infrastructure elements);
- increased coverage;
- improving the quality of mobile services and mass introduction of innovative digital technologies available to the public.

Table 3. Results 2018-2019

	Actual 2018	Plan 2019	Actual 2019	Implementation
<b>Subscribers</b> (th.)	8 969	8 804	8 275	94%
<b>ARPU</b> (KZT)	1 154	1 232	1 333	108%
<b>Revenue</b> (KZT million)	149 701	151 712	156 657	103%
<b>EBITDA</b> , KZT million	50 943	58 430	63 067	108%
<b>Net profit</b> (KZT million)	8 531	1,2	10 212	843 203%

<sup>1</sup> share in the total revenue structure of Kazakhtelecom JSC

**Main results:**

- for the first time in five years, negative trends in key financial and operational indicators have been
- service revenue shows a positive trend. Growth for the year is consistent with earlier forecast statements (3-5%).
- implementation of a new distribution strategy “From volume to value”.
- EBITDA growth, annual growth, excluding the application of IFRS 16 is consistent with these forward-looking statements (3-5%).
- Launch of a converged product in cooperation with Kazakhtelecom JSC.
- Launch of an online phone sales store.
- Launch of new projects: Private LTE, eSIM, scoring system for banks, IoT projects.

Taking into account the experience of Kazakhtelecom JSC in the development of the mobile segment and the implementation of infrastructure projects, the implementation of the transaction along with the purchase of voting shares of Kcell JSC will positively affect the development of telecommunications industry by implementing a number of synergies while combining the technical capabilities of both operators. Also, the scale of the business will accelerate the development of the offer of 4G technology and provide the opportunity for advanced implementation of the 5G standard in the republic.

**Main results:**

- Expansion of population coverage: 3G – **89%**, LTE/LTE Advanced – **75,7%**;
- Mobile market share – **28%** (based on 3Q 2019 results);
- During the year, various services were launched, including Altel TV entertainment services that provide access to watching TV channels and video content via the Internet, QAZAQSHA VOD content.

**Khan Tengri Holding BV**

In June 2019 Kazakhtelecom JSC completed the transaction on the implementation of put option presented by Tele2 Sverige AB to Kazakhtelecom JSC and as a result Kazakhtelecom JSC became the owner of 100% of Khan Tengri Holding BV.

Table 4. 2019 results

	Actual 2018	Plan 2019	Actual 2019	Implementation
<b>Subscribers</b> (th.)	7 160	8 426	7 255	86%
<b>ARPU</b> (KZT)	1 437	1 435	1 649	115%
<b>Revenue</b> (mln KZT)	122 214	143 195	143 306	100%
<b>EBITDA</b> , mln KZT	41 866	54 090	65 304	121%
<b>Net profit</b> (mln KZT)	11 958	14 276	19 943	140%

**DYNAMICS OF CREDIT RATINGS**

The **Fitch Ratings** international rating agency confirmed the long-term issuer default rating of Kazakhtelecom JSC at BB +, and also improved the outlook on the Positive credit rating on June 27, 2019.

The improvement of the rating outlook follows the completion of the acquisition by the Company of a 75% stake in Kcell JSC and the successful placement of bonds by the Company in the amount of KZT 80 billion in order to finance the purchase of the remaining 49% stake in the joint venture with Tele2 (JV Tele2 / ALTEL).

According to the agency, the ratings of the Company are determined by the dominant market positions of the Company in the fixed and mobile communications segments, the generation of good free cash flow, moderate leverage and a favorable regulatory environment.

In December 2018, **Standard & Poor's** affirmed the Company's credit rating at 'BB +' with a Stable outlook after signing Kazakhtelecom JSC on an agreement to acquire 75% of the voting shares in Kcell JSC. The agency noted that the deal will allow Kazakhtelecom JSC Group to increase its share in the mobile communications market to 64%, increase the margin of the business and provide opportunities for its further growth. The rating of the Company assigned by **Standard & Poor's** did not change even after the deal to buy back the remaining 49% stake in the joint venture with Tele2 (JV Tele2 / ALTEL) was closed.

Keeping Kazakhtelecom JSC's credit rating at BB + even after closing deals to acquire shares in companies such as Kcell JSC and Khan Tengri Holding B.V. is a positive event, reflecting the high level of creditworthiness of the Company, effective risk management and the successful preservation of leading positions in the telecommunications market in the country.

**LOAN PORTFOLIO**

The loan portfolio of the Company has a balanced structure, it includes obligations expressed exclusively in national currency.

In 2018, Kazakhtelecom JSC issued and placed bonds for a total amount of KZT 100,000,000,000 with the aim of acquiring a 75% stake in Kcell JSC. The Company's bonds were included in the official list of the Astana International Financial Center exchange - Astana International Exchange.

In 2019, Kazakhtelecom JSC issued and placed bonds in the Kazakhstan Stock Exchange (KASE) trading system for a total of KZT 80,000,000,000 to purchase the remaining 49% stake in a joint venture with Tele2 (JV Tele2 / ALTEL).

In the fourth quarter of 2019, Kazakhtelecom JSC attracted financing from the «Development Bank of Kazakhstan» JSC on attractive conditions for the strategic investment project «Providing broadband access to rural settlements of the Republic of Kazakhstan using fiber-optic communication lines technology». This will allow the Company to implement the project in the most effective way and make a significant contribution to providing rural settlements of the Republic of Kazakhstan with broadband Internet access.

The Company is a reliable borrower with many years of credit history, fulfilling all its obligations in a timely manner and in full. Due to its reliable reputation and strong financial stability, all the Company's needs for borrowed financing are timely covered by sources of funds in accordance with the financial policy of the Company.

Currently, increased attention is paid to debt management and financial stability of Kazakhtelecom JSC to ensure long-term and balanced growth.

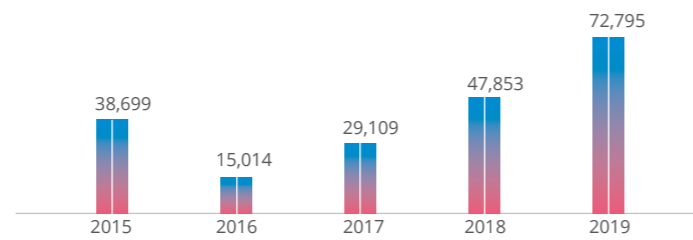
## RESPONSIBLE INVESTMENT

The Company recognizes its responsibility and strives to ensure that its investments contribute to the development of the production and economic base in the regions of presence, the preservation of the natural environment, and the realization of the right to work. The Company supports national economic development programs, which include elements of environmental, social and management principles, as well as sustainable development plans.

In assessing the ESG, the Company is guided by the provisions of the Corporate Governance Code and international standards, such as the UN Sustainable Development Goals, Global Reporting Initiative (GRI), Microfinance Organization and EBRD Environmental and Social Standards, UN Responsible Investment Principles, etc. In order to develop the practice of responsible investment, which involves the assessment of environmental, social and corporate governance factors in the framework of investment analysis and investment decision-making, the Company adheres to the following key principles of sustainable development that are directly related to investments:

- implementation of high ethical standards and building a corporate culture based on trust;
- investing in human capital and obtaining competitive knowledge; enhancing reputation, brand and transparency;
- increasing financial stability;
- facilitating responsible procurement and integrating ESG principles into investment activities;
- creating and maintaining a culture of health and safety;
- ensuring environmental sustainability.

Figure 20. The portfolio of investment projects for the Kazakhtelecom JSC Group



### Investment projects:

**The Project «Providing rural settlements with broadband access using fiber-optic communication lines technology»:** The development of capital investments for 2019 amounted to **KZT 20.482 billion**

Total project spent **KZT 25.334 billion**

**The project «Implementation and development of IP TV services in the Republic of Kazakhstan»:** The development of capital investments for 2019 amounted to **KZT 1.596 billion**

**The Project «Development of broadband access services in the branches of Kazakhtelecom JSC»:** The development of capital investments at the end of 2019 amounted to **KZT 6.52 billion**

**«Construction of an optical distribution network for corporate clients of regional centers in the cities of Almaty, Nur-Sultan».** The development of capital investments for 2019 amounted to **KZT 1.294 billion**

## RESPONSIBLE PURCHASES

Our supply chain management system guarantees transparency of procedures, equal conditions of competition, fair partnership, timely delivery of goods and services, reliable suppliers and full compliance by all parties with relevant standards. In the Kazakhtelecom JSC Group, purchases are made in the electronic procurement information system ([www.tender.sk.kz](http://www.tender.sk.kz)).

In 2019 deliveries, the share of local content was

**54,08%**

The Company constantly monitors the indicators of local content in procurement through the information system «Electronic procurement plan and an automated reporting system». Monitoring results are displayed in a visual form on a local content monitoring map ([www.kmks.kz](http://www.kmks.kz)).

In total, in 2019 the Kazakhtelecom JSC Group concluded 8,430 contracts worth KZT 95,662 billion. Also, work continued on the support of previously concluded long-term agreements totaling KZT 9,978 billion. The purpose of concluding long-term contracts is to reduce the cost items for goods, works and services, the purchase of which is carried out on an annual basis, and the development of relations with domestic manufacturers regarding the procurement of goods produced in Kazakhstan, to assist in the development of new import-substituting goods, works and services.

In 2019 deliveries, the share of local content amounted to

**54,08%**  
 (for goods – 22,79%,  
 for works and services – 81,11%)

including for long-term contracts

**83,61%**  
 (for goods – 72,08%,  
 for works and services – 85,62%)

In order to achieve indicators of local content, the Company is working on the development of inter-holding cooperation, providing priority in procurement to organizations included in the Holding, producers of purchased goods, which are in the register of producers of the Holding.

In 2019, the Procurement Plan was implemented at

**95%,**  
 which is 5% higher than last year

In its activities, our company tries to cooperate with companies that meet the requirements of international standards in the field of occupational safety and environmental protection.

The number of qualified suppliers and contractors certified according to ISO 9001, ISO 14001, OHSAS 18001, ISO 45001 standards for 2019 amounted to 107.

Figure 21. Breakdown by method of procurement

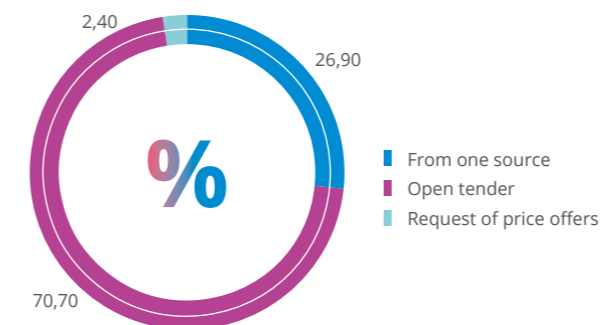
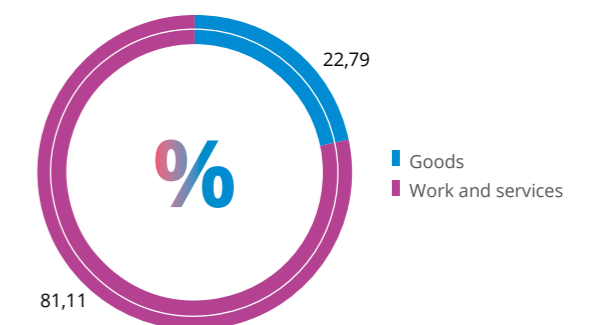


Figure 22. Breakdown by type of purchase





# Risk management and internal controls



The overall assessment of the effectiveness of Corporate Risk Management System was

**97.2%**

The corporate risk management and internal control system is a key component of the corporate governance system and is intended to provide identification, assessment, monitoring and reduction of potential risk events that may adversely affect the achievement of strategic and operational goals of Kazakhtelecom JSC and its subsidiaries.

For effective functioning of the corporate risk management system (CRMS), the Company at all levels of its activity

is guided by the following interrelated components corresponding to the business life cycle:

- 1) management and culture;
- 2) strategy and goal setting;
- 3) efficiency of activity;
- 4) monitoring and implementation of changes;
- 5) information, communication and reporting.

The internal controls system (ICS) of Kazakhtelecom JSC is based on a model, consisting of 5 components and 17 principles:

Component	Principles
1. Control environment	<ul style="list-style-type: none"> <li>Management style and ethical principles.</li> <li>Role of the Board of Directors.</li> <li>Organizational structure and authority allocation.</li> <li>Competence and staff development.</li> <li>Internal control responsibility</li> </ul>
2. Risks assessment	<ul style="list-style-type: none"> <li>Results framework.</li> <li>Risk identification and analysis.</li> <li>Analysis of fraud and corruption risks.</li> <li>Monitoring of changes</li> </ul>
3. Control Procedures (CP)	<ul style="list-style-type: none"> <li>Design and operational efficiency of CP.</li> <li>Use of technologies.</li> <li>Politics and procedures</li> </ul>
4. Information and communication	<ul style="list-style-type: none"> <li>Information exchange.</li> <li>Internal communications in internal control.</li> <li>External communications in internal control</li> </ul>
5. Monitoring	<ul style="list-style-type: none"> <li>Evaluation of internal control system functioning.</li> <li>Reporting of internal control system</li> </ul>

### RISK MANAGEMENT IN 2019

The improvement of the current risk management model is carried out in accordance with the Risk Management and Internal Controls System of the Kazakhtelecom JSC Groups for 2019 - 2021.

During 2019, work was undertaken on the updating/ developing methodological and regulatory documents on risk management. The following documents have been approved by resolution of the Board of Directors:

1. Risk management policy of Kazakhtelecom JSC.
2. Methodology for development, implementation and monitoring of key risk indicators system.
3. Rules of identification, assessment and risk monitoring of Kazakhtelecom JSC.
4. Method of calculation and cascading of risk appetite of Kazakhtelecom JSC.
5. Rules on accounting and analysis of realized risks and incidents of Kazakhtelecom JSC.

Every year, the Board of Directors of Kazakhtelecom JSC approves the Risk Register and Risk Map of the Company.

The risks that may affect the achievement of long-term strategic objectives and key indicators of the Company's Development Plan are reflected in corporate Risk Register.

According to the results of 2019, the risks of Kazakhtelecom JSC are within the permissible level of deviations (tolerance) of key indicators of the Company's activity. The Company implements proactive key risk management activities to reduce their impact on period goals. The Risk Management Service constantly monitors the dynamics of key risks and monitors the implementation of measures aimed at risk development. Monitoring results are sent quarterly in the form of risk reporting to the Management Board and the Board of Directors of the Company.

In 2019, the Internal Controls Service, together with the Risk Management Service, conducted verification and risk audit of selected business processes of the Regional Telecommunications Directors of Company's in order to identify deviations that have a negative impact on the Corporate Risk Register, which increase

the probability of risk realization and migration of some risks to the critical area of the Risk Map. Based on the results of the work carried out, recommendations to increase the efficiency of internal controls of the regions have been developed.

Figure 23. Risk Radars in category range

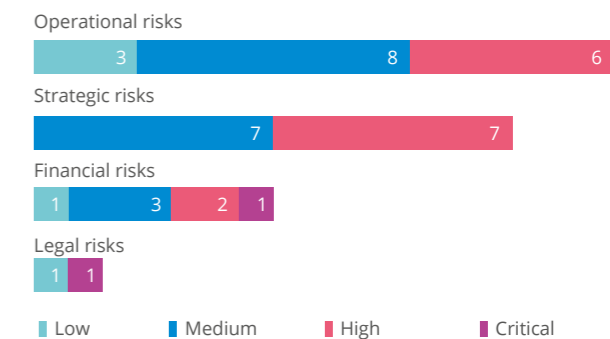
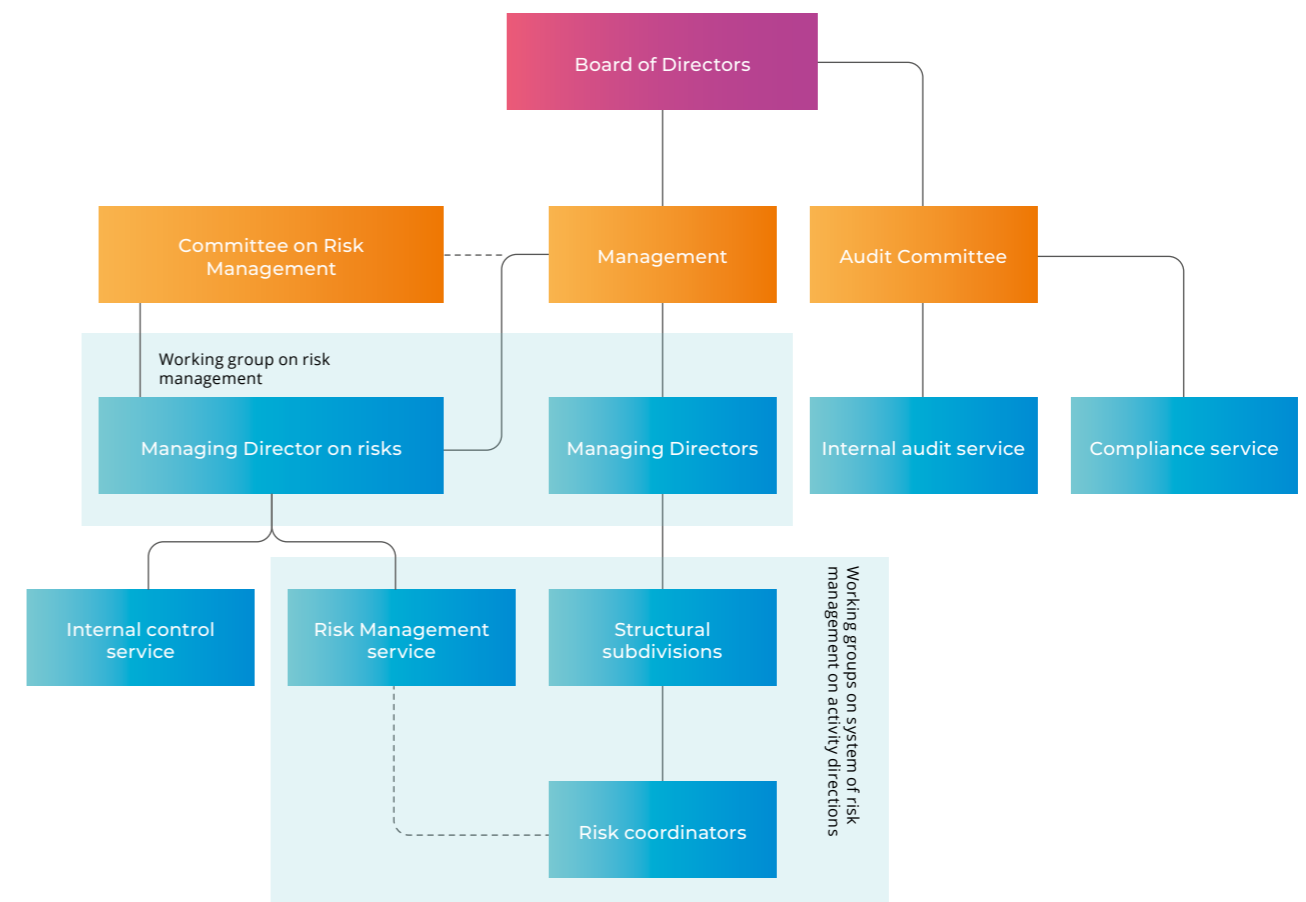


Figure 24. Participants of the risk management process





### Information on threats

The activity of Kazakhtelecom JSC is affected by various threats, which introduce considerable uncertainty in the achievement of the goals.

In this regard, indicating the impact and mitigation measures in order to ensure preventive risk management measures, potential threats were identified. However, Kazakhtelecom JSC does not exclude the existence of other threats, including risks about which nothing is currently known, or which Kazakhtelecom JSC considers insignificant.

Potential threats	Actions for decrease	Evaluate, Impact/Probability
Changes in the legislation leading to restrictions of the Company's business	<ul style="list-style-type: none"> <li>Close coordination with the competent body of communications. Monitoring of laws and normative legal acts drafts, timely notification of interested persons about draft/changes of laws.</li> <li>Participation in working groups on change of legislation in the field of communication in the authorized body, Science and Technology Agency (STA), Science and production enterprise (SPE). Bringing problematic issues to the Round Table in Parliament, Republican Public Council for Support of Entrepreneurship, Economic Policy Council. Organization of meetings with deputies.</li> </ul>	3/4
Group-level cannibalization of revenue and intra-group competition	<ul style="list-style-type: none"> <li>Establishment of a strategic management unit at the team level.</li> <li>Create balanced corporate efficiencies for all team members.</li> <li>Provide segmentation of client profiles and maintain business activities of team members.</li> </ul>	3/3
Delays and disruption of major infrastructure projects involving the State	<ul style="list-style-type: none"> <li>Administration of management accounting for calculation of actual performance and effect on shareholder value.</li> <li>Cooperation with the state body to revise the project terms in case of identification of significant threats of project disruption.</li> <li>Create balanced corporate efficiencies for project participants.</li> </ul>	3/3
Potential network disruption, delays and/or incomplete synergies within mobile operator integration	<ul style="list-style-type: none"> <li>Creating an integration project body in collaboration with the strategic management unit of the Unit.</li> <li>Implementation of management accounting to calculate actual synergies and equity value effects</li> <li>Create balanced corporate efficiencies for Group members.</li> </ul>	3/3

### Further implementation of the best practices and standards for risk management and internal control systems

Risk management processes and internal controls in the Company are designed to ensure a balance between maximizing potential utilization and minimizing threats in order to gain and prevent losses. These processes are an important part of the management process and an integral part of the developed corporate governance system.

Taking into account global trends in risk management and internal controls, the Company has identified three main tasks that should ensure the development of the Risk Management System Control and Internal Control System in accordance with international standards, requirements of the Fund, corporate governance criteria and reduce risks that can prevent the Group from achieving the set goals, as well as to extract opportunities for growth:

1. Development of risk management systems and internal controls in the Group and their integration with strategic/tactical planning, investment and business decision-making processes;
2. Increased responsibility of business owners for improving risk management and their role in informing significant risks, lessons learned and corrective actions;
3. Increase the maturity and effectiveness of the Risk Management System and the Internal Control System in the Group.

In IV quarter of 2019, the Internal Audit Service of Kazakhtelecom JSC evaluated the effectiveness of the Risk Management System and Internal Control System Control in accordance with internal regulatory documents. According to the results of the activities carried out, the total efficiency assessment amounted to 97,2%, the total efficiency assessment of the Internal Control System amounted to 98.6%.

Figure 25. CRMS Assessment, %



### Precautionary principle

The Company is showing commitment to its core values. All decisions of shareholder (s), Board of Directors and Management Board shall be supported by analysis of risks and their factors which may be caused by this decision. The materials for the meetings of these bodies and the minutes on the results of such meetings contain, as appropriate, information on the analysis of possible risks and their factors.

The Company forms and evaluates a comprehensive view of risks. The identification of priority risk control measures should be implemented cost-effectively in assessing the ratio of the costs of implementing control procedures to the amount of possible losses. Identification and control of the main risks has the advantage over the attempt to identify and control all possible risks by the Company.



# Sustainable development



The level of social stability for 2019 in the Company was

**69%**

The percentage of employees covered by the Collective Agreement is

**96%**

# STRATEGIC VIEWS ON SUSTAINABLE DEVELOPMENT

Promotion of sustainable development of the Company – one of the strategic priorities of the Kazakhtelecom JSC Group.



At the UN Summit on Sustainable Development in September 2015, Heads of State and Government adopted the Agenda, including 17 sustainable development goals until 2030. As the responsible the Kazakhtelecom JSC Group shares the goals of sustainable development of the United Nations.

Sustainable development of the activities of Kazakhtelecom JSC are based on the principle of responsible business conduct and innovative potential, which opens new opportunities for economic growth, environmental and social well-being.

Kazakhtelecom JSC focuses on improving the quality of life of the population in places of presence, improving the quality of its services with the help of innovative technologies, social and educational programs, transparency of activities, reduction of negative impact on environmental issues.

Our strategic priorities for sustainable development are:

**Business ethics and anti-corruption.** We increase transparency to customers by partners and shareholders.

**Employees of the Kazakhtelecom JSC Group.** We provide attractive working conditions, professional development, health and safety.

**Environment.** We are taking measures to control and reduce the impact on the environment.

**Society.** We run volunteer social and charitable programs.

**Services.** We develop and innovate making our services even better and more useful to our customers. The implementation of the Strategy of Increase the Shareholder Value of Kazakhtelecom JSC will have a positive impact on the implementation of individual «Global Sustainable Development Goals», namely:

1. ensuring inclusive and equitable quality education;
2. promoting sustainable economic growth and decent work for all;
3. building solid infrastructure, promoting sustainable industrialization and innovation;
4. to inequality reduction;
5. ensuring the openness, security, resilience and sustainability of cities and human settlements;
6. ensuring sustainable consumption and production patterns;
7. conservation of terrestrial ecosystems;
8. promoting peace-loving and inclusive societies, ensuring access to justice for all, and building effective, accountable and participatory institutions at all levels;
9. strengthening the means to achieve sustainable development and revitalizing the global partnership for sustainable development.

Our ability to use the most modern and advanced technologies in the telecommunications market in combination with a high level of professional competence will allow us to systematically improve the quality of millions of citizens of the Republic.

## MANAGEMENT OF SUSTAINABLE DEVELOPMENT

### Risk-oriented approach of sustainable development

Risk management is an integral part of sustainable development. The Company declares its responsibility to all stakeholders and undertakes to carry out timely assessment, control and management of sustainable development risks, with the three-pronged definitions being considered broadly for both internal and external stakeholders.

Thus, the definition of «social risks» includes not only responsibility to the employees/shareholders of the Company, but also concepts such as health and safety of the population, livelihoods of local communities, social connectivity, cultural resources, vulnerable groups, gender equality, supply chain risks and non-compliance with relevant labor standards regarding supplier rights. Environmental risks are presented not only as local environmental impacts, but also as climate change in general. Economic risks are expanded and presented not only as an economic impact on the local community of an asset of the Company, but also on the country as a whole.

Analysis of sustainable development risks is carried by the interested structural departments with the assistance of the Risk Management Service on a permanent basis. Result is reflected in the consolidated Risk Register of the Company.

### Key impacts, risks and opportunities (SWOT analysis) of Kazakhtelecom JSC on Sustainable Development

#### Economic aspect:

- Innovation and technological progress;
- Local economic growth.

#### Social aspect:

- Dynamic development of society;
- The growth of urbanization.

#### Environmental aspect

- Increasing the importance of problems of natural resource and environmental pollution;
- Global growth in electricity consumption.

#### Economic aspect:

- Decline in global economic growth;
- Potential for political instability.

#### Social aspect:

- Growing disconnect of people due to technological problems in providing ICT services;
- Increasing competition.

#### Environmental aspect

- Depletion of natural resources;
- Climate change;
- Environmental pollution.

#### Economic aspect:

- Increasing the percentage of coverage in the market;
- Development of new technologies for business and government.

#### Social aspect:

- “Smart city” technology solutions;
- Advantages of using cloud storage technologies for the population;
- Improving the level of education and medicine through ICT technologies.

#### Environmental aspect

- Implementation of the principles of Sustainable development;
- Greening of industries.

#### Economic aspect:

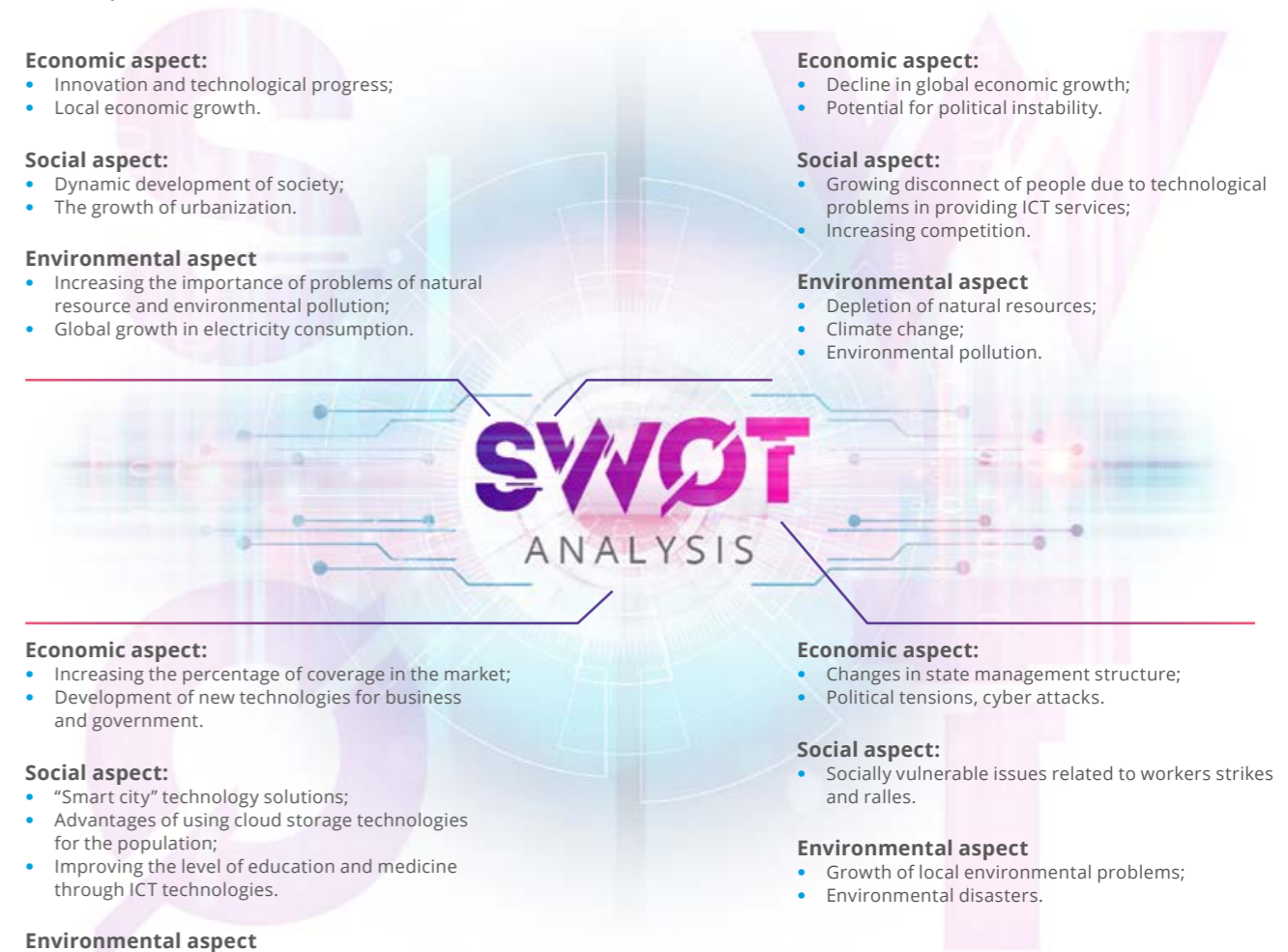
- Changes in state management structure;
- Political tensions, cyber attacks.

#### Social aspect:

- Socially vulnerable issues related to workers strikes and rallies.

#### Environmental aspect

- Growth of local environmental problems;
- Environmental disasters.



### Interaction with concerned parties

Interaction of Kazakhtelecom JSC with concerned parties is based on introduction of system dialogue with various groups in accordance with AA1000AP standards, AA1000SES and GRI. Significant concerned parties of the Company are employees, shareholders and business partners, subsidiaries, trade unions, clients,

public authorities and local communities. The Company determines the range of stakeholders taking into account the degree of mutual influence and intersection of interests, the degree of exposure to direct or indirect, positive or negative impact as a result of the Company's activities, as well as the potential ability to influence production processes, corporate governance or brand loyalty.

Principles and procedures of interaction with concerned parties are formulated in Kazakhtelecom JSC Sustainable Development Policy.

### Interaction Platform with Concerned Parties

Concerned parties	Sphere of values	Key questions
Shareholders	<ul style="list-style-type: none"> <li>Share capital;</li> <li>Strategic direction and orientation;</li> <li>Improve disclosure transparency.</li> </ul>	<ul style="list-style-type: none"> <li>Productivity;</li> <li>Introduction of the development strategy;</li> <li>Dividends;</li> <li>Transparency and disclosure.</li> </ul>
Workers	<ul style="list-style-type: none"> <li>Human development;</li> <li>Cooperative labour relations;</li> <li>Loyalty to the Company.</li> </ul>	<ul style="list-style-type: none"> <li>Salary;</li> <li>Social package;</li> <li>Safe working conditions;</li> <li>Professional growth.</li> </ul>
Affiliated organizations	<ul style="list-style-type: none"> <li>Strategic resources and capabilities;</li> <li>Opportunities for future development.</li> </ul>	<ul style="list-style-type: none"> <li>Assistance with government Business interests.</li> </ul>
Labor union	<ul style="list-style-type: none"> <li>Promotion of social stability Regulation of labour relations and resolution of conflicts.</li> </ul>	<ul style="list-style-type: none"> <li>Social responsibility protection of employees;</li> <li>the Collective Agreement;</li> <li>Compliance with the rules of law.</li> </ul>
Partners	<ul style="list-style-type: none"> <li>Efficient supply chain and value chain;</li> <li>Joint implementation of projects Transfer of technologies, competences and innovations.</li> </ul>	<ul style="list-style-type: none"> <li>Commercial interests;</li> <li>Procurement transparency (reliability, results stability, compliance);</li> <li>Ethical business.</li> </ul>
Clients	<ul style="list-style-type: none"> <li>The Company loyalty Financial resources through the purchase of goods and services.</li> </ul>	<ul style="list-style-type: none"> <li>Business Interests;</li> <li>Quality of services;</li> <li>Qualified service support.</li> </ul>
Public authorities and local communities	<ul style="list-style-type: none"> <li>Macroeconomic and social policies;</li> <li>Possibility of lobbying;</li> <li>Stability of the labour force conflict resolution;</li> <li>Mutual support and adaptation.</li> </ul>	<ul style="list-style-type: none"> <li>Exercise of legislative and executive functions;</li> <li>Public Telecommunications Policy Realization;</li> <li>Creating workers places;</li> <li>Sponsorship and charity.</li> </ul>

### MATERIALITY ANALYSIS

We have focused on the importance of engaging with our concerned parties, engaging them in the discussion of substantive topics and important issues, potential risks and limits of responsibility for making joint balanced and balanced decisions.

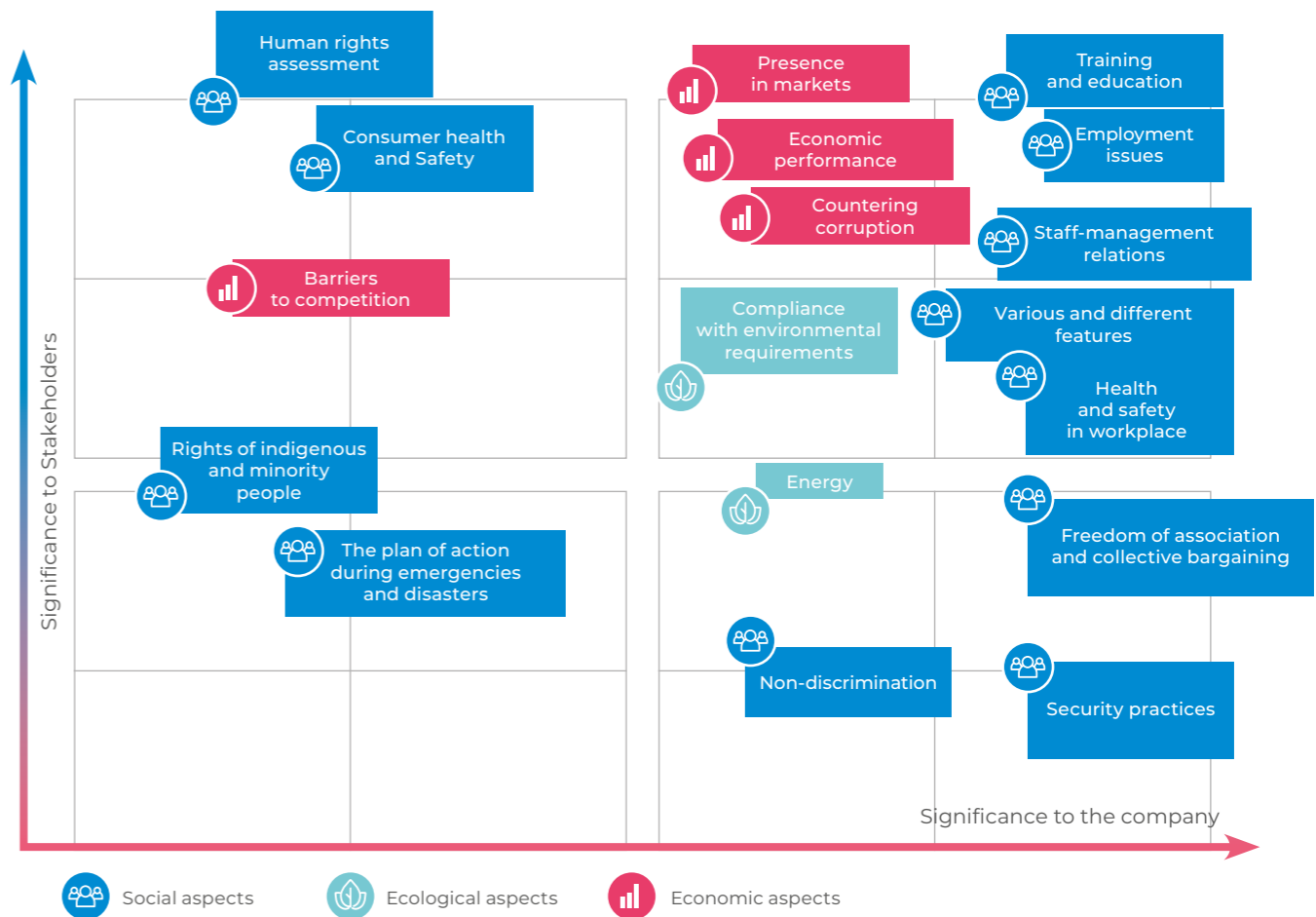
In order to understand the needs of stakeholders and determine which the Company's sustainable development is for them, we conducted a materiality analysis. In the first phase, we identified 35 sustainability aspects. Surveys

and discussions were conducted with all key stakeholders to identify significant aspects. Based on surveys and interviews, we have identified significant aspects that matter to the Company and our key stakeholders.

The data collection and SWOT analysis helped us to identify the broad range of sustainable development themes that respondents paid the most attention to.

From the overall range of topics of sustainable development in this Report we focused on those significant topics that are of the highest priority at the current stage of the Company's development, such as sectoral specificities and opinion of the concerned parties.

Figure 25. Our important topics matrix



# SUSTAINABLE DEVELOPMENT INITIATIVES

Sustainable development initiatives, corporate governance and corporate culture are the pillars of sustainable development and critical factors affecting the value of the Company's portfolio.

Kazakhtelecom JSC is aware of the importance of its influence on the economy, ecology and Company and, seeking to increase long-term value, ensures its sustainable development in the long term, respecting the balance of interests of the concerned parties. The approach of responsible, thoughtful and rational interaction with concerned parties will contribute to the sustainable development of the Kazakhtelecom JSC Group.

In 2019, the Company identified the following sustainable development initiatives:

1. Increase efficiency through the Digital Transformation Program.
2. Ensuring economic efficiency and financial stability.
3. High ethical standards and anti-corruption.
4. Human resource development as part of their contribution to sustainable development.
5. Socially responsible partnership.
6. Reduction of injuries and improvement of safe work culture.
7. Reduce the Company's environmental impact.
8. Increase the efficiency of the Corporate Governance System.

## EXCHANGE OF EXPERIENCE ON IMPLEMENTATION OF INITIATIVES

As part of strengthening the sustainability of its activities, the Company participates in the implementation of the goals of various associations at the national and international level, developing long-term cooperation. The Company is aimed at open, constructive dialogue and responsible interaction with state bodies, business and Company, and is guided by the norms of legislation and high standards of corporate and business ethics. Key areas of cooperation: development of telecommunication market, development and improvement of legislation and regulatory framework, initiation and implementation of joint projects, promotion of key initiatives on sustainable development of industry and regions. The Company operates in the international and national associations listed below, working with various target groups.

- National Telecommunications Association (NTA)
- Association of development of the competition
- Mechanical Engineers Union of Kazakhstan
- International Telecommunication Union (ITU)
- Regional Commonwealth of Communications (RCC)
- Republican Council for Entrepreneurship Support under Nur Otan Party
- The National Chamber of Entrepreneurs of the Republic Kazakhstan Atameken
- Coalition for Green Economy and Development «G-GLOBAL»
- National Blockchain and Cryptographic Technologies Association
- Environmental Organizations Association of the Kazakhstan
- ICX Holding

In 2019, the Company participated in the **Mobile World Congress - 2019 in Barcelona**. A project on deploy the first cloud communication node CORD was shown. During the international forum Kazakhtelecom JSC signed a memorandum on cooperation with company Cisco in the field of Telco Cloud.

Kazakhtelecom demonstrated its achievements in the areas of Smart City, 5G, Big Data, blockchain, NFVi/ NFV MANO, cloud video surveillance, e-Commerce and biometrics at the **Mobile World Congress Shanghai 2019 forum**, which is the Asian version of the key event for all signallers in the world.

Another global event for Kazakhtelecom was the Mobile 360 - Eurasia 2019 conference held by GSMA (Global System for Mobile Communications Association) in Moscow. In one of the panel sessions, the operator presented to the expert community his vision of the strategy for the development of 5G networks, as well as the impact of technology on economic processes in Kazakhstan.

According to the tradition, in 2019 the Company held the third **annual international forum dedicated to the internet of things**. The main difference of the current meeting of developers and consumers of IoT technologies was their discussion of improvement and development of networks of this segment of the market already introduced in the country.

In September 2019, Kazakhtelecom JSC became a partner of the conference **TEDxAstana 2019**. The ideological partnership between the TEDxAstana team and Kazakhtelecom JSC has become a logical continuation and development of the Company's initiatives for external and internal stakeholders, helping not only to position the «rebirth» of the Company with a rich history of achievements, but also to help to adopt the ideas of transformation at the deep, value level.

The Company **together with partner Qoovee.com held the first international forum of entrepreneurs**, which

brought together more than 450 representatives of business of Central Asia. Within the framework of the meeting Kazakhtelecom JSC presented to businessmen 10 the best online applications of the ISMET.kz. During the event participants discussed digital technologies in business, import and export opportunities between Central Asian countries, as well as issues of international trade through online platforms.

In the past year, the Company took part in a panel session on digital transformation held within the framework of the **XVI Forum of Interregional Cooperation** between Russia and Kazakhstan.

The Interregional Forum «Topical Issues of Crossborder Cooperation Development» organized in 2019. It is became a platform for strengthening bilateral relations, expanding business contacts and partnership ties between the two States.

At the panel session «Russia and Kazakhstan: digital transformation» the representatives of the IT market of the two countries discussed the implementation of joint projects on digitalization of the public and private spheres, logistics, as well as the development of IT projects and the possibility of entering the markets of Russia and Kazakhstan.

The Company **organized the XI International Conference «Carrier Meeting»** with the participation of foreign telecommunications operators such as China Mobile, China Telecom, MTS, Equinix, RETURN, Uzbektelecom, Kyrgyztelecom, etc. The participants of the conference were presented with the achievements of Kazakhtelecom JSC in recent years, as well as new projects of the Company, including the introduction of 5G in Kazakhstan.

Our Company constantly provides technical support for national events. In this way, we contribute to the development of various fields of activity.

### Sustainable Development Initiative #3. HIGH ETHICAL STANDARDS AND ANTI-CORRUPTION

Maintaining mutually beneficial relationships with external and internal stakeholders is a matter of paramount importance to the Company. The Company cherishes its reputation and insists on compliance by its employees and stakeholders with the highest standards of ethics and integrity and all norms of legislation.

In order to strengthen the Company's system of values reflecting intolerance to corruption, the following documents have been updated and approved:

- «Anti-Corruption Policy»;
- «Interest's Conflict Regulation Policy»;
- «Policy on Notification on Alleged Unethical/Misconduct»;
- «Business Ethics Code».

In order to prevent corruption risks during the reporting period was carried out analysis of the Company's business processes. As a result, a Plan of Measures to Minimize Risks of Corruption was drawn up and approved by the Board of Directors.

Pursuant to the above-mentioned Plan, amendments have been made to internal documents of the Company regulating the sphere of procurement, recruitment and promotion of personnel, provision of tariff plans to subscribers, payment under contracts.

Also, the agreements concluded by the Company with suppliers and business partners have been amended, according to which the latter undertake obligations to comply with anti-corruption legislation of the Republic of Kazakhstan and provide the Company with the possibility to audit financial and economic documentation related to the contracts.

In order to create compliance culture and increase the level of knowledge in the field of anti-corruption, the Company held seminars and a webinar on the theme «New Anti-Corruption Policies Presentation».

In October 2019, a «Behavior Ethics» game tournament was held, where participants were given the opportunity to study internal policies and the Business Ethics Code on a voluntary basis in the form of a specially developed online game with subsequent testing and determination of the winner. This game attracted more than 1,400 interested workers. According to the results of the game, valuable prizes were awarded to the winners.

In 2019, the Company introduced an annual course of remote training of employees on the topic «Combating corruption, unethical/illegal actions and settlement of conflict of interest in Kazakhtelecom JSC».

The Company's subsidiaries have identified and appointed responsible persons who have control functions to comply with compliance culture.

In order to increase trust in the Company, a single hotline has been implemented, through which the Compliance Service accepts appeals on problematic issues related to any of Kazakhtelecom's subsidiaries.

The plan of measures to ensure the law of the Republic of Kazakhstan «On Combating Corruption» (Order of the Chairman of the Management Board of Samruk-Kazyna JSC № 3-n dated at 08.01.2019) was implemented in full within the established time frame. We have developed various mechanisms by which all interested persons can report any theft, fraud, corruption, violations of the basic principles of business conduct, the Business Ethics Code or the norms of the legislation of the Republic of Kazakhstan as follows:

1. send the message online on the Company's website via the following link  
<http://survey.deloitte-hotline.com/s3/sk-ru> or to e-mail [hotline@telecom.kz](mailto:hotline@telecom.kz) or [sk.hotline@deloitte.kz](mailto:sk.hotline@deloitte.kz);
2. call to phone: 8 800 080 1994;
3. direct line for collection of complaints and statements on procurement issues: 8 7272 26 82 61;
4. send a message to the e-mail of the ombudsmen@telecom.kz ombudsmen@cscc.kz on the issues concerning the violation of social and labor rights;
5. inform the Compliance Service.

In accordance with the Policy on Notification on Alleged Unethical/Misconduct in Kazakhtelecom JSC, the Company guarantees:

- complete confidentiality of persons who have reported serious problems in the Company;
- absence of prosecution against the Employee, who reported the facts of illegal actions.

In accordance with this Policy, a number of employees received material compensation for information that allowed to detect and prevent material and reputational damage to the Company.

### SPONSORSHIP AND CHARITY

By the decision of the Board of Directors of Samruk-Kazyna JSC of January 28, 2016, a moratorium on sponsorship and charity activities in the subsidiaries and affiliates was declared. With new model, all sponsorship and charitable activities of the Funds Group are carried out by a single operator – the Fund for development of social projects «Samruk-Kazyna Trust».

### Sustainable Development Initiative #4. HUMAN RESOURCES DEVELOPMENT AS PART OF THEIR CONTRIBUTION TO SUSTAINABLE DEVELOPMENT



#### The main value - our employees

Our workers are a key element not only of our business strategy, but also of our social mission. Our business efficiency is based on professionalism, high responsibility and good conduct of our employees.

The Company constantly seeks to improve the working conditions of employees, improve educational programs and create platforms for social realization and development of employees within the Company.

At the end of the year, more than 140 applications for confidential information were considered. All 100% of applications were considered within the established deadlines with inspections and corrective measures. The rights of more than 50 employees of the Company to pay and issue bonuses are protected.

**Staff structure**

In 2019, the scheduled number of staff of Kazakhtelecom JSC amounted to

**22 784**  
**people,**

and the actual number was 20 867 people, including women 6 714. In terms of gender distribution, 63,4% of the staff were male and 36,6% were female.

Details of staff movement in the Company are given in Annex 2 of this Report.

List of administrative and management staff including employees on maternity leave in a quantity

**1 632**  
**persons**

The actual number of administrative and management staff was

**1 434**  
**persons**

Table 5. Number of staff by gender and age

Age groups	men	woman
up to 30	4600	2483
31-40	3484	2006
41-50	3074	1946
51+	2988	1724
<b>Total:</b>	<b>14146</b>	<b>8159</b>

Turnover staff was

**10,3%**

In 2019, left at their own request

**2 341**  
**people**

Table 6. Staff movement data

Age groups	Staff employed of Company in 2019		Staff, who left the Company in 2019	
	Men	woman	Men	woman
up to 30	1214	614	1139	536
31-40	263	188	470	319
41-50	120	75	260	189
51+	39	17	287	226
<b>Total:</b>	<b>1636</b>	<b>894</b>	<b>2156</b>	<b>1270</b>

The number of employees on leave without parental pay at the end of the reporting period was 1 917, 98% women and 2% men of them.

**Increasing the efficiency of our personnel**

# RECRUITMENT AND ADAPTATION OF STAFF

In 2019 there were 2 989 competitions for vacant positions, more than 60,000 responses were received through various channels. Internal candidates closed 406 vacancies. 48% of the total number of closed vacancies was the share of workers in mass professions and 45% - specialists and middle managers. Closed vacancy rate by functional blocks: 52% - technical staff, 26% - B2C and 10% - B2B.

In 2019, the process of finding and selecting personnel, including all stages - from submission of an application to preparation of a job offer to the final candidate - is unified and centralized in the General Service Center for Personnel Management.

The centralization of the function has made it possible to optimize and increase the transparency and objectivity of the recruitment procedure, to ensure equal opportunities for all candidates regardless of age, sex, national and religious affiliation.

In 2019, the project «PROTelecom internship program» was replicated to all branches and covered 17 cities of Kazakhstan.

The project envisages attraction of talented youth from among graduates of the best universities of the Republic of Kazakhstan, creation of an external personnel reserve, further formation of the image of Kazakhtelecom JSC

as an attractive employer, development of the institute of mentoring, improvement of cross-functional interaction in the Company.

Specialized and business specialties courses students of 40 universities in 17 cities of Kazakhstan were involved in the internship. Each trainee is assigned mentors, which are highly qualified workers, key participants in the project.

Thus, as a result of the project, the finalists were determined, 22 young specialists were employed. In addition, mentors in all structural divisions of the Company were trained.

In 2019, as part of the adaptation of new workers, training in a game format was developed. Gamification of the process allows the beginner to acquire skills, knowledge, learn information about the Company as efficiently as possible.

The updated adaptation program is suitable not only for new workers, but also for workers who have long worked for the Company. In general, the program is aimed at reducing staff turnover and familiarizing itself with the Company, starting from the first days of work.

# PERSONNEL ADMINISTRATION

The Company makes every effort to improve the quality of service and efficiency of HR processes. The following projects were launched and implemented in 2019:

- **integration of the Complex Information System Lotus of the Personnel Management Service with the information portal of the Ministry of Labor and social protection of the population.** Within the framework of this project, a gateway will be implemented for the transfer of personal data of the Company's employees, such as, name, individual index number, position, unit, salary, location, dates of imprisonment, termination and others. In addition to employment contracts, all additional agreements will be transferred to them.
- **robotics and automation of HR business processes.** 14 HR business processes have been automated, including all types of leave and travel. Also, 2 processes are robotic – «record-keeping of staff time» and «additional agreements to individual employment contracts». As part of the robotics, robotic process automation RPA technology (Robotic Process Automation) was used. This software based on technology is essentially a UiPath robot, which is the replaces worker`s to perform routine, often repetitive operations. At the same time, the software robot can perform operations in 24/7 mode.
- **mobile application.** This project will give the Company employees the possibility to use HR services in real time. Within the framework of the project, the main functionality of information accounting systems has been implemented such as SAP HCM, Lotus Personnel Management Service, Information balanced scorecard system, Mirapolis and the portal 4telecom.kz.

## REMUNERATION AND ASSESSMENT

The performance management system consists in setting clear, measurable goals and targets to the employee for the relevant period in the form of key performance indicators (KPI), on which the received remuneration depends. A system of individual development plan (IDP) has also been introduced, which gives each employee the opportunity to focus on the development of his knowledge and skills, to increase personal efficiency and efficiency.

The remuneration and bonus system is based on job evaluation and employee performance:

- for assessment of positions the Company use the system of gradering by a technique of the «Hay Group». The unified approach of job evaluation allowed to objectively compare positions in the Kazakhtelecom JSC Group, to compare salaries of specialists in the country, in the region and globally.
- process of assessment of overall performance is a basis for remuneration, encouragement, bonuses, training and professional development and also serves for deduction of workers. The evaluation of the employee's performance allows to determine the requirements to the work results, skills, knowledge and competences of the employees in order to fulfill the strategic objectives of the Company and is based on the following basic principles:
  - providing fair and objective feedback built on trust;
  - assistance in identifying learning and development needs;
  - assist in improving individual performance.
- The motivation system in Kazakhtelecom JSC ensures a clear dependence of the remuneration of our employees on the results of their work, including the implemented system of activity evaluation and rewards. Creating the cost-effective reward system needed to attract, retain and motivate workers is a priority. The focus is on aggregate remuneration, which includes benefits and non-monetary remuneration in addition to remuneration and bonuses.

# TALENT MANAGEMENT

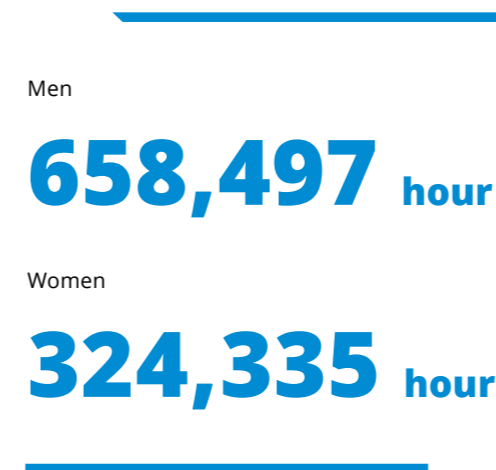
The Talent Management project is being implements in accordance with the Human Resources Management Strategy of the Company on the purpose to establish and prepare the personnel pool as the main internal source for key positions. This project is a tool to identify

and retain talented workers with a high professional level. Within the framework of this project there is a «School of Leadership», a program in which reserves undergo step-by-step training in the development of management and leadership skills. During the reporting period, a reserve 42 of 83 key vacancies was assigned to key vacant posts, which amounted to 50,6%.

We develop our workers

# TRAINING AND DEVELOPMENT OF EMPLOYEES

The average annual number of training hours per employee in 2019 is 47,37 hours. The number of employees trained or advanced in 2019 was 13,118.



Practical on-the-job training was organized for 457 college students, including 42 under the dual curriculum. A practice base has been provided for 214 university students.

In 2019, 28 new distance learning courses were developed.

Since 2018, the Orleu Program has launched and operated functional academies aimed at targeted and targeted training of specialists in the areas of activity.

The 1 stage of the training program «Sales Academy-2019» has been launched. The programme is designed to B2C and B2B segments to enhance the competence of professionals and managers with high performance evaluation results. As well, within the framework of the Sales Academy, an integrated session for B2B managers was



held, which discussed the topics of developing a strategy for actively finding new clients, returning and retaining current clients. Training for soft collection on working with subscribers is organized, as well as training «Basic management skills» for line managers of B2C direction.

The Technical Academy introduces training in the format of virtual reality according to the programs «Installation of subscriber optical line and installation of services on the GPON network», «Health and safety protection during works on the air lines of communication», «Carrying out planning and preventive works on diesel generator plants». In accordance with the developed training program of the Technical Academy, employees are certified to centralize the management of telecommunication networks of the Unified Center for Management of T1, T2 and T3 Networks.

Our Company took the second place in the nomination DIGITAL SOLUTIONS (IT-projects and tools contributing to business development) «Practical training in the format of virtual reality» in the largest business award in the field of HR and internal communication WOW! HR-2019.

The Finance Academy is aimed at structured training of employees of financial direction. In accordance with the training plan, profiles of positions of employees of financial and economic direction were described, topics of training were defined. The launch of the academy is planned in 2020.

The Company makes every effort to allow all employees to get knowledge from the best Kazakh trainers, to involve people in online training, to move to self-development. The EducationPro project allows any employee of the Company to listen to master classes from well-known business trainers in webinar format. To date, 7 webinars have been held, the average number of listeners of each webinar is more than 350 people. Webinar entries are posted in a shared media library and are available to all workers for viewing at convenient times.

The Company continues to operate a training system, the main components of which are internal training on the basis of the Academy of Information and Communication Technologies Directorate and a corporate remote training system. Remote training can be provided by any willing employee of the Company using courses presented in the electronic system, at the end of which a certificate of training is issued.

Our Company attracts the best specialists and develops their potential. Confirmation of this was the occupied third place of our team Kazakhtelecom JSC at the second open Eurasian championship within Hi-Tech 2019 WorldSkills on competence «Main communication lines. Construction and operation of air lines of communication» in Yekaterinburg, Russian Federation.

Our specialists for the second year in a row confirm the high level of qualification of Kazakhtelecom JSC employees. Such competitions provide an opportunity to exchange experience with the best specialists of the international level, which helps to stimulate motivation of employees to professional growth.

## We improve corporate culture

# OUR VALUES. CREDO PROJECT

Corporate culture of Kazakhtelecom JSC is aimed at creation of effective working environment contributing to implementation of Long-term Strategy of the Company. Changes in personnel behaviour are the ultimate goal of transforming corporate culture, which is achieved by changing its ideological component and business processes. The Company has implemented a model of corporate values CREDO. CREDO model accumulated five values:

- C - client orientation**, desire to exceed client expectations,
  - R (responsibility)** – responsibility for result, autonomy in decision-making,
  - E (enterprisership)** – the spirit of entrepreneurship, the ability to offer new ideas and look for new opportunities for business development,
  - D (digital culture)** – digital culture, digital technologies in work and in life,
  - O (outstanding decisions)** – ability to offer and implement outstanding decisions.
- The main objectives of the Corporate Culture process are:
1. definition and promotion of corporate values, social ethical norms regulating the Company's employee behavior, compliance with corporate communication rules and corporate style;
  2. development of social network «mytelecom.kz»;
  3. holding of corporate events stimulating teamwork, loyalty, favorable and creative atmosphere in the Company;
  4. carrying out research to identify the opinion of employees (sociological surveys).

Since April 2018, employees of Kazakhtelecom JSC have switched to a new model of corporate culture - CREDO.

The «CREDO – the way to a culture of success» project is aimed at identifying unique solutions to optimize business processes, reducing production costs, improving customer service, working conditions of employees and much more.

According to the results of 2018-2019, 5,000 workers were involved in the project and 400 projects were developed. Implementation of these projects can potentially bring the Company total income in the amount of more than 3 billion tenge.

Information on key projects implemented and implemented is available on the internal portal of the Company 4telecom.kz.

The Project CREDO – the way to a culture of success will be systematically replicated to all branches of the Company.

«The Project CREDO - the way to a culture of success» became the best according to the results of online voting at the international conference «Intercom» in Moscow.

## Youth policy

At the end of 2018, the Zhastelecom youth organization was transformed and named to Ztelecom. The changes also affected the organizational structure. The old hierarchical structure prevented the activist from being involved in the different business processes of the Company. Ztelecom has a horizontal-flat organizational structure. The transformation, also, touched upon the composition of the youth organization - the quantitative composition is replaced by qualitative composition. In order to renew the composition of the youth organization in early March 2019, an assembly was organized with the participation

of young and active workers in 6 macroregions. As a result, 35 leaders were selected and trained in coaching, conducted about 200 hours of leadership program training and trained over 600 young Company workers.

Young leaders of Z-telecom face the challenge of being generators of innovative ideas and initiators of various projects to improve workers «lives and optimize business processes. To date, the Company has about 250 young active workers involved in the implementation of projects.

In December of last year the forum of youth organization Z-telecom was held in Almaty, where young leaders of the Company presented the best projects implemented in branches, in the following categories: «the best innovative project», «the best business project», «the best project # PRO People».

In November Z-telecom members took part in the work of the meeting organized by Samruk-Kazyna JSC under the auspices of the large-scale program «Jas Samuryq», created by the Foundation to support young employees of portfolio companies. In total, more than 300 young specialists from all regions of Kazakhstan took part in the event.

### Sport events

The Company actively implements sports activities that strengthen team spirit and employee cohesion. On a permanent basis there are sports competitions in skiing, chess, table tennis, arm wrestling, tug of rope, mini-football, volleyball, shooting and power exercises. Employees of Kazakhtelecom JSC take part both in internal events of the Company, and in city and republican competitions.

- In 2019 employees of Kazakhtelecom JSC took active part in the VI sports contest organized by Samruk-Kazyna JSC. The Company presented teams in the following sports: streetball, mini-football, volleyball, cyber sports, togyz kumalak.

- In December of last year among employees of the Company there took place the First Corporate Cybersports Kazakhtelecom JSC tournament on two disciplines: Counter Strike: Global Offensive and Dota2.

The qualifying stage was attended by 22 teams on CS: GO and 18 teams on Dota2 from all regions of the country. As a result of cyber-sports battles the strongest teams were defined: the final game in the discipline Counter-Strike: Global Offensive with the participation of the Service Factory and the West RTD ended in favor of the Service Factory with the score 2:0. In the competition on Dota2 the national team of Main telecommunication networks control system won the team of Information System Directorate with the score 2:0. In the future the Company plans to continue carrying out corporate tournaments for popularization of electronic sport among employees.

- Employees of the Central regional telecommunication directorate took part in one of the most prestigious types of competitions in triathlon Ironman 70.3.

### Internal communications

We consider corporate culture to be one of the important factors of successful development of the Company and an effective tool for improving the efficiency of personnel. The formation of corporate culture is facilitated by an effectively built system of internal corporate communications:

- corporate portal 4telecom.kz;
- magazine «Baylanys»;
- the Project CREDO;
- corporate actions.

In terms of internal communications, the following work has been done in 2019:

- Communication concept developed.
- Improved communication channels: redesign and restructuring of the internal portal, introduction of additional functionality - blogs of Directors General and additional categories.
- The practice of holding online communication meetings of the Company's managers has been introduced. Thus, in the reporting period online conferences were held with all members of the Management Board of the Company and more than 100 events with heads of branches and structural divisions of the Company.
- Average attendance of the internal portal per day increased from 5 to 8 thousand people.
- Developed mobile application with news functionality.
- Corporate news accounts have been created in all branches.

## Sustainable Development Initiative #5. SOCIALLY RESPONSIBLE PARTNERSHIP

### Social policy

Kazakhtelecom JSC responsibly approaches the issues of social protection of its employees, maintaining the employee's confidence in the future.

Social activity of Kazakhtelecom JSC is one of the important components of corporate social responsibility of business and one of the key indicators of activity in the field of sustainable development of the Company.

In social activity in the field of sustainable development Kazakhtelecom JSC focuses on improving the quality of life of the population in places of presence with the help of social and educational programs, transparency of activities, reduction of negative impact on environmental issues.

For system approach to development of social activity of Company, in the Company the Corporate program for implementation of social projects of Kazakhtelecom JSC for 2018-2021 is developed and approved. The program includes internal and external projects of the Company, such as development of volunteer movement, support of socially vulnerable workers, cooperation with children's houses, charitable foundations and others.

Social protection of employees and pensioners of the Company is an indispensable component of the Company's social policy.

The Company, in accordance with the Collective Agreement, irrespective of the type of employment of the employee (permanent or temporary), provides the following types of social support:

- financial assistance for marriage registration;
- financial assistance in connection with the birth/adoption of a newborn child;
- material assistance for recovery in the granting of annual labour leave;
- payment of social benefits for temporary incapacity to work;
- payment of additional parental leave until the child reaches the age of one and a half years;
- encouraging workers with a valuable gift for anniversary dates;
- a lump-sum retirement benefit for the first time;
- lump-sum allowance if the employee is found to be disabled in groups 1 or 2;
- financial assistance for funeral arrangements in connection with the death of a close relative of the employee;
- providing health care to employees through voluntary health insurance;
- payment of a lump sum benefit to a retired employee;
- inviting non-working pensioners of the Company to festive and solemn events held by the Company to provide moral and psychological support.

The minimum period of the notice concerning essential change in activity of the organization for the Labor Code of RK is 4 weeks (30 calendar days), according to the Collective Agreement is 45 calendar days.

To date, the Company provides social support to more than 9 thousand pensioners. Every year it is planned to provide them with targeted charitable assistance, to hold meetings for the professional holiday of communicators and for the Day of the Elderly Person.

In honor of the Day of the Communicator there was a celebration of the veterans of communication in all branches of the Company. Showing special attention to the elderly and honoring labour veterans is one of the Company's good and worthy traditions. The main purpose of the event is the continuous connection between the future and the past, continuity of generations, what knowledge and professional skills are based on.

### Projects of social development

The Company takes care of the social and economic development of the regions of presence and the state as a whole, realizing that high indicators of their development are one of the key factors contributing to the achievement of the Company's goals in the field of sustainable development in the long term. In the regions of its

The percentage of employees of the Company covered by the Collective Agreement is

**96%**

presence, the Company seeks to achieve and maintain the status of the best employer and the best partner, both in its business activity and in cooperation with state authorities and management bodies, educational, non-profit and public institutions, corporate clients, consumers and Company as a whole.

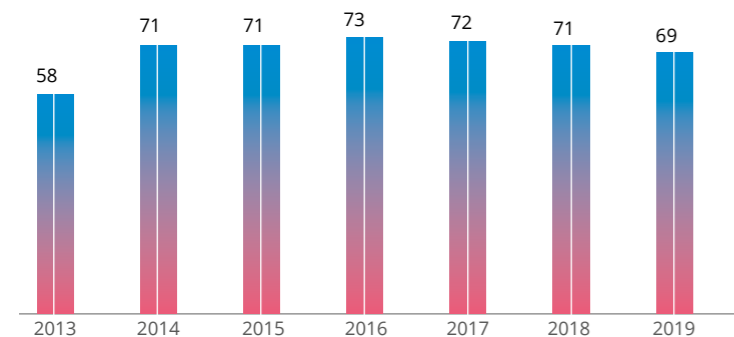
The Company's activities in this area include:

1. participation in the production and economic development of the regions of presence, including through the implementation of projects to create a new telecommunication infrastructure and create jobs;
2. participation in social development of regions through social and charitable programs;
3. assistance to development of an education system through the organization of training of young specialists, construction partner the relation with profile average special and higher educational institutions and the organization the practician and training for students in the Organization;
4. support in development of sports and health-improving movement, including development of children's and youth sports and physical culture;
5. wide coverage of the state population with communication services, with a high level of network quality, competitiveness of tariffs and speeds;
6. development of mobile network with step-by-step construction of an integrated operator in accordance with the strategic development plans of the Company and on the basis of mutually beneficial cooperation with the regions of the Republic of Kazakhstan.

### Social stability

The level of social stability in 2019 in the Company amounted to 69%, which according to the rating scale, considers it to be a stable developing Company.

Figure 26. Social stability index, %:



In the Kazakhtelecom JSC Group is carried out annual monitoring of the social situation in production collectives. To this end, a study entitled Index Social Stability (hereinafter referred – ISS) is being carried out.

The Company pays increased attention to the social mood of employees. The social background and attitudes of production personnel point to their positive attitude and constructive approach in solving emerging problems. It should be noted that a variation of up to 5 per cent is acceptable. This fluctuation can be influenced by both internal and external factors that directly affect the well-being of labour collectives.

According to the presented results of the Center for Social Interaction and Communications, in 2019 there was a slight decrease in indicators in the permissible range. The Social stability index is down 2 positions against 2018:

- According to the criterion «Involvement», there is a significant decrease in satisfaction with the working conditions and loyalty of the personnel to the Company. At the same time, the position on evaluation of communications and relationships has improved;
- In terms of working conditions, there is a need to improve working conditions in branches;
- On the criterion of «Personnel loyalty», the issue of impartiality of management, fairness of remuneration and appointments to senior positions is raised acutely;
- Safety culture and employees' understanding of the need to comply with all regulations is at a high level. At the same time, one in three employees is prone to concealment of violations of safety rules by their colleagues;

- Popularity of receiving information from the first managers of the Company decreased in comparison with last year. Management needs to strengthen the number and quality of meetings of the first managers with the labor collective not only on production issues, but also on social and domestic problems.
- In the Company there is an increase in social calm in comparison with 2018. The vast majority of workers exclude the possibility of participating in unauthorized protests and claim that no reason could encourage them to participate in strikes.

The Company carried out corrective actions as a result of the ISS. The analysis of the measures implemented shows that significant efforts have been made to improve the working conditions.

### Information policy

Our information openness is a necessary condition for increasing trust in business, and public reporting is its important component.

The Company has introduced and operates Information Policy, Information Disclosure Regulations, which define the procedure for working with information. According to these documents, the Company provides the interested persons with substantial information about its activities and confirms the obligations made not to limit itself to disclosure of mandatory information (in accordance with the requirements of the applicable legislation) and to inform the public on a continuous basis about the strategy and mission, policies and rules, significant events and key results of its activities carried out by procurement. The Company following principles in the implementation of the information policy:

- Reliability Principle;
- Immediacy Principle
- Systemic Principle;
- Proactivity and Friendliness Principle;
- Pragmatism and Concern For the Interests of Target Audiences Principle;
- Digitalization and Multimedia Principle;
- Confidentiality Principle.

The key channels for informing the public and the investment community are publications on the official website of the Company [www.telecom.kz](http://www.telecom.kz), briefings, press conferences, meetings with interested parties. The Company establishes cooperation with the mass media, holds events at which the position of the Company is presented on certain events requiring the organization of interviews with representatives of the Company, holding press conferences and briefings, as well as the publication of press releases.

The Company's website is a key tool in promoting the Company's services and positioning in the market and ensures maximum openness and accessibility of information. In 2019, monthly site attendance increased from 259,000 to 396,000 visits. On average, the visitor of the site spends 3 minutes 11 seconds on it.

The Company has over 300,000 subscribers on all social media platforms. In 2019, 33% more content was posted on the official accounts of the Company compared to the previous year. The average response time for users was 7 minutes.

The Company annually holds a creative contest for the media «Best analytical material about Kazakhtelecom JSC» among representatives of print, television and Internet publications.

The corporate «Bailanys» magazine is published internally for the employees of the Company. The Company's in-house website is also [4telecom.kz](http://4telecom.kz).

**Sustainable Development Initiative #6.**  
**REDUCTION OF INJURIES AND IMPROVEMENT OF SAFE WORK CULTURE**



The Company views human life and health as the highest value, has a direct responsibility to create safe and healthy working conditions for its employees, and to inform, train, supervise, advise its employees on health and safety issues. The Company is aware of the importance of early prevention or mitigation of adverse effects on the health and safety of employees, contractors and the public.

The Company has a system of labor safety and safety management, providing constant methodological guidance, analysis and monitoring of the state of labor safety and safety in the Company. The system establishes uniform occupational safety management requirements in accordance with the ILO Occupational Safety Management Systems Manual 2001 ILO-OSH 2001 and OHSAS 18001.

The Company carries out measures on a permanent basis in accordance with the requirements of the Labour Code of the Republic of Kazakhstan, as well as other normative legal acts, including:

- training of managers and specialists responsible for safety and health;
- performance of job certification;
- medical examinations by employees;
- providing workers with overalls, special footwear and individual protection equipment.

The jobs are certified once in five years in the Company. Thus, 6498 jobs were certified between 2015 and 2019.

In the reporting year, 2 corporate standards in the field of labor safety were updated taking into account the changed requirements of legislation and changes in the structure of the Company.

Production councils have been established and operate in the branches of the Company, where issues of labor safety and safety are considered.

Every year, training and periodic inspection of knowledge on occupational safety and safety is carried out for workers in mass professions. **Thus, in 2019, training was organized for 15,570 employees of the Company.**

With a frequency of once a year and three years, depending on the profession of the employee, the Company carries out training and testing of knowledge on industrial safety with issuance of certificates for access to certain jobs.

In 2019, there are no occupational diseases in the Company according to the Labor Safety and Safety Service of Kazakhtelecom JSC. The Company promotes the idea of a healthy lifestyle through the organization of thematic sports events. In addition, all employees are connected to the life health insurance system with mandatory annual medical examinations to identify potential threats to the health of employees.

To prevent technological risks, a register of significant hazards and unacceptable risks is drawn up.

Despite the systematic work carried out to improve the level of safety, in 2019 the Company registered 2 accidents of industrial injuries.

The occupational injury rate for 2019 was 0,03% on 1,000 workers, including for:

- South regional telecommunication directorate – 0,03;
- Central regional telecommunication directorate – 0,03;

**Accident Information**

Branch	Accident cause	Weight of an injury	The taken measures
South RTD Local Networks of General Service Center Technical management of the backbone network for operation in Kyzylorda, Aral linear technical center;	In violation of the existing safety and health regulations, the work was carried out on the frozen support of the High Voltage System. At an altitude of about 2 meters, the Monterey claws lost the coupling with an icy support, there was a exit down along the support. As a result of the impact on the reinforced concrete, the guard suffered a contusion to the left leg.	Heavy degree	Order №55/D of 06.06.2019 South of RDT Reprimand: <ul style="list-style-type: none"> <li>• to Head of the Aral linear technical center;</li> <li>• to Leading engineer of linear-stationary system and control automation of the Aral linear technical center;</li> <li>• to Engineer of linear-stationary system and control automation of the Aral linear technical center.</li> </ul> Specify: <ul style="list-style-type: none"> <li>• To the Deputy Director of the Technical management of the backbone network for operation in Kyzylorda;</li> <li>• Leading engineer for HSSE (Kyzylorda) HSSE Service of South RTD.</li> </ul>
Central RTD Local Networks of General Service Center Technical management of the backbone network for operation in Karagandy;	The employee stood up from the passenger seat during the movement of the vehicle GAZ-66, without prior warning the driver with a special signal button about the need to stop the vehicle, started moving through the cabin of the van. While travelling, the worker lost his balance, hit the back door of the van and fell out of the van onto the asphalt. At the time of the fall of the employee, the vehicle started moving from the intersection by missing the vehicle on the main road.	Heavy degree	Order №_108/D dated 23.10.2019 of HR General Service Center Note: <ul style="list-style-type: none"> <li>• to head of the cable shop;</li> <li>• to the engineer of the cable section.</li> </ul> Requirement from 25.10.2019 of HR General Service Center on disciplinary measures.

**Fire safety**

To implement fire safety measures in 2019, the concept of fire safety of buildings, premises and structures of Kazakhtelecom JSC was developed and adopted. The concept

provides for measures to increase and ensure highly effective protection of working personnel and property of the Company from fires, improvement of forces and means to ensure operability of telecommunication equipment, prevention of fires. The Concept details fire safety requirements for buildings and structures, as well as fire briefing program and actions of Company employees in case of fire.

**Sustainable Development Initiative #7.  
REDUCING THE COMPANY'S ENVIRONMENTAL IMPACT**



Telecommunication sphere has relatively little environmental impact compared to other industries. However, due to the growing importance of global and local environmental problems, the Company aims to implement measures to compensate for the damage caused by its activities by minimizing the direct and indirect impact on the environment. To manage the environmental aspect, the Company has established an Environmental Management System (EMS), which is an integral part of the corporate governance system and an essential part of the non-financial risk management system. The Company is certified for compliance with the international standard ISO 14001 and works on continuous improvement of EMS.

**The Company's pollution charges were:**

- In 2018 ~ 20 million tenge;
- In 2019 ~ 15 million tenge.

**The costs of EIA development, environmental expertise and other environmental protection activities were:**

- In 2018 - more than 71 million tenge;
- In 2019 - more than 107 million tenge.

The Company has defined the following priority areas of development in the environmental sphere in accordance with the Strategy and the Company's Environmental Policy:

1. reducing emissions of pollutants into the atmosphere;
2. use of environmentally sound information transfer technologies;
3. keeping records of environmental risks and possible environmental impacts in the course of implementation of activities;

4. reduction of specific energy consumption in the process of telecommunication services, due to use of renewable energy sources in the structure of energy consumption and introduction of energy-saving and resource-saving technologies at the Company facilities;
5. introduction of «green», environmentally friendly, waste-free and energy-saving production technologies with minimal load on the environment;
6. reducing the volume of household and industrial waste generation;
7. creation of an environmentally comfortable environment, including through improvement and greening of the territories occupied by the Company;
8. increasing competence and awareness of the Company's employee's role in solving issues related to environmental protection.

In 2019, a new version of the Company's Environmental Policy was updated and approved by the Board of Directors, which reflects the Company's position towards the environment and defines priorities in environmental activities.

At the end of 2019:

- the branches have developed draft standards for maximum permissible emissions of harmful substances into the atmosphere and have obtained permits for emissions of pollutants into the atmosphere by stationary sources of pollution;
- environmental impact assessment projects have been developed;
- environmental actions launched.

**Energy**

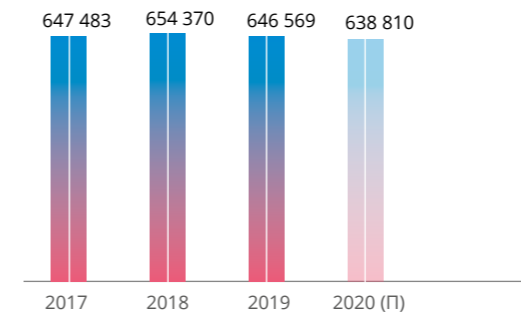
By introducing new technologies to replace obsolete technologies, the Company favours resource-efficient and environmentally friendly technologies. The Company implements the Energy Saving Program, which provides for the implementation of organizational, scientific and production measures aimed at the effective use of energy resources and the involvement of renewable energy sources in the economic circulation.

In 2019, total indirect energy consumption decreased on 2% and accounted to

**646,569 GJ**

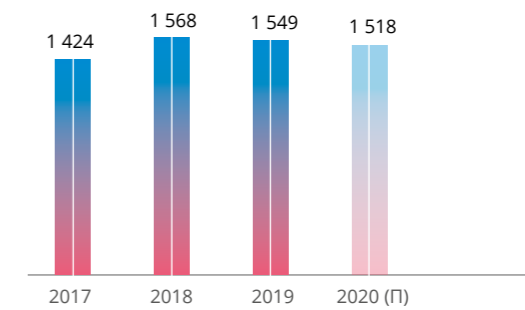
The Company uses direct non-renewable energy sources for its own consumption, namely, gasoline, diesel fuel, coal, natural gas, as well as intermediate energy (electricity), which is purchased and consumed from external sources. Direct renewable energy sources are not used by the Company.

**Figure 27. Consumption of intermediate energy (electrical energy), GJ**



The dynamics show that electricity consumption is steadily decreasing, which confirms the direct reduction of emissions of pollutants into the atmosphere and the reduction of negative impacts on the environment and the impact on global climate change. At the same time, in 2019 the amount of saved energy, compared to 2018, decreased by 2%. This is due to the entry into production capacity of data processing centers built in previous years at the facilities of the cities of Pavlodar, Almaty, Akkol. Taking into account the current dynamics of energy consumption, in 2020 it is planned to increase the volume of saved energy by another 2%.

**Figure 28. Intermediate energy saving (electrical energy), GJ**



**Table 7. Direct energy consumption by primary non-renewable source**

Disclosure	2017	2018	2019	Forecast for 2020
Type of fuel	Allocation quantity, in GJ			
Gasoline, tons	823 423	713 649	795 553	710 500
Diesel fuel, tons	189 557	125 881	112 890	110 640
Coal, tons	1 506	1 032	1 044	1 000
Gas, thousand cubic meters	10 256	10 107	10 009	10 105
<b>Total:</b>	<b>1 024 742</b>	<b>850 443</b>	<b>919 496</b>	<b>832 245</b>

When purchasing backup power supplies, we are guided by the criterion of energy efficiency. The Company mostly uses diesel generators from leading European manufacturers (Wilson), which have extremely strict requirements for fuel efficiency and harmful emissions.

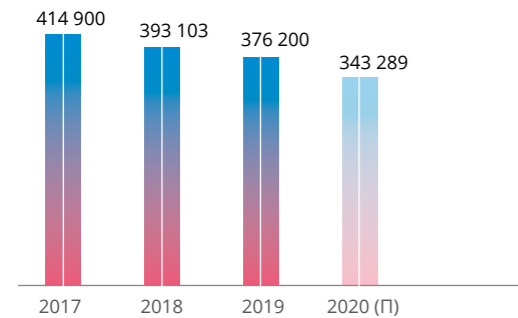
**Water consumption**

The Company's activities have no significant impact on the water intake, but we seek to reduce water use.

Water from networks of water supply organizations is mainly used for water supply of the Company's divisions. Water intake is made from two initial sources - groundwater (wells) and surface water (rivers, lakes, sea), which are protected by the Ministry of Environmental Protection of the Republic of Kazakhstan.

In general, the water intake of the Company's departments in 2019 amounted to 376,200 m<sup>3</sup> per year, which is 4,3% lower than the previous indicator. The organization's water intake is less than 5% of the average annual volume of all water bodies, so it has no significant impact on water sources. The planned/forecast values for 2020 are 343,289 m<sup>3</sup>. The Company's departments annually carry out activities aimed at ensuring rational use of water resources, economical consumption of water of drinking quality, elimination of unproductive leaks on water supply networks by replacing dilapidated sections of water pipelines, repair of structures on water supply networks. Also, the indicators of water intake were influenced by the measures on disposal of real estate objects within the framework of the project «Optimization of real estate management».

Figure 29. Consumption quantities of water, m<sup>3</sup>



The Company's departments is not re-used of water in the production process for the provision of telecommunication services by Company uses water only for sanitary and household needs. Installed water metering devices are in technically corrected condition.

### Transport

Operation of transport is one of the sources of direct impact on the Company's environment. At the end of 2019, the Company's transport fleet was 3,303 units of vehicles and special equipment.

In order to reduce the negative impact, we are transferring transport to the use of gas as motor fuel. The number of cars converted to gas is 952 units, including 336 units in 2019.

### Biodiversity

The infrastructure of the Company affects 15 specially protected places, where about 80 species of protected flora and 136 species of fauna are distributed on the IUCN red list and the national list of protected species. The Company's activities do not pose a threat to the existence of protected flora and fauna objects.

In order to prevent and neutralize the negative impact of construction in the withdrawal bands on the ground habitat, Kazakhtelecom JSC follows the following measures:

- the placement of fixed-line infrastructure and withdrawal lanes for other types of linear infrastructure, access roads, lines and towers, without affecting key natural areas, by using existing engineering communications routes and transport corridors wherever possible;
- restoration of vegetation cover on disturbed areas of land using local plant species.

In order to minimize bird collisions with infrastructure, the following control and preventive measures are taken:

- placing infrastructure outside key biotopes;

- prevention of cumulative impact of antennas located on existing towers or other stationary structures, providing for structural and electrical possibilities of connection of additional users in the future during design of new towers, as well as dismantling unused towers.

It is important to note that Kazakhtelecom JSC complies with the requirements of the legislation of the Republic of Kazakhstan in the part of the Environmental Code and provides for proper assessment of the territory from the point of view of potential environmental damage and carries out restoration measures. The projects of Kazakhtelecom JSC necessarily include measures to eliminate the caused environmental damage, such as recultivation of land plots and environmental impact assessment (EIA).

### Our contribution to ecology improvement

In addition to actions for decrease in negative impact on the environment, Company implements initiative projects in the field of ecology:

- **Electronic digital signature for employees.** In order to reduce the volume of paper document circulation, the Company has introduced electronic document circulation with the possibility of visiting documents in electronic digital format.

- In 2019, a **webinar on sustainable development** was held for employees of the Company.
- **Project «100 kg of waste paper is one saved tree».** The Information Systems Directorate is one of the first branches of the Company, which installed ecoboxes instead of urns for collection of waste paper, for its further processing. During the month the employees of the branch collected more than 100 kg of paper. Thus, the team of the Directorate helps to preserve the ecology of the region. From 2020 it is planned to introduce separate waste collection in the Company.
- **Project «Preserving the forest – we preserve the future».** In 2019, the employees of the Corporate Business Division implemented a project on the transition to paperless customer service. Now subscribers B2B no longer need to visit service network points to conclude contracts, receive certificates and invoices. The documents are posted on the ISMET.kz every month. Maintenance time decreased from 1-2 days, to 10 minutes. The project saved more than 2,000 trees.
- **Project implementation on transition to the «paperless format» of service** allowing clients to sign contracts and to receive acts of the performed works and the invoice without visit of the centers of corporate sales is begun. Instead all materials are placed in electronic form in a private office on the ismet.kz portal. In addition, in a private office it is possible to carry out fee at once, to sign documents by means of Electronically Digital Signature and to receive specification on the consumed services. Holding time was reduced from 1-2 days to 10 minutes. The number of agreements and the supplementary agreements concluded in 2019 was more than 2,5 thousand. About 5,5 million acts of the performed works and invoices in an electronic format are provided to subscribers.
- Our Company supported **an ecological action «Birge Taza Kazakhstan»**. More than 1800 workers participated in an ecological marathon «Birge Taza Kazakhstan» and participated in an all-republican community work day. Preserving of the nature of the native land and respect for the environment was the purpose of the share.



# Corporate governance

IN 2019, DECISION HAD BEEN MADE:

with the Board of Directors:

**119**

Management Board:

**246**

# CORPORATE GOVERNANCE STRUCTURE

**Sustainable Development Initiative #8.**  
**INCREASE THE EFFICIENCY OF THE CORPORATE GOVERNANCE SYSTEM.**

The Company's Corporate Governance was an effective management system which involves respecting rights and interests of all concerned persons to the Company's activities and contributes to successful operation, which including improvement of its reputation and maintenance of financial stability and profitability.

The Corporate Governance system of Kazakhtelekom JSC is a set of processes ensuring a due management of and control over the Company's operations as well as the system of interrelations between the Company's executive body, Board of Directors, shareholders and other concerned parties. The competences of the bodies and decision-making procedures are defined and formalized in the Charter of Kazakhtelekom JSC.

**Governing Bodies**

The Company has the following governing bodies:

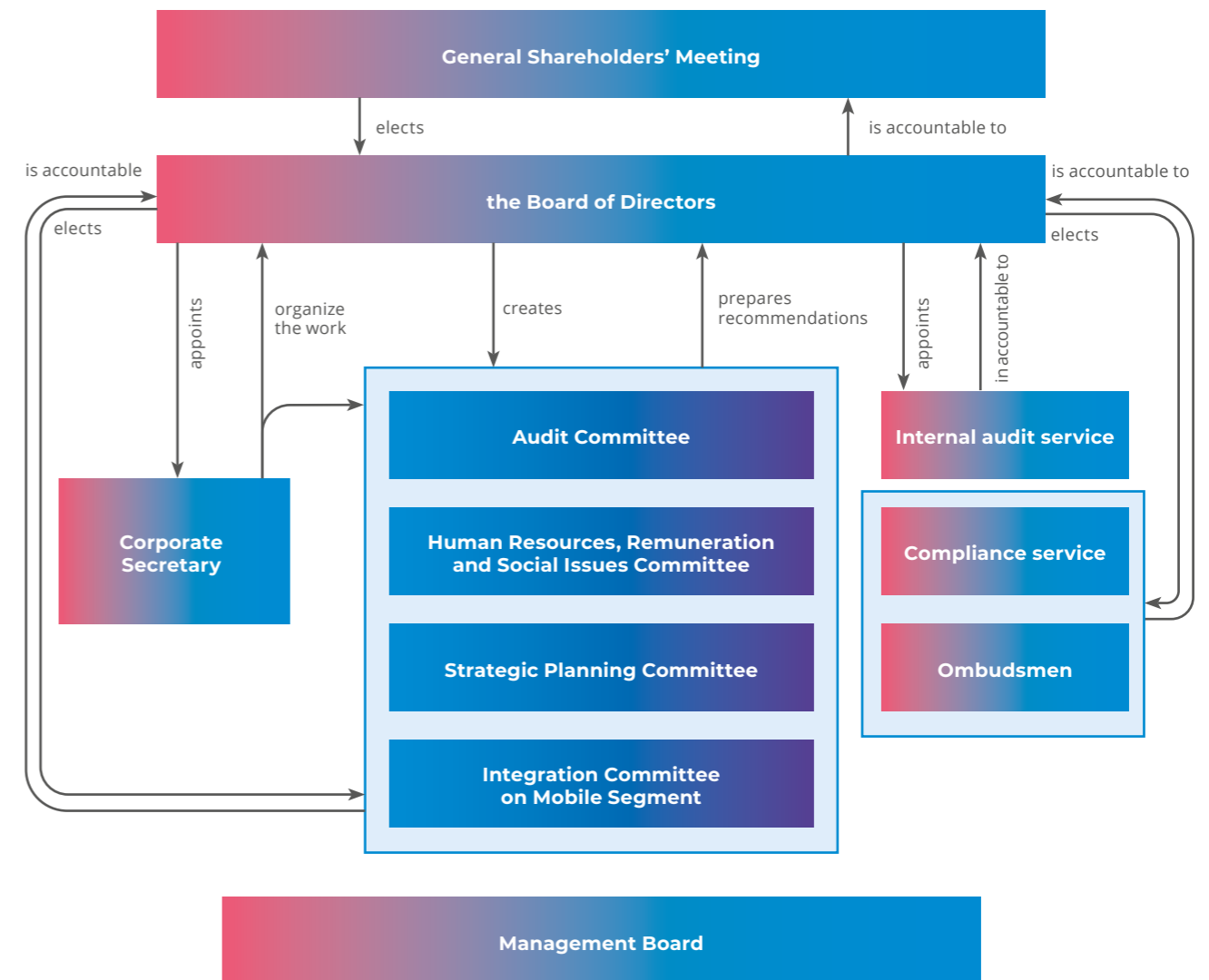
- 1. the highest body – General Shareholders' Meeting;**
- 2. the management body – the Board of Directors;**
- 3. the executive body – the Management Board;**
- 4. the Internal audit service – body, which monitors over the Company's financial and business activities, conducts assessment in the field of internal control, risk management and implementation of the corporate governance documents and advises for the improvement of the Company's operations.**

The Key Performance Indicators (KPI) system is a fundamental element of the performance evaluation of the executive body of Kazakhtelekom JSC. The list and target values of the Company's KPI are approved by the Board of Directors of the Company. In order to achieve of the KPI, the Company prepares relevant development plans for implementation.

The Management Board's activities are based on the principle of maximum respect for the interests of Shareholders and full accountability to the decisions of the General meeting of shareholders and the Board of Directors.

The Management Board consists of 9 members – the Chairman of the Management Board and other persons elected by the Board of Directors.

Figure 30. Corporate structure of the Kazakhtelekom JSC





# THE BOARD OF DIRECTORS OF KAZAKHTELECOM JSC

The Board of Directors – the management authority body, it charged with the general governance over the Company’s activities. The Board of Directors does not solve the issues the General shareholder meeting as set forth by the Law of the Republic of Kazakhstan «On Joint stock companies» or stipulated by the Charter of the Company, and also with the control over the activities of the Management Board of the Company.

The members of the Board of Directors of the Company are elected by the annual General shareholder meeting and may be re-elected by the respective special General shareholder meeting for early termination of powers previously elected members of the Board of Directors of the Company by the laws of the Republic of Kazakhstan, the Charter of the Company, and the Regulations of the Board of Directors of Kazakhtelecom JSC.

The shareholders appoint the members of the Board of Directors through a cumulative voting with the use of voting ballots, except when there is only one candidature standing for one seat at the Board of Directors.

Candidates who run for the post of a member of the Company’s Board of Directors may come from:

1. shareholders – natural persons;
2. persons which recommended to be elected in Board of Directors as representatives of the shareholders;
3. individual persons who are neither shareholders of the Company and is not recommended to be elected in the Board of Directors as representatives of the shareholders.

Candidates to and members of the Board of Directors must have adequate professional experience, knowledge, qualification, positive achievements and flawless reputation in the Company’s business and/or industry sector as required for the proper fulfillment of their respective duties and organization of the effective operation of the overall Board of Directors to the benefit of the shareholders and the Company.

As of 01.01.2019, the Board of Directors of Kazakhtelecom JSC has been as follows:

**The Members of the Board of Directors:**

- Baidaletov Nurzhan Talipovich
- Yessekeyev Kuanyshebek Bakytbekovich
- Alimov Abay Savitovich
- Kussainov Yerulan Aitashovich
- Saudabayev Serik Bolatovich

**Members of the Board of Directors, Independent Directors:**

- Buyanov Alexey Nikolayevich
- Garrett Martin Johnston
- Zaika Dmitriy Alexandrovich
- Naizabekov Timur Kurmangazyevich

Pursuant to the decision of the Board of Directors of Kazakhtelecom JSC as 31 May, 2018 (Minutes №6), Baidaletov Nurzhan Talipovich has been appointed as the Chairman of the Board of Directors of Kazakhtelecom JSC.



## BAIDAULETOV Nurzhan Talipovich

Chairman of the Board of Directors  
Representative of the shareholder, namely, Samruk-Kazyna JSC (5,570,668 ordinary (voting) shares)

**Date of birth:** September 1st 1960  
**Citizenship:** Republic of Kazakhstan  
**Date when first elected as a member of the Board of Directors:** May 8th 2012  
**Date of current appointment as a member of the Board of Directors:** May 30th 2018

**Shares owned:** None

**Education:** 2017 – 2019 International Chartered Director Program of the Institute of Directors of Great Britain  
09.1977 – 06.1986 Moscow Institute of Railway Transport  
Qualified in: Railway Transportation Process Management

**Current occupation and recent posts for the past five years:**

17.04.2016 – till now Samruk-Kazyna JSC. Representative of Samruk-Kazyna JSC in the Board of Directors of Kazakhtelecom JSC, National Company Kazakhstan Temir Zholy JSC (from 4.12.2018), of Qazak Air JSC (till 1.04.2019), Air Astana JSC (till 31.05.2019).

02.06.2014 – 17.04.2016 Samruk-Kazyna JSC. Senior Asset Management Officer

27.11.2008 – 01.06.2014 Samruk-Kazyna JSC. Managing director



## YESSEKEYEV

### Kuanyshbek Bakytbekovich

Member of the Board of Directors, Chairman of the Management Board of Kazakhtelecom JSC

**Date of birth:**  
June 10th 1975  
**Citizenship:**  
Republic of Kazakhstan  
**Date when first elected as a member of the Board of Directors:**  
December 16th 2006  
**Date of current appointment as a member of the Board of Directors:**  
May 30th 2018

**Shares owned:** None

**Education:**  
2015 – 2017  
Hult Business School, London, GB  
Qualified in: Finance. Degree: Executive MBA

2001–2002  
Kazakh State Academy of Management  
Qualified in: Management

1991–1995  
Kazakh State University named after al-Farabi  
Qualified in: Applied math  
Candidate of mathematics

**Current occupation and recent posts for the past five years:**  
15.03.2010 – till now  
Kazakhtelecom JSC. Chairman of the Management Board, Member of the Board of Directors

23.02.2007–15.03.2010  
Informatization and Communications Agency of the Republic of Kazakhstan. Chairman



## ALIMOV

### Abay Savitovich

Member of the Board of Directors, Representative of the shareholders, namely, Skyline Investment Company

**Date of birth:**  
October 29th 1975  
**Citizenship:**  
Republic of Kazakhstan  
**Date when first elected as a member of the Board of Directors:**  
November 19th 2018  
**Date of current appointment as a member of the Board of Directors:**  
November 19th 2018

**Shares owned:** None

**Education:**  
1998–2000  
Kazakh National Management Academy of named after T. Ryskulov. Qualified in: Finance and Credit

1993–1997  
Kazakh State National University named after al-Farabi. Qualified in: Law Science

**Current occupation and recent posts for the past five years:**  
05.2018 – till now  
Skyline Investment Company. Representative

01.2018 – till now  
Parasat Advising Group LLP. Managing Director

08.2016–12.2017  
KIPROS LLP. Managing Director

03.2010–12.2015  
PetroKazakhstan Oil Holding. Legal Affairs Director



## SAUDABAYEV Serik Bolatovich

Member of the Board of Directors  
 Representative of the shareholder of  
 Samruk-Kazyna JSC  
 (5 570 668 ordinary (voting) shares)

**Date of birth:**  
 December 8th 1977  
**Citizenship:**  
 Republic of Kazakhstan  
**Date when first elected as a member of the Board of Directors:**  
 July 12th 2010  
**Date of current appointment as a member of the Board of Directors:**  
 May 30th 2018

**Shares owned:** None

**Education:**  
 2004–2006  
 Kazakh Economic University named after T.Ryskulov.  
 Qualified in: Economics  
  
 1995–1999  
 Almaty State University named after Abai. Qualified in: Law  
 Science

**Current occupation and recent posts for the past five years:**

02.05.2018 – till now  
 Samruk- Kazyna JSC. Head of Communications Sector of the Asset Management Directorate, Member of Supervisory Board of QazCloud LLP (from 07.11.2019), Member of the Board of Directors of Kazpost JSC (13.08.2010-01.04.2014, from 26.10.2016 till now)

11.07.2016–01.05.2018  
 Samruk-Kazyna JSC.  
 Communications Directorate Director

11.05.2014–10.07.2016  
 Samruk-Kazyna JSC. Deputy Senior Director in Asset Management

17.06.2010–10.05.2014  
 Sovereign Welfare Fund Samruk-Kazyna JSC.  
 Communications Asset Management Director



## KUSSAINOV Yerulan Aytashovich

Member of the Board of Directors  
 Representative of the shareholder of the Skyline  
 Investment Company

**Date of birth:**  
 January 28th 1976  
**Citizenship:**  
 Republic of Kazakhstan  
**Date when first elected as a member of the Board of Directors:**  
 May 30th 2018  
**Date of current appointment as a member of the Board of Directors:**  
 May 30th 2018

**Shares owned:** None

**Education:**  
 2012–2013  
 Comenius University (Prague, Czech Republic).  
 Qualified in: Master of Business Administration  
  
 2001–2005  
 Zhezkazgan University named after O.A.Baikonurov.  
 Qualified in: Finance and Credit  
  
 1993–1996  
 Karaganda Banking College under the Kazakh State Management Academy.  
 Qualified in: Banking

**Current occupation and recent posts for the past five years:**

12.2014  
 Damina Educational Center LLP, General Director, Member of the Board of Directors of Khan Tengri Holding B.V. (from 02.08.2019) Member of the Supervisory Board of Mobile Telecom-Service LLP (from 09.08.2019)

04.2016–07.2017  
 Kazkommerts Bank JSC. Executive Director, Member of the Management Board, Managing Director

07.2014–10.2014  
 Samruk-Kazyna Invest LLP. General Deputy Director

08.2006–12.2013  
 Temirbank JSC. Adviser to the Chairman of the Management Board, Managing Director, Member of the Management Board, Branch Director, Managing Director – Member of the Management Board, Deputy Chairman of the Management Board – Member of the Management Board



## BUYANOV

### Alexey Nikolayevich

Independent Director

**Date of birth:**  
 August 15th 1969  
**Citizenship:**  
 Russian Federation  
**Date when first elected as a member of the Board of Directors:**  
 June 30th 2015  
**Date of current appointment as a member of the Board of Directors:**  
 May 30th 2018

Shares owned: None

**Criteria of independence:** Consistent with the criteria specified in subclause 20) of the article 1 «On Joint-Stock Companies» Law of the Republic of Kazakhstan

**Education:**  
 1986–1992  
 Moscow Institute of Physics and Technologies (MIPT)  
 Qualified in: Applied Physics and Math  
 Graduated as: Physics Engineer

**Current occupation and recent posts for the past five years:**  
 January 2016 – till now  
 Bengala Investments SA (Investment Company), Director, Chairman of the Board of Directors of KCell JSC (since 25.01.2019)  
  
 2014–2016  
 Managing Director of Redline Capital Management JSC, Member of the Stock Board of Moscow Stock Exchange OJSC



## GARRETT

### Martin Johnston

Independent Director

**Date of birth:**  
 July 2nd 1968  
**Citizenship:**  
 Ireland, Russian Federation  
**Date when first elected as a member of the Board of Directors:**  
 June 30th 2015  
**Date of current appointment as a member of the Board of Directors:**  
 May 30th 2018

Shares owned: None

**Criteria of independence:** Consistent with the criteria specified in 1 subclause 20) of article of the Law of the Republic of Kazakhstan «On Joint Stock Companies»

**Education:**  
 1990–1991  
 Trinity College, Dublin, Ireland  
 Qualified in: International Trade, TMI Degree (Postgraduate Diploma International Commerce)

1985–1990  
 University of Dublin, Qualified in: Economics

**Current occupation and recent posts for the past five years:**  
 15.06.2015 – till now  
 macroscope consulting. Owner and CEO  
  
 01.10.2014 – till now  
 appselekt.com. Chief Marketing Officer  
  
 15.01.2014–30.09.2014  
 Digicel Caribbean and Central America.  
 CEO Enterprise Solutions  
  
 27.12.2011–11.01.2014  
 Rosnano MedInvest (RMI Partners).  
 Vice President in Marketing and Strategy



## ZAIKA Dmitriy Alexandrovich

Independent Director

**Date of birth:**  
 April 27th 1975  
**Citizenship:**  
 Republic of Kazakhstan  
**Date when first elected as a member of the Board of Directors:**  
 June 30th 2015  
**Date of current appointment as a member of the Board of Directors:**  
 May 30th 2018

Shares owned: None

**Criteria of independence:** Consistent with the criteria specified in article 1 sub clause 20) of the Law of the Republic of Kazakhstan «On Joint-Stock Companies»

**Education:**  
 2003–2005  
 Kazakh State Economic University  
 Specialized in: Financial Management  
 Qualified as: Economist

1992–1998  
 Almaty Institute of Energy and Communications  
 Specialized in: Radio Equipment  
 Qualified as: Radio engineer

**Current occupation and recent posts for the past five years:**

20.04.2012–15.08.2016  
 ALTEL JSC. Independent Director

29.08.2011 – till now  
 KhimFarm JSC. Independent Director



## NAIZABEKOV Timur Kurmangaziyevich

Independent Director

**Date of birth:**  
 April 21st 1983  
**Citizenship:**  
 Republic of Kazakhstan  
**Date when first elected as a member of the Board of Directors:**  
 May 30th 2018  
**Date of current appointment as a member of the Board of Directors:**  
 May 30th 2018

Shares owned: None

**Criteria of independence:** Consistent with the criteria specified in subclause 20) of article 1 of the Law of the Republic of Kazakhstan «On Joint-Stock Companies»

**Education:**  
 2014–2015  
 University College of London (UCL). Master of Finance

2005–2007  
 University of International business.  
 Master of Finance (graduated with honors)

2000–2004  
 Kazakh National University named after Al-Farabi.  
 Qualified in: Math and Information Systems in Business

**Current occupation and recent posts for the past five years:**

04.2016–09.2017  
 Estate Management Company JSC. Chairman of the Management Board, Member the Board of Directors, Member of the Internal Audit Committee, Member of the Strategic Planning, Personnel & Remuneration Committee

09.2015–04.2016  
 Commercial RE LLP.  
 CFO, CEO

09.2014–09.2015  
 Union Bancaire Privee (Great Britain).  
 Financial Analyst/European Stock Markets

10.2012–07.2014  
 National investment corporation.  
 Managing Director, Member of the Management Board/  
 Advisor to the Chairman of the Board

During the reporting year, the Board of Directors included 4 Independent Directors who meet the corresponding requirements of the legislation of the Republic of Kazakhstan and the notion of an Independent Director.

According to paragraph 5 of article 54 of the Law of the Republic of Kazakhstan «On Joint-Stock Companies», minimum 30% of the Board of Directors should be Independent Directors.

Kazakhtelecom JSC observes this requirement, and the number of its Independent Directors exceeds the minimum threshold, and account for 44%.

#### Independent Determination Criteria for Independent Directors

According to paragraph 20) of article 1 of the Law of the Republic of Kazakhstan «On Joint-stock companies», an **Independent Director** – a member of the Board of Directors:

- who is neither affiliated with that Company at the moment not has been its affiliate within three years preceding his/her election as a member of the Board of Directors (except the as an Independent Director of the that Company);

- who is not affiliated with the affiliates of the that Company;
- who is neither related through subordination with the officials of the that Company or its affiliated organizations nor has been related through subordination with such persons within three years preceding to his/her election as a member of the Board of Directors;
- who is not a civil servant;
- who is neither a shareholder representative at the meetings of the bodies of the Company and did not participate within three years to his/her election as a member of the Board of Directors;
- who neither participates as an auditor in Audit Company and nor participated in audits within three years preceding to his/her election as a member of the Board of Directors.

# THE BOARD OF DIRECTORS COMMITTEES OF KAZAKHTELECOM JSC

In the pursuance of the effective fulfillment of the functions of the Board of Directors for in-depth and decent decision the issues, the following Committees have been established under the Board of Directors:

- 1. Audit Committee;**
- 2. Human Resources, Remuneration and Social Issues Committee;**
- 3. Strategic Planning Committee;**
- 4. Integration Committee on Mobile Segment.**

The Board of Directors of the Company makes decisions on the establishment of committees, defines its size and composition, appoints their chairmen and term of office, and also determines their functions and operative procedures.

The activities of all committees are governed by the respective internal documents adopted by the Board of Directors which contain regulative provisions on the composition and competence of such committees, procedures of electing their members, their operative procedures as well as rights and obligations of their members.

**Audit Committee** is a consultative and deliberative body of the Board of Directors of Kazakhtelecom JSC. That runs its activities under the Regulations of the Audit Committee approved by the decision of the Board of Directors (Minutes №2 as of 01.03.2010).

The activities of the Audit Committee are aimed to assist the Board of Directors through developing recommendations on the establishment of the effective system of control over the financial and business operations of the Company and exercising control over the reliability and efficiency of the internal

control and risk management systems as well as over the independence of both the external and internal audit.

Subject to the Corporate Governance Code of Kazakhtelecom JSC, the Committee consists of the Independent Directors only, which elects by subclause 20) of article 1 of the «On Joint-Stock Companies» Law of the Republic of Kazakhstan.

**As of 01.01.2020, the Audit Committee of the Board of Directors of Kazakhtelecom JSC was as follows:**

**The Chairman of the Committee:**

- Naizabekov Timur Kurmangazyevich – Independent Director.

**The members of the Committee:**

- Buyanov Alexey Nikolayevich – Independent Director;
- Garrett Martin Johnston – Independent Director;
- Zaika Dmitriy Alexandrovich – Independent Director.

In accordance with the Regulations on the Audit Committee, the Chairman of the Committee was invited to till now information on issues on the agenda:

- the members of the Board of Directors;
- the head of Internal Audit;
- the representatives of the external auditor of Ernst & Young LLP;
- employees of the Company (top management, heads of structural subdivisions, specialists).

The Audit Committee, in accordance with paragraph 16 of the Regulations shall hold regular in-person meetings at least once a quarter and special meetings as necessary.

In 2019, the Audit Committee held 11 meetings, where 35 issues were considered, and respective recommendations which including the operations of the Internal Audit Service, internal controls and risks, financial reporting, external audit, and other important issues of the Board of Directors of the Company.

The Committee worked in accordance with Work Plan for 2019.

Participation of BoD members to the meetings of Audit Committee in 2019:

Members of the Board of Directors	№ 1 01.02	№ 2 05.03	№ 3 18.03	№ 4 23.04	№ 5 21.05	№ 6 11.06	№ 7 22.07	№ 8 09.09	№ 9 30.10	№ 10 01.11	№ 11 29.11	Absence reason	Participation percent
Naizabekov T. K.	+	+	+	+	+	+	+	+	+	+	+		100%
Garrett Martin Johnston	+	+	-	+	-	+	+	+	+	-	+	Transfer of a flight	72,73%
Buyanov A.N.	+	+	+	+	+	+	+	+	+	+	+		100%
Zaika D.A.	+	+	+	+	+	+	+	+	+	+	+		100%

The Audit Committee provides a thorough supervision over the audit process, regularly communicating with the Internal Audit Service and the Compliance Service and holding the meetings with the external auditor, representatives of other audit and advisory services companies.

**The Committee of Human Resources, Remuneration and Social Issues** fully reports to the Board of Directors of the Company and operates in accordance his activities with the Regulations on Human Resources, Remuneration and Social Issues Committee of the Board of Directors of Kazakhtelecom JSC, approved by the decision of the Board of Directors (Minutes №2 as of 18.03.2015).

Task of the Committee is developing recommendations for the Board of Directors in the following issues:

1. personnel appointments to Management Board and Board of Directors, heads of subsidiary organizations and other heads in accordance with Management employee list;
2. motivation systems and remuneration for employees and officials of the Company;
3. social support to the Company's personnel;
4. sponsorship support and charity;
5. any other issues within its competence in accordance by the Board of Directors order and/or provisions of internal regulations of the Company.

In 2019, Regulations on the Human Resources, Remuneration and Social Issues Committee members include:

**The Chairman of the Committee:**

- Buyanov Alexey Nikolayevich – Independent Director<sup>1</sup>.

**The members of the Committee:**

- Kussainov Yerulan Aitashovich – Member of the Board of Directors;
- Saudabayev Serik Bolatovich – Member of the Board of Directors;
- Zaika Dmitriy Alexandrovich – Independent Director;
- Garrett Martin Johnston – Independent Director;
- Naizabekov Timur Kurmangazyevich – Independent Director.

In accordance with Regulations on Human Resources, Remuneration and Social Issues Committee, the Chairman of the Committee following persons invited to act as speakers and supervisors and also to provide relevant information on the meeting agenda issues:

- members of the Board of Directors;
- employees of the Company (top-managers, heads of departments, specialists);
- candidates to the management positions in accordance with Management employee list.

In 2019, the Regulations on the Human Resources, Remuneration and Social Issues Committee ran 10 in-person meetings, where 34 issues were considered and Board of Directors of the Company made relevant recommendations. They are – appointment of employees to the posts of the Management Board, appointment of chief heads of subsidiary organizations, approval of KPIs for the management staff, labor remuneration, human resources management, and other issues.

<sup>1</sup> Buyanov A.N. elected Chairman of the Committee by decision of the Board of Directors dated 6 February 2019.

Participation of BoD members to the meetings of the Human Resources, Remuneration and Social Issues Committee in 2019

Members of the Board of Directors	№ 1 22.01	№ 2 11.03	№ 3 19.03	№ 4 29.03	№ 5 23.04	№ 6 28.05	№ 7 22.07	№ 8 05.11	№ 9 13.11	№ 10 25.12	Absence reason	Participation percentage
Buyanov A.N.	+	+	+	+	+	+	+	+	+	+		100%
Zaika D.A.	+	+	+	+	+	+	+	+	+	+		100%
Saudabayev S.B.	+	+	-	+	+	+	+	+	+	+	Meeting in the Government	90%
Garrett Martin Johnston	+	-	+	+	+	+	+	+	-	+	Transfer of a flight	80%
Kussainov Ye. A.	+	+	+	+	+	+	+	+	+	+		100%
Naizabekov T. K.	+	+	+	+	+	+	+	+	+	+		100%

In its work, the Committee has been strictly keeping to the Charter of Kazakhtelecom JSC, Corporate Governance Code of the Company, and Regulations on Human Resources, Remuneration and Social Issues Committee.

**The Strategic Planning Committee**

of the Board of Directors of Kazakhtelecom JSC was established on the basis of the decision of the Board of Directors in 2010. The Strategic Planning Committee is a consultative and deliberative body of the Board of Directors of Kazakhtelecom JSC and operates in accordance with the respective Regulations on the Strategic Planning Committee adopted by the decision of the Board of Directors (Minutes №14 as of 19.11.2010).

The major goals of the Committee are to develop and till now recommendations to the Board of Directors of the Company identifying top priority business directions of the Company and its growth strategy, including various activities contributing to the improved efficiency of the Company's operations in the long-term perspective.

In 2019, Strategic Planning Committee members include:

**The Chairman of the Committee:**

- Zaika Dmitriy Alexandrovich – Independent Director<sup>1</sup>

**The members of the Committee:**

- Garrett Martin Johnston – Independent Director,
- Buyanov Alexey Nikolayevich – Independent Director,
- Naizabekov Timur Kurmangazyevich – Independent Director,
- Kussainov Yerulan Aitashovich – Member of the Board of Directors,
- Saudabayev Serik Bolatovich – Member of the Board of Directors,
- Alimov Abai Savitovich – Member of the Board of Directors.

The Chairman of the Committee following persons invited to act as speakers and supervisors and also to provide relevant information on the meeting agenda issues:

- members of the Board of Directors, the Management Board;
- Company's, subsidiaries management and other employees;
- representatives of consulting companies.

The Strategic Planning Committee, in accordance with paragraph 15 of the Regulations on Strategic Planning Committee hold regular in-person meetings at least once a quarter and special meetings as necessary.

In 2019, The Strategic Planning Committee held 10 meetings, where 22 issues were considered and Board of Directors of the Company made relevant recommendations. They are – acquisition of the shares of Khan Tengri Holding B.V. from Swedish shareholder, business planning, approval of the Strategy on increasing the Company's shareholder value, consulting services, implementation of strategic projects and other important issues of the Company's activity.

<sup>1</sup> Elected Chairman of the Committee by decision of the Board of Directors dated 6 February 2019.

Participation of BoD members to the meetings of the Strategic Planning Committee in 2019

Members of the Board of Directors	№ 1 05.02	№ 2 11.03	№ 3 26.03	№ 4 09.04	№ 5 02.05	№ 6 22.05	№ 7 21.06	№ 8 22.07	№ 9 09.09	№ 10 05.11	Absence reason	Participation percentage
Zaika D.A.	+	+	+	+	+	+	+	+	+	+		100%
Buyanov A.N.	+	+	+	+	+	+	-	+	+	+	Transfer of a flight	90%
G.M. Johnston	+	-	+	+	+	+	+	+	+	+	Transfer of a flight	90%
Naizabekov T. K.	+	+	+	+	+	+	+	+	+	+		100%
Alimov A.S.	+	+	+	+	+	+	+	+	+	+		100%
Kussainov Ye.A.	+	+	+	+	+	+	+	+	+	+		100%
Saudabayev S.B.	+	+	+	+	+	+	+	+	+	+		100%

The Committee is fully committed to developing and submitting recommendations to the Board of Directors on the identification of the Company's priorities and development strategy, including the development of activities that contribute to long-term efficiency.

**The Mobile Segment Integration Committee**

is created by the decision of the Board of Directors (Minutes №8 of 18.03.2019) and is consulting advisory body of the Board of Directors, carries out the activity according to the Provision on Mobile Segment Integration Committee of the Board of Directors of Kazakhtelecom JSC by the decision of the Board of Directors №8 of 18.03.2019.

Integration Committee members in 2019:

**The Committee's Chairman:**

- Buyanov Alexey Nikolayevich – Independent Director.

**The Committee's Members:**

- Zaika Dmitriy Alexandrovich – Independent Director.
- Kussainov Yerulan Aitashovich – Member of the Board of Directors,
- Lezgovko Alexander Vladimirovich – Chief Technical Director of Kazakhtelecom JSC;

- Khudaiberdiyev Timur Telmanovich – Chief Director of Logistics & Business Support of Kazakhtelecom JSC;
- Liang Natalia Valerievna – Managing Director of External Assets Management of Kazakhtelecom JSC;
- Volodin Roman Vladimirovich – General Director of Mobile Telecom Service LLP;
- Kukelis Kaspars – Chairman of the Management Board of KCell JSC.

The Integration Committee was created for the period of integration of technological infrastructures of mobile operators of Kazakhtelecom JSC.

In 2019, the Integration Committee held 6 in-person meetings, where 19 issues were considered, including results of work of integration consultant - McKinsey & Company Kazakhstan LLP (Integrated integration master plan, recommendations on target operating model, target radio access network architecture (RAN) and Core networks, radio frequency spectrum (RF) as part of the integration of mobile operator networks, vendor strategy, synergy assessment), Agreed upon a master plan on integration, distribution of PSR and other important issues on integration of technological infrastructures of mobile operators.

Participation of BoD members to the meetings of the Integration Committee in 2019:

Members of the Board of Directors	№ 1 26.03	№ 2 09.04	№ 3 16.05	№ 4 06.08	№ 5 10.09	№ 6 18.11	Reason for absence	Participation percentage
Buyanov A.N.	+	+	+	+	+	+		100%
Zaika D.A.	+	+	+	+	+	+		100%
Kussainov Ye.A.	+	+	+	+	+	+		100%

In assessing the work of the Committees, it should be noted that the committees of the Board of Directors of Kazakhtelecom JSC act in the interests of the company in good faith and reasonably in the performance of their duties. In the reporting year,

the committees fulfilled the goals, tasks and functional obligations established by the Corporate Governance Code of the joint stock company, the relevant provisions on committees, decisions of the Board of Directors, instructions of the Board of Directors, as well as the work plans of the committees for 2019.

# CORPORATE SECRETARY

The Corporate Secretary Institute operates in the Company to increase the effectiveness of the Corporate Governance System.

The Board of Directors decides on appointment of the Corporate Secretary and defines his/her term of office, functions and operating procedures.

In performing his/her activities, the Corporate Secretary reports to the Board of Directors of the Company and provides effective coordination between the Company and its shareholders and also between the bodies of the Company as stipulated by the regulatory provisions of the legislation of the Republic of Kazakhstan and the Company's Charter, Corporate Governance Code and other internal documents.

The Corporate Secretary of Kazakhtelecom JSC, Abdykalykov B.K., has a several state awards and sectoral title of «Uzdik Bailanysshy» (the Best Communications Operator). He was recognized as one of the best Corporate secretaries of Samruk-Kazyna SWF JSC Group, being the permanent member of many workgroups for further improvement of the corporate governance and functions of Corporate secretaries.



### Major issues considered by the Board of Directors in 2019

The Board of Directors of Kazakhtelecom JSC holds meetings in accordance with the annual operational plan, and whenever necessary. In 2019, the Board of Directors of Kazakhtelecom JSC held 19 meetings, of which 19 were in-person meetings, and 3 held through the absentee voting.

In 2019, 119 agenda points were brought into consideration of the Board of Directors of the Company, and the following most important decisions taken by the Board of Directors of Kazakhtelecom JSC in 2019 are worth being emphasized:

- On election the Management Board members of Kazakhtelecom JSC for a new term;
- On election the new Board of Directors of KCell JSC;
- Reports of the Board of Directors Committees of Kazakhtelecom JSC for 2018 for strategic planning, audit, human resources, remuneration and social issues;
- On creation of Service factory – branch of Kazakhtelecom JSC;
- On Company's repurchase of the offered shares at the request of the Company's shareholders and the price of their repurchase;

- On preliminary approval of annual financial statements of Kazakhtelecom JSC for 2018;
- On conclusion of deals with KCell JSC and Mobile Telecom-Service LLP, in which Kazakhtelecom JSC has an interest;
- On creation the Mobile Segment Integration Committee of the Board of Directors of Kazakhtelecom JSC;
- On approval of Maps and Methods of calculation of key performance indicators of management employees of Kazakhtelecom JSC for 2019;
- On Ombudsman of Kazakhtelecom JSC;
- On acquisition of 49% shares of Khan Tengri Holding B.V.;
- On approval the Annual Report and Sustainable Development Report of the Kazakhtelecom JSC for 2018;
- On approval Business Ethics Code of the Kazakhtelecom JSC;
- On approval of KPI (key performance indicators) and Business plan of the Kazakhtelecom JSC Group for 2019-2023;
- On approval of Regulations on Kazakhtelecom JSC branches;
- On repurchase of Kazakhtelecom JSC (ISIN KZX000000039) bonds;
- On approval the Environmental Policy of Kazakhtelecom JSC;
- On approval the Shareholder Value Increase Strategy of the Kazakhtelecom JSC for 2019-2029.

Reports are reviewed on a regular (quarterly) basis:

- Members of the Management Board of Kazakhtelecom JSC;
- Internal audit services;
- for execution Strategy of the Kazakhtelecom JSC;
- on implementation of major investment projects;
- on implementation of the Development Plan of Joint-Stock Company;

- on progress of implementation of the Action Plan to improve corporate governance in Kazakhtelecom JSC for 2019 - 2021;
- on risks;
- on concluded transactions in which there is an interest, decisions on which were taken by the Management Board of Kazakhtelecom JSC.

and sustainable development of the Company as well as to find promising directions and recommend activities for the further improvement of the performance of the BoD.

The Corporate Governance Code of Kazakhtelecom JSC and above-mentioned rules includes the annual evaluation within the structured process approved by the Board of Directors of the Company. At least every three years the evaluation shall be conducted with the involvement of independent consultants. Neither Directors shall not be allowed to participate in the process of his/her performance evaluation, except for as a respondent in a questionnaire and/or interview.

### Information on the Performance of Evaluation Policy of the Board of Directors of Kazakhtelecom JSC

All matters related to the performance evaluation of the Board of Directors in the reporting year were regulated by the Rules of performance evaluation of the Board of Directors of Kazakhtelecom JSC and its committees, and members of the Board of Directors and Corporate Secretary of Kazakhtelecom JSC, approved in February 15th 2019.

In December 2019, the members of the Board of Directors of Kazakhtelecom JSC assessed the work of the Board of Directors of Kazakhtelecom JSC by means of a questionnaire. Based on the results of the evaluation received from the Board of Directors, taking into account the need to maintain confidentiality in respect of all participants of the questionnaire, the decision of the Board of Directors gave a positive assessment to activity of the Board of Directors of Kazakhtelecom JSC on the results of work for 2019.

As a result of its activities in 2019, the Committees of the Company's Management Board also received a positive assessment at the Board of Directors.

Performance of the BoD is evaluated to analyze operating productivity of the BoD, its committees, Chairman of the BoD, each member of the BoD, and its Corporate Secretary, revealing strengths and weaknesses of the work of the BoD when compared with the best international practice and standards, and also identifying undisclosed reserves and underutilized capabilities of the BoD.

### Information on remuneration of the members of the Board of Directors

The terms of remuneration of Independent Directors are set out in the respective agreements signed with them. The members of the Board of Directors of Kazakhtelecom JSC, except for the Independent Directors, fulfill their activities on the uncompensated basis.

Such evaluation helps to assess the contribution of the Board of Directors and each of its members in the growth of the long-term value

The members of the Board of Directors - Independent Directors receive annual fixed remuneration and additional remuneration for their participation in each in-person meeting of the Board of Directors of Committee of the Kazakhtelecom JSC.

Independent Director is compensated for the relevant costs (travelling, accommodation, per diems, telephony in Republic of Kazakhstan, scanning, copying, facsimile, printing services, typing of documents, access to Internet in the Republic of Kazakhstan, and courier and mail services) associated with the attendance at in-person meetings of the Board of Directors and its Committees and participation in annual General Shareholder Meeting as well as meetings convened by shareholders, Chairman of the Board of Directors and/or Management Board held outside the location of the permanent residence of such Independent Director.

### Participation of BoD members to the meetings of the Management Board of Directors in 2019

Members of the Management Board of Directors	No 1 03.01 In absentia	No 2 15.01	No 3 22.01	No 4 06.02	No 5 28.02 In absentia	No 6 01.3	No 7 12.03	No 8 18.03	No 9 29.03	No 10 09.04	No 11 02.05	No 12 13.05	No 13 22.05	No 14 28.05	No 15 23.07	No 16 10.09	No 17 06.11	No 18 13.11	No 19 05.12 In absentia
Baidautov N.T.	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Yessekeyev K.B.	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Alimov A.S.	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Kussainov Ye.A.	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Saudabayev S.B.	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Buyanov A.N.	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Garrett Martin Johnston	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	-	+
Zaika D.A.	+	+	+	+	+	-	+	+	+	+	+	+	+	+	+	+	+	+	+
Naizabekov T. K.	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+

Remuneration for the fulfillment of the functions of a member of the Board of Directors of Kazakhtelecom JSC is payable only to the Independent Directors elected to the membership of the Board of Directors of the Company.

The amounts of the annual fixed remuneration and additional remuneration for the participation in each in-person meeting of the Committee under the Board of Directors are defined in accordance with the respective decisions of the General Shareholder Meeting of Kazakhtelecom JSC, Minutes №39 as of September 4th 2009, and №46 as of December 29th 2011 and №66 as of September 11th 2019.

- The size of the annual fixed remuneration for each independent Director of Kazakhtelecom JSC is as follows:
  - for non-residents of the Republic of Kazakhstan – 45, 000 US dollars;
  - for residents of the Republic of Kazakhstan – 6,660,000 tenge till 11.09.2019, 16,650,000 tenge since 11.09.2019.
- The amount of additional remuneration for each independent member of the Board of Directors of Kazakhtelecom JSC for training as a member of the Committee in each annual meeting of the Committee of the Board of Directors, as well as via tele-and video-conferencing:
  - a non-resident of the Republic of Kazakhstan – 500 US dollars;
  - a resident of the Republic of Kazakhstan – 75,000 tenge till 11.09.2019, 185,000 tenge since 11.09.2019.

Payments to the Independent Directors within Y2019

Members of the BoD - Independent Directors	Currency	Amount of the annual fixed remuneration	Amount of the additional remuneration for the participation in the activities of the Committees	Total for Y2019
Non-residents of the Republic of Kazakhstan (2 persons)	US dollar	90, 000	30,500	120, 500
Residents of the Republic of Kazakhstan (2 persons)	tenge	19,400,870	6,750, 000	26,150,870

Kazakhtelecom JSC discloses information on the amounts of remuneration of the members of its Board of Directors to all concerned parties as stipulated by the legislation of the Republic of Kazakhstan and Charter of Kazakhtelecom JSC.

# THE MANAGEMENT BOARD

The Management Board is a collegial executive body managing the operational activities to fulfill the goals and implement the strategy of the Joint-Stock Company.



## YESSEKEYEV Kuanyshbek Bakytbekovich

Member of the Management Board of Directors  
 Chairman of the Management Board  
 of Kazakhtelecom JSC

**Date of birth:** June 10th 1975  
**Citizenship:** Republic of Kazakhstan  
**Date when first elected as a member of the Board of Directors:** December 15th 2010  
**Date of current appointment as a member of the Board of Directors:** February 6th 2019

**Shares owned:** None

**Education:** higher. Candidate of mathematics  
 1991–1995  
 Kazakh State University named after al-Farabi.  
 Qualified in: Applied math, Candidate of mathematics  
 2001–2002  
 Kazakh State Academy of Management.  
 Qualified in: Management  
 2015–2017  
 Hult Business School, London, GB.  
 Qualified in: Finance. Degree: Executive MBA

**Current occupation and recent posts for the past five years:**

23.02.2007–15.03.2010  
 Informatization and Communications Agency of the Republic of Kazakhstan, Chairman

15.03.2010 – till now  
 Kazakhtelecom JSC, Chairman of the Management Board, Member of the Board of Directors.

**Part-time work and membership in Boards of Directors of other organizations:**

Member of the Board of Directors of KCell JSC, Member of the Supervisory Board of QazCloud LLP.

**Ownership of shares of the Company, shares of suppliers and competitors of the Company:** none.



## UZBEKOV

### Askhat Arkhatovich

Member of the Management Board of Kazakhtelecom JSC, Chief Financial Officer of Kazakhtelecom JSC.

**Date of birth:**  
June 18th 1980  
**Citizenship:**  
Republic of Kazakhstan  
**Date when first elected as a member of the Board of Directors:**  
27.09.2016  
**Date of current appointment as a member of the Board of Directors:**  
14.03.2017

**Shares owned:** None

**Education:**  
higher.  
  
1996–2000  
Turan University  
Qualified in: International economy

**Current occupation and recent posts for the past five years:**  
02.2012–12.2014  
KMG EP International, CFO.

01.2015 - till now  
Kazakhtelecom JSC, Managing Director-Chief Treasurer, Managing Director-Financial Controller, Chief Financial Officer.

**Part-time work and membership in Boards of Directors of other organizations:**  
none

**Ownership of shares of the Company, shares of suppliers and competitors of the Company:** none



## MAKHANBETAZHIYEV

### Batyr Apenovich

Member of the Management Board of Kazakhtelecom JSC, Chief Strategy Officer of Kazakhtelecom JSC

**Date of birth:**  
March 12, 1972  
**Citizenship:**  
Republic of Kazakhstan  
**Date when first elected as a member of the Board of Directors:**  
07.06.2010  
**Date of current appointment as a member of the Board of Directors:**  
17.03.2017

**Education:**  
higher.  
  
1989–1994  
Moscow State University named after M. Lomonosov.  
Qualified in: Economic cybernetics, qualification: Economist-mathematic  
  
2015–2017  
Hult Business School, London, GB.  
Qualified in: Finance. Degree: Executive MBA

**Current occupation and recent posts for the past five years:**  
04.2010 – till now:  
Kazakhtelecom JSC, Chief Administrative Officer, Chief Strategic Management Officer of Kazakhtelecom JSC.

**Part-time work and membership in Boards of Directors of other organizations:**  
none

**Ownership of shares of the Company, shares of suppliers and competitors of the Company:** none



## ABDILDABEKOV Marat Mukhtarovich

Member of the Management Board of Kazakhtelecom JSC, Chief Information Technology Officer of Kazakhtelecom JSC

**Date of birth:**  
October 13, 1967  
**Citizenship:**  
Republic of Kazakhstan  
**Date when first elected as a member of the Board of Directors:**  
08.06.2007  
**Date of current appointment as a member of the Board of Directors:**  
14.03.2017

**Education:**  
higher.  
  
1984–1991  
Kazakh State University named after S.M.Kirov.  
Qualified in: Mechanics and Applied Math

**Current occupation and recent posts for the past five years:**  
05.2007 - till now:  
Kazakhtelecom JSC, Vice president - Executive Director on Information Technologies, Executive Director on Information Technologies of Kazakhtelecom JSC.

**Part-time work and membership in Boards of Directors of other organizations:**  
Chairman of the Supervisory Board of KT Cloud Lab LLP, Member of the Supervisory Board of QazCloud LLP.

**Ownership of shares of the Company, shares of suppliers and competitors of the Company:** none



## ABYKHANOV Raphael Yelamanovich

Member of the Management Board of Kazakhtelecom JSC, Chief Corporate Segment Officer – General Director of Business-to-Business Division - Branch of Kazakhtelecom JSC.

**Date of birth:**  
June 07, 1971  
**Citizenship:**  
Republic of Kazakhstan  
**Date when first elected as a member of the Board of Directors:**  
09.09.2013  
**Date of current appointment as a member of the Board of Directors:**  
14.03.2017

**Education:**  
higher.  
  
1990–1996  
Kazakh National Technical University.  
Qualified in: Radio engineering

**Current occupation and recent posts for the past five years:**  
07.05.2009–08.09.2013  
Kazakhtelecom JSC, Managing Director for working with operators;

09.09.2013 - till now  
Kazakhtelecom JSC, Executive Director on a Corporate Segment - the CEO Corporate business division – Branch of Kazakhtelecom JSC.

**Part-time work and membership in Boards of Directors of other organizations:**  
Chairman of the Supervisory Board of KT-IX LLC.

**Ownership of shares of the Company, shares of suppliers and competitors of the Company:** none



## LEZGOVKO Alexander Vladimirovich

Member of the Management Board of Kazakhtelecom JSC, Chief Technical Officer of Kazakhtelecom JSC

**Date of birth:**  
 September 15, 1961  
**Citizenship:**  
 Republic of Kazakhstan  
**Date when first elected as a member of the Board of Directors:**  
 26.03.2007  
**Date of current appointment as a member of the Board of Directors:**  
 14.03.2017

**Education:**  
 higher.  
 1978–1983  
 Almaty Energy Institute.  
 Qualified in: Automatic telecommunication

**Current occupation and recent posts for the past five years:**  
 03.2007 - till now:  
 Kazakhtelecom JSC, Vice president – Executive technical director, Chief technical Officer of Kazakhtelecom JSC.

**Part-time work and membership in Boards of Directors of other organizations:**  
 none

**Ownership of shares of the Company, shares of suppliers and competitors of the Company:** Owns shares of Kazakhtelecom JSC



## POGREBITSKY Igor Evgenyevich

Member of the Management Board of Kazakhtelecom JSC, Chief Director of Retail Segment - General Director of Business-to-Customer Division - Branch of Kazakhtelecom JSC

**Date of birth:**  
 May 19, 1978  
**Citizenship:**  
 Republic of Kazakhstan  
**Date when first elected as a member of the Board of Directors:**  
 29.03.2019

**Education:**  
 1995–2000  
 North Kazakhstan State University.  
 Qualified in: Radio engineering

**Current occupation and recent posts for the past five years:**  
 1.2009–01.2018  
 KCell JSC Head of regional branch;

01.2018 – по настоящее время  
 Kazakhtelecom JSC, Sales Director of Retail Business Division of Kazakhtelecom JSC, Chief Director of Retail Segment - General Director of Retail Segment - Branch of Kazakhtelecom JSC.

**Part-time work and membership in Boards of Directors of other organizations:**  
 none

**Ownership of shares of the Company, shares of suppliers and competitors of the Company:** none



## MEYRMANOV Nurlan Kemalovich

Member of the Management Board of Kazakhtelecom JSC, Chief Innovation Officer of Kazakhtelecom JSC.

**Date of birth:**  
August 03, 1972  
**Citizenship:**  
Republic of Kazakhstan  
**Date when first elected as a member of the Board of Directors:**  
02.05.2019

**Education:**  
1989–1995  
Kazakh Chemistry and Technology Institute.  
Qualified in: Main processes of chemical production and chemical cybernetics;

2008–2011  
Russian Academy of National Economy and Public Service under the President of the Russian Federation

2011  
International Academy of Business  
Qualified in: Doctor of Business Administration

**Current occupation and recent posts for the past five years:**  
01.2012–05.2019  
Kazakhtelecom JSC, Managing Director for Innovation;

05.2019 to till now  
Kazakhtelecom JSC, Chief Innovation Officer.

**Part-time work and membership in Boards of Directors of other organizations:**  
Chairman of the Supervisory Board of NURSAT+ LLP

**Ownership of shares of the Company, shares of suppliers and competitors of the Company:** none



## KHUDAIBERDIYEV Timur Telmanovich

Member of the Management Board of Kazakhtelecom JSC Chief Director of Logistics & Business Support – General Director of Telekom Komplekt Directorate - Branch of Kazakhtelecom JSC

**Date of birth:**  
March 25, 1981  
**Citizenship:**  
Republic of Kazakhstan  
**Date when first elected as a member of the Board of Directors:**  
02.05.2019

**Education:**  
1998–2002  
Academy of the Ministry of Internal Affairs of Kazakhstan.  
Qualified in: Lawyer

**Current occupation and recent posts for the past five years:**  
03.2011–04.2014  
Branch of Temirbank JSC, Deputy Director of the Branch;

01.2015–02.2016  
Zhilstroisberbank JSC, Head of Problem Loans Department;

02.2016–03.2017  
Qazag Financial Group JSC, Executive Director and Supervisory Board Member of Global Building Contract LLP;

04.2017 – till now  
Kazakhtelecom JSC, General Director of Management Telekom Komplekt Directorate - branch of Kazakhtelecom JSC, Managing Director of Kazakhtelecom JSC, Chief Director of Business Provision and Support - General Director of Telekom Komplekt Directorate - branch of Kazakhtelecom JSC.

**Part-time work and membership in Boards of Directors of other organizations:**  
none

**Ownership of shares of the Company, shares of suppliers and competitors of the Company:** none

### Changes in The Management Board in 2019

Member of the Management Board	Position	Status
Kukelis K.	Chief Director for the retail segment – General Director of the Retail Business Division - Branch of Kazakhtelecom JSC	Terminated powers as a Member of the Management Board
Pogrebitsky I. E.	Chief Director for the retail segment – General Director of the Retail Business Division - Branch of Kazakhtelecom JSC	Elected to the Management Board
Meirmanov N. K.	Chief Innovation Officer	Elected to the Management Board
Khudaiberdiyev T. T.	Chief Director of Logistics & Business Support - General Director of Telekom Komplekt Directorate – Branch of Kazakhtelecom JSC	Elected to the Management Board

### REPORT ON ACTIVITIES OF THE MANAGEMENT BOARD IN 2019 AND THE MOST IMPORTANT DECISIONS

The Management Board of Kazakhtelecom JSC manages the daily activity of the organization, ensuring its compliance with the strategy, development plan and decisions adopted by the General meeting of shareholders and the Board of Directors.

The Management Board holds in-person meetings once a week and, if necessary, appoint additional meetings.

In 2019, the Management Board of Kazakhtelecom JSC held 57 in-person meetings, where 246 decisions were taken by the Management Board. There were no decisions taken by absentee voting along with absentee voting.

During the reporting period, the Management Board considered and adopted decisions on the following main issues:

- Preliminary annual financial statements of Kazakhtelecom JSC and subsidiaries, the Annual report for 2018, the Report

of Kazakhtelecom JSC in the field of sustainable development for 2018, quarterly reports on risk management, Rules of identification, assessment and monitoring of risks of Kazakhtelecom JSC, the Calculation procedure and cascading's risk appetite of Kazakhtelecom JSC, the project of Strategy of increase in shareholder value for 2019-2029, etc. are considered.

- A number of documents have been approved: Regulations on the Operating budget, projects of Operating Budget, Capital Budget and Development Plan for 2019-2023, etc.

#### Information on the remuneration of the Members of the Management Board

The terms and procedures of remuneration of the members of the Management Board of Kazakhtelecom JSC are defined by the Regulations of the Management Board of Kazakhtelecom JSC, Regulations on the labor compensation of employees of the Central Office of Kazakhtelecom JSC, and also by the Rules on paying compensation to senior officials of Kazakhtelecom JSC based on the reporting period performance which have been developed in accordance with the Policy of Samruk-Kazyna JSC in the field of performance evaluation and remuneration of senior officials.

Subject to the above-named documents, the Board of Directors, guided by the recommendation of the respective Committee thereof, defines the amounts of the official salaries along with the terms of labor payment and bonus awarding of the Chairman and members of the Management Board.

The fundamental term for paying remuneration resides in the existence of the consolidated final profit for a reporting year.

Managing persons are remunerated on the basis of the yearly performance outcomes, depending on their fulfillment of respective incentive key performance indicators approved by the Company's Board of Directors. Exceeding the targeted goals of the set corporate KPIs is a result of the individual contribution of each member of the Management Board.

### Significant transactions of the Company

In 2019, the Management Board of Kazakhtelecom JSC approved and brought into consideration of the Company's Board of Directors 10 Decisions of The Management Board and approved 6 Decisions on transactions in which the Company had an interest, including,

### The list of transactions in which Kazakhtelecom JSC has interest

No	Name of the transaction	Decision of Kazakhtelecom JSC
1	On approval of conclusion of transactions with KCell JSC, in which Kazakhtelecom JSC has an interest	The Management Board decision №5/12 dated 04.02.2019
2	On approval of conclusion of the transaction with Mobile Telecom-Service LLP, in which Kazakhtelecom JSC has an interest	The Management Board decision №5/13 dated 04.02.2019
3	On approval of conclusion of transactions in which Kazakhtelecom JSC has an interest. According to the Decision of the Board of Directors Additional Agreement №3 to Contract №624-43-DTO on technical maintenance services for communications objects as of 23.12.2016 entered by Mobile Telecom-Service LLP and Kazakhtelecom JSC. (Minutes №7 dated 12.03.2019).	The Management Board decision №9/28 dated 04.03.2019
4	On approval of the conclusion of a transaction in which Kazakhtelecom JSC has an interest - Additional Agreement №2 to the Joint Activity Agreement with NURSAT LLP №104-27-DSD dated 28.03.2017.	The Management Board decision №10/36 dated 11.03.2019
5	On approval of a transaction in which the Company has an interest. According to the decision of the Board of Directors contract №76-z 30.05.2019 of the contract on purchases of communication services with JSC National Managing Holding Bayterek (Minutes №9 dated 29.03.2019) is signed.	The Management Board decision №12/42 dated 18.03.2019
6	On approval of conclusion of a deal on acquisition of 49% shares of Khan Tengri Holding B.V.	The Management Board decision №20/71 dated 06.05.2019
7	On conclusion of a transaction in which Kazakhtelecom JSC has an interest. In accordance with the decision of the Board of Directors, the Agreement on Provision of Guarantee № 561-15-SP dated August 02, 2019 was concluded between Kazakhtelecom JSC and KCell JSC, specifying the terms of provision of guarantee of Kazakhtelecom JSC in favor of Subsidiary bank Bank of China in Kazakhstan (Minutes №14 dated 28.05.19).	The Management Board decision №22/77 dated 17.05.2019
8	Approval of the conclusion of a transaction in which Kazakhtelecom JSC has an interest. According to the decision of the Board of Directors Credit agreement №1/365-09-DZ of May 23, 2019, between Kazakhtelecom JSC and Mobile Telecom-Service LLP (Minutes №13 dated 22.05.19) is signed.	The Management Board decision №22/78 dated 17.05.2019
9	On conclusion of a transaction in which Kazakhtelecom JSC has an interest a Long-term agreement on procurement of telecommunication services with Kazpost JSC	The Management Board decision №26/100 dated 04.06.2019
10	On conclusion of a transaction in which Kazakhtelecom JSC has an interest an Agreement «On realization of converged fixed and cellular communication service packages under the trademarks Kcell and Activ»	The Management Board decision №32/128 dated 16.07.2019

№	Name of the transaction	Decision of Kazakhtelecom JSC
11	On approval of conclusion of transactions in which Kazakhtelecom JSC has an interest. According to the decision of the Board of directors the Agreement on opening of a credit line №SM-170-19/621-15-SKL of 18.10.2019 (Minutes №15 of 23.07.2019) is concluded.	The Management Board decision №32/129 dated 16.07.2019
12	On conclusion of a transaction in which there is an interest and amendments and additions in the organizational structure of Telecom Komplekt directorate	The Management Board decision №37/154 dated 26.08.2019
13	On approval of conclusion of deals with Development Bank of Kazakhstan JSC, in which Kazakhtelecom JSC has an interest.	The Management Board decision №48/198 dated 29.10.2019
14	On approval of the conclusion of a transaction in which Kazakhtelecom JSC has an interest.	The Management Board decision №48/199 dated 29.10.2019
15	On conclusion of a transaction in which Kazakhtelecom JSC has an interest - Additional Agreement №1 to the Procurement Services Agreement № I & C-2019-00526 dated 14.11.2019	The Management Board decision №55/224 dated 09.12.2019
16	On entering into a transaction with QazCloud LLP, in which Kazakhtelecom JSC has an interest - Cooperative Activity Agreement No. 523-24-DZ on the delivery and promotion of services for affiliates as of 06.08.2018 entered by QazCloud LLP	The Management Board decision №56/234 dated 23.12.2019

## THE COMPANY'S INTERNAL AUDIT

The Internal Audit Service (IAS) is charged with the organization and implementation of the internal audit in Kazakhtelecom JSC, which reports and answers directly to the Board of Directors. The Audit Committee under the Company's Board of Directors supervises activities of the IAS.

The key goal of the activities of the IAS lies in providing the Company's Board of Directors with the independent and objective information intended to ensure effective management of the Company through the introduction of the systemic approach when improving the systems of risk management, internal control, and corporate governance within the Company's operation.

The IAS serves in accordance with the Regulations on the Internal Audit Service of Kazakhtelecom JSC and Internal Audit Organization Policy of Kazakhtelecom JSC, approved by the Board of Directors of Kazakhtelecom JSC. Audit inspections are revised as scheduled

by the Annual Audit Plan concurred with the Audit Committee and approved by the Company's Board of Directors.

**All activities of the Internal Audit Service of Kazakhtelecom JSC comply with the International Standards for the Professional Practice of Internal Auditing** – as evidenced by the findings of the external evaluation of the internal audit system carried out by the independent consultant, specifically, KPMG Tax and Advisory LLP, in 2018.

In 2019, the IAS hold 18 (eleven) scheduled audit inspections in accordance with the approved Annual Audit Inspection Plan along with 1 (one) unscheduled audit sessions under the Directions of the Board of Directors. The goals of the audit activities have been met. The work has been successfully completed by 10 specialists of the Internal Audit Service.

# Additional information



# GLOSSARY

**3G (third generation)** – third generation mobile communication technology that combines both high-speed mobile access with Internet services and radio technology that creates a data link.

**4G (fourth generation)** – mobile generation with increased requirements. It is common to refer to the fourth generation as promising technologies that allow data transmission at a speed exceeding 100 Mbit/s - mobile and 1 Gbit/s - fixed subscribers.

**5G (fifth generation)** – high-speed wireless Internet technology of the fifth-generation, which provides more efficient communication and access to data and communication services by increasing data and expanding the range.

**ADSL (Asymmetric Digital Subscriber Line)** – modem technology in which channel bandwidth is available distributed between outbound and inbound traffic asymmetric.

**AMPS (Advanced Mobile Phone Service)** – analog cellular standard related to first generation networks.

**API (Application programming interface)** – describes how one computer program can interact with another program.

**ARPU (Average Revenue Per User)** – average revenue per month per subscriber.

**B2B (Business to Business)** – a term denoting commercial relations between legal entities.

**B2C (Business to Consumer)** – a term denoting commercial relations between a legal entity and a consumer.

**B2O (Business to Operators)** – a term denoting commercial relations between a legal entity and communication operator.

**Big Data** – processing of large amounts of data.

**Blockchain** – continuous chain of blocks containing information built according to certain rules. Most often, copies of block chains are stored on many different computers independently of each other.

**BSS (base station subsystem)** – one of the main elements of the mobile radiotelephone system responsible for transmitting voice and signaling traffic between the subscriber 's mobile terminal and the GSM core network subsystem.

**CDMA (Code Division Multiple Access)** – multiple access with code division, digital cellular (wireless) communication network. Arrangement of CDMA wireless communication is recommended by the international organization for communication standardization of communications as the most promising for the construction of third-generation networks.

**Cost Per Action (CPA)** – cost per action is a model of online advertising in which an advertiser pays for a user-made action on his website.

**DWDM (Dense Wave Division Multiplexing)** – technology of dense wave multiplexing, is the most reliable technology for the support infrastructure of multi-service and mobile networks, provides a sharp increase in network bandwidth and implements a wide range of fundamentally new communication services.

**EDGE (Enhanced Data rates for GSM Evolution)** – digital wireless data technology for mobile communications that functions as an add-on over 2G and 2.5G (GPRS) networks.

**ESG factors (Environmental. Social. Governance)** – environmental, social, and governance factors.

**EVDO (Evolution Data Optimized)** – high-speed data transmission technology used in cellular networks of CDMA standard.

**Firewall** – technology barrier designed to prevent unauthorized or unwanted communication between computer networks or hosts.

**FMC – One contact (fixed mobile convergence)** – technology integration fixed and mobile communications) with further transfer to commercial services.

**FTTH (Fiber to the Home)** – fiber optic cable to the house (implied individual/private house).

**FTTx (fiber to the x)** – fiber optic connection technology.

**GRPS** – data technology which is used to access the Internet.

**GSM** – global standard of digital mobile cellular communication with division of channels in time and frequency, is characterized by high security and works in networks of 2G type. The main purpose is to make calls and exchange messages.

**GPON** – Gigabit passive optical network.

**IaaS (Infrastructure as a Service)** – infrastructure as a service, for example, virtual servers and virtual network; the client can install any software and applications.

**IPTV (Internet Protocol Television)** – internet protocol television, digital television technology (standard) in IP protocol data networks used by digital cable television operators, a new generation of television.

**IP-transit** – service for providing controlled and high-speed Internet access via modern optical BGP data networks. BGP is a dynamic routing protocol between autonomous systems that is used in the internet.

**IoT (Internet of things)** – a common name for technologies that allow devices embedded in individual objects, to send and receive information through the Internet (wired or wireless).

**LoRa (Long Range)** – a technology and modulation method of the same name. Wireless technology for the long-range transmission of small data, designed for distributed telemetry networks, machine-to-machine communication and the Internet of things.

**LPWAN** – wireless technology for transmitting small amounts of data over long distances, developed for distributed networks of telemetry, inter-machine interaction and the Internet of things.

**LTE (Long-Term Evolution)** – wireless high-speed data transmission standard for mobile phones and other data terminals.

**M2M (Machine-to-machine)** – machine-to-machine interaction (machine-to-machine interaction) is a common name for technologies that allow machines to exchange information with each other or transmit it unilaterally. It may be include wired and wireless sensor monitoring systems or any device parameters.

**NPS (Net Promoter Score)** – index of determination of consumer commitment to a product or company (index of readiness to recommend), is used to assess readiness for repeated purchases. It is one of the main indices of customer loyalty measurement.

**SaaS (Software as a Service)** – software as a service, for example, e-mail or other office application; the customer uses the application, the basic settings of the application are managed by the provider.

**SDN/NFV** – software-defined networking (Software-Defined Networks, SDN) and network functions virtualization (Network Function Virtualization, NFV).

**VAS** – Value-Added Services.



**VoIP** – Voice over Internet Protocol or IP telephony is voice communication over the Internet.

**VPN (Virtual Privet Network)** – a generalized name of technologies that enable to provide one or more network connections (logical network) on top of another network (for example, the Internet).

**VPS (virtual private server)** – virtual dedicated server, a lease service of the so-called virtual dedicated server.

**WAP** – Wireless Application Protocol. The protocol is designed specifically for GSM networks, where it is necessary to connect portable devices with the Internet. Using WAP, a mobile user can download any digital data from the Internet.

**FOCL RS** – fiber-optic communication lines in rural settlements.

**ICT** – information and communication technologies.

**BA** – broadband or high-speed internet access – internet access with data transmission speed exceeding the maximum possible when using dial-up access using modem and public telephone network.

# CONTACT INFORMATION

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## FEEDBACK

Your feedback is very important to us. If you wish to offer new ideas and new opportunities for a sustainable development partnership or regarding the Report, please contact us:

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# Annexes

## Annex 1. Report Compliance Table for the GRE Standard

Standard GRI	Number of elements	Description	Location in the report	Note
<b>Standard elements of the reporting</b>				
GRI 102	102-1	Name your organization	BRIEF OVERVIEW Profile of the Company	
GRI 102	102-2	Identify major brands, products, and services	BUSINESS AND FINANCIAL REVIEW Key Achievements by Product and Segment NEW BUSINESSES AND INNOVATION	
GRI 102	102-3	Specify the location of your organization 's headquarters	SHORT REVIEW Profile of the Company	
GRI 102	102-4	Indicate the number of countries in which the organization operates and the names of countries in which the main activities are carried out or which are particularly relevant to the sustainable development issues covered by the report	SHORT REVIEW Profile of the Company	
GRI 102	102-5	Specify ownership and legal form	SHORT REVIEW Profile of the Company	
GRI 102	102-6	Identify the markets in which the organization operates (including geographical breakdown, industries served, and consumer and beneficiary categories)	BUSINESS AND FINANCIAL REVIEW	
GRI 102	102-7	Describe the scale of the organization, including: <ul style="list-style-type: none"> <li>total number of employees</li> <li>total number of the department</li> <li>net sales (for the organization the private sector)</li> <li>the general capital in breakdown on loan and equity (for the organization the private sector)</li> <li>volume of products or services delivered</li> </ul>	SUSTAINABLE DEVELOPMENT The main value is our employees BRIEF OVERVIEW Share capital structure Organizational structure of Kazakhtelecom JSC BUSINESS AND FINANCIAL OVERVIEW Key Achievements by Product and Segment	

Standard GRI	Number of elements	Description	Location in the report	Note
GRI 102	102-8	<ol style="list-style-type: none"> <li>Please indicate the total number of employees by employment contract and sex.</li> <li>Please indicate the total number of permanent workers by type of employment and sex.</li> <li>Please indicate the total workforce by staff and non-staff and by gender.</li> <li>Please indicate the total labour force by region and sex.</li> <li>Please indicate whether a substantial proportion of the work of the organization is performed by employees legally considered to be engaged in self-employment or business activities, or by persons other than full-time and non-staff employees, including full-time and non-staff employees of subcontractors.</li> <li>Explain any significant seasonal changes in employment</li> </ol>	SUSTAINABLE DEVELOPMENT  The main value is our employees	
GRI 102	102-9	Describe the organization's supply chain, including its core elements that relate to the organization's activities, major brands, products, and services	BUSINESS AND FINANCIAL OVERVIEW  Supply chain	
GRI 102	102-10	Describe all significant changes in scale, structure or Property of the organization or its supply chains that occurred during the reporting period, including: <ul style="list-style-type: none"> <li>the changes concerning division or their locations including opening, closing and expansion of the enterprises;</li> <li>changes in share capital structure and other actions for formation, maintenance or change of the capital (for the organization the private sector);</li> <li>change vendor location, structure</li> </ul>	BRIEF OVERVIEW  Organizational structure	
GRI 102	102-11	Indicate whether the organization uses the precautionary principle and how (in this reporting element, the organization can describe the organization's approach to risk management when planning an activity or when introducing new products)	RISK MANAGEMENT AND INTERNAL CONTROL	
GRI 102	102-12	List externally developed economic, environmental and social charters, principles or other initiatives to which the organization has joined or supports	EXCHANGE OF EXPERIENCE ON IMPLEMENTATION OF INITIATIVES	
GRI 102	102-13	Report membership in major associations (e.g. industry) and/or national and international advocacy organizations	EXCHANGE OF EXPERIENCE ON IMPLEMENTATION OF INITIATIVES	
GRI 102	102-14	Report on the statement of the most senior decision-maker in an organization (e.g. Chief Executive Officer, Chairman of the Management Board, or similar. Executive head of senior rank) on the importance of sustainable development for the organization and the strategy used by the organization in addressing sustainable development issues.	THE COMPANY TODAY  Welcoming address by the Chairman of the Management Board	

Standard GRI	Number of elements	Description	Location in the report	Note
GRI 102	102-15	Describe key impacts, risks, and opportunities.	SUSTAINABLE DEVELOPMENT  Key impacts, risks and opportunities	
GRI 102	102-16	Describe the values, principles, standards and standards of conduct of the organization, such as codes of conduct and ethical codes	SUSTAINABLE DEVELOPMENT  HIGH ETHICAL STANDARDS AND ANTI-CORRUPTION	
GRI 102	102-17	<ol style="list-style-type: none"> <li>Describe internal and external mechanisms for seeking advice on ethical and law-abiding conduct, as well as on issues related to bad faith in the organization, such as a helpline or telephone advice</li> <li>Describe internal and external mechanisms for reporting unethical or illegal behavior, as well as issues related to bad faith in the organization, such as informing the immediate supervisor, reporting mechanisms or hotlines</li> </ol>	SUSTAINABLE DEVELOPMENT  HIGH ETHICAL STANDARDS AND ANTI-CORRUPTION	
GRI 102	102-18	Describe the corporate governance structure of the organization, including the committees of the highest corporate governance body. Specify what committees are responsible for acceptance the decision on the economic, ecological and social impacts made by the organization	CORPORATE GOVERNANCE	
GRI 102	102-19	Authority delegation	CORPORATE GOVERNANCE	
GRI 102	102-20	Leadership positions responsible for economic, environmental and social topics	CORPORATE GOVERNANCE	
GRI 102	102-21	Advice to stakeholders on economic, environmental and social topics	CORPORATE GOVERNANCE	
GRI 102	102-22	Composition of the top corporate governance body and its committees	CORPORATE GOVERNANCE	
GRI 102	102-23	Chairman of the Supreme Corporate Governance Body	CORPORATE GOVERNANCE	
GRI 102	102-24	Nomination and selection of the highest corporate governance body	CORPORATE GOVERNANCE	
GRI 102	102-25	Conflict of interest	CORPORATE GOVERNANCE	
GRI 102	102-26	The role of top corporate governance in defining goals, values and strategies	CORPORATE GOVERNANCE	
GRI 102	102-27	Collective knowledge of the highest corporate governance body	CORPORATE GOVERNANCE	
GRI 102	102-28	Evaluation of the activities of the highest corporate governance body	CORPORATE GOVERNANCE	
GRI 102	102-29	Identification of economic, social and environmental impacts	SUSTAINABLE DEVELOPMENT  Key impacts, risks and opportunities	



Standard GRI	Number of elements	Description	Location in the report	Note
GRI 102	102-30	Effectiveness of risk management processes	RISK MANAGEMENT AND INTERNAL CONTROL	
GRI 102	102-31	Overview of economic, environmental and social themes	SUSTAINABLE DEVELOPMENT	
GRI 102	102-32	Role of top corporate governance in sustainable development reporting	CORPORATE GOVERNANCE	
GRI 102	102-33	Communicating Critical Issues	CORPORATE GOVERNANCE	
GRI 102	102-34	Nature and number of critical issues	CORPORATE GOVERNANCE	
GRI 102	102-35	Politicians of remuneration	CORPORATE GOVERNANCE	
GRI 102	102-36	Process of determination of remuneration	CORPORATE GOVERNANCE	
GRI 102	102-37	Stakeholder participation on pay	CORPORATE GOVERNANCE	
GRI 102	102-38	Annual total remuneration ratio	CORPORATE GOVERNANCE	
GRI 102	102-39	Percentage increase in annual remuneration ratio	CORPORATE GOVERNANCE	
GRI 102	102-40	List the stakeholder the Kazakhtelecom JSC Group with which your organization interacts	SUSTAINABLE DEVELOPMENT Interaction with concerned parties	
GRI 102	102-41	Specify what percentage of all workers are covered by the Collective Agreement	SUSTAINABLE DEVELOPMENT The main value is our employees Social policy	
GRI 102	102-42	Describe the principles for identifying and selecting stakeholders for interaction	SUSTAINABLE DEVELOPMENT Interaction with concerned parties	
GRI 102	102-43	Describe the organization's approach to stakeholder engagement, including the frequency of interaction across forms and stakeholder of the Kazakhtelecom JSC Group, and whether any elements of engagement have been taken specifically as part of the reporting process	SUSTAINABLE DEVELOPMENT Interaction with concerned parties	
GRI 102	102-44	Describe the key themes and concerns raised by stakeholders in their engagement with the organization, and how the organization responded to these key issues  Themes and concerns, including through reporting. Report of Kazakhtelecom JSC Group of interested parties lifted each of these subjects or stated each of these fear	SUSTAINABLE DEVELOPMENT MATERIALITY ANALYSIS	

Standard GRI	Number of elements	Description	Location in the report	Note
GRI 102	102-45	<ul style="list-style-type: none"> <li>List all legal entities whose statements have been included in the consolidated financial statements or similar documents.</li> <li>Please indicate whether the sustainable development report does not contain information on any legal entity whose accounts have been included in the consolidated financial statements or similar documents. Entity may disclose information disclosed in this Standard Reporting Element by reference to information contained in publicly available consolidated financial statements or similar documents</li> </ul>	About the report	
GRI 102	102-46	<ol style="list-style-type: none"> <li>Explain how to define the content of the report and Topic Boundaries.</li> <li>Explain how your organization applied the Reporting Principles when defining the content of your report</li> </ol>	SUSTAINABLE DEVELOPMENT MATERIALITY ANALYSIS	
GRI 102	102-47	Compile a list of all material topics identified during the report content determination process	SUSTAINABLE DEVELOPMENT Important topics matrix	
GRI 102	102-48	Report on the consequences of all reformulation of key figures published in previous reports and the reasons for such reformulation	Reformulations are absent.	
GRI 102	102-49	Report significant changes in Coverage and Scope compared to previous reporting periods	SUSTAINABLE DEVELOPMENT Strategic perspective on sustainable development	
GRI 102	102-50	Accounting period (e.g. fiscal or calendar year) for which information is provided	About the report	
GRI 102	102-51	Date of publication of the previous sustainable development report (if any)	SUSTAINABLE DEVELOPMENT About the report	
GRI 102	102-52	Reporting cycle (e.g. annual or two-year)	About the report	
GRI 102	102-53	Specify a contact person who can be asked about this report or its contents	CONTACT INFORMATION	
GRI 102	102-54	Specify the option for preparing the report in accordance with the GRI manual chosen by the organization (complete or general)	SUSTAINABLE DEVELOPMENT Strategic views on sustainable development	
GRI 102	102-55	List the GRI Content Index for the selected report preparation option, indicating the page in the report for each item or why this item was not selected	TABLE OF COMPLIANCE OF THE REPORT WITH THE GRE STANDARD	

Standard GRI	Number of elements	Description	Location in the report	Note
GRI 102	102-56	The question of whether to certify the report or its parts.  1. Describe the organization's policies and practices with regard to ensuring external assurance of sustainable development reporting. 2. Unless stated in the opinion on the assurance attached to the sustainable development reporting, indicate the scope of any external assurance undertaken and the principles for its implementation. 3. Specify the relationship between the organization and the party who provided the external assurance. 4. Indicate whether senior corporate governance or senior executive is involved. External assurance of the organization's sustainable development accountability	About the report	
<b>Economic effectiveness</b>				
GRI 201	201-1	Created and distributed economic value	THE COMPANY TODAY  Key indicators of the Kazakhtelecom JSC Group's activities  The consolidated financial statements	
GRI 201	201-4	Financial assistance received from the State	THE COMPANY TODAY  Key indicators of the Kazakhtelecom JSC Group's activities  The consolidated financial statements	
GRI 201	202-1	Ratio of standard wages for entry-level employees of different sexes to the established minimum wage in significant regions of the organization's activities	SUSTAINABLE DEVELOPMENT  The main value is our employees	
<b>Indirect economic influence</b>				
GRI 203	203-1	Development and impact of investment in infrastructure and gratuitous services	SUSTAINABLE DEVELOPMENT  Projects of social development	
GRI 203	203-2	Significant indirect economic impacts, including area of influence	SUSTAINABLE DEVELOPMENT  Projects of social development	

Standard GRI	Number of elements	Description	Location in the report	Note
<b>Compliance to ecological requirements</b>				
GRI 307	307-1	Monetary value of essential penalties and total number non-financial sanctions, imposed for non-compliance with the ecological legislation and standard the requirement		During the reporting period, there were no fines and non-financial sanctions for non-compliance with environmental legislation
<b>Energy</b>				
GRI 302	G4-EN3	Internal energy consumption	SUSTAINABLE DEVELOPMENT  REDUCING THE COMPANY'S ENVIRONMENTAL IMPACT  Energy	
GRI 302	G4-EN4	Energy consumption outside the organization	SUSTAINABLE DEVELOPMENT  REDUCING THE COMPANY'S ENVIRONMENTAL IMPACT  Energy	
GRI 302	G4-EN5	Power consumption	SUSTAINABLE DEVELOPMENT  REDUCING THE COMPANY'S ENVIRONMENTAL IMPACT  Energy	
GRI 302	G4-EN6	Energy consumption reduction	SUSTAINABLE DEVELOPMENT  REDUCING THE COMPANY'S ENVIRONMENTAL IMPACT  Energy	
<b>Water</b>				
GRI 303	G4-EN8	Total water taken by source	SUSTAINABLE DEVELOPMENT  REDUCING THE COMPANY'S ENVIRONMENTAL IMPACT  Water consumption	
GRI 303	G4-EN9	Water sources significantly affected by the organization's water intake	SUSTAINABLE DEVELOPMENT  REDUCING THE COMPANY'S ENVIRONMENTAL IMPACT  Water consumption	



Standard GRI	Number of elements	Description	Location in the report	Note
<b>Biodiversity</b>				
GRI 304	G4-EN11	Production sites owned, leased or managed Organizations and located in protected natural areas and areas with high The value of biodiversity beyond the boundaries of protected natural areas, Or adjacent to such territories	SUSTAINABLE DEVELOPMENT REDUCING THE COMPANY'S ENVIRONMENTAL IMPACT Biodiversity	
GRI 304	G4-EN11	Saved or restored habitats	SUSTAINABLE DEVELOPMENT REDUCING THE COMPANY'S ENVIRONMENTAL IMPACT Biodiversity	
GRI 304	G4-EN14	Total number of species on the IUCN Red List and National Protected Species List, Whose habitats are located in the territory affected by the activities of the organization, By threat to the existence of the species	SUSTAINABLE DEVELOPMENT REDUCING THE COMPANY'S ENVIRONMENTAL IMPACT Biodiversity	
<b>Questions of employment</b>				
GRI 401	401-1	Total number and percentage of newly hired employees and turnover by age group, sex and region	SUSTAINABLE DEVELOPMENT The main value is our employees	
GRI 401	401-2	Benefits granted to full-time workers who are not provided to temporary or part-time workers, by significant area of operation of the organization	SUSTAINABLE DEVELOPMENT The main value is our employees	
GRI 401	401-3	Percentage of employees who returned after maternity/paternity leave and the percentage remaining in the organization after leaving maternity/paternity leave by sex	SUSTAINABLE DEVELOPMENT The main value is our employees	
<b>Employee-management relations</b>				
GRI 402	402-1	The minimum period of the notice concerning essential change in activity of the organization and also whether he is defined in the Collective Agreement	SUSTAINABLE DEVELOPMENT The main value is our employees	
<b>Health and safety in the workplace</b>				
GRI 403	403-2	Types and the level of occupational injuries, level professional a disease, coefficient of the lost days and coefficient of absence from the workplace and also total number of the deaths connected with work by regions and a floor	SUSTAINABLE DEVELOPMENT REDUCTION OF INJURIES AND IMPROVEMENT OF SAFE WORK CULTURE	
GRI 403	403-3	Workers with high injuries and high risk of disease associated with their employment	SUSTAINABLE DEVELOPMENT REDUCTION OF INJURIES AND IMPROVEMENT OF SAFE WORK CULTURE	

Standard GRI	Number of elements	Description	Location in the report	Note
GRI 403	403-4	Integration of health and safety issues into formal union agreements	SUSTAINABLE DEVELOPMENT The main value is our employees	
<b>Preparation and education</b>				
GRI 404	404-1	Average number of hours per employee per year by sex and employee category	SUSTAINABLE DEVELOPMENT The main value is our employees	
GRI 404	404-2	Lifelong skills development and education programmes designed to support employees 'ability to work and to support them in completing their careers	SUSTAINABLE DEVELOPMENT The main value is our employees	
GRI 404	404-2	Percentage of employees subject to periodic performance and career development assessments, by sex and employee category	SUSTAINABLE DEVELOPMENT The main value is our employees	
<b>Diversity and equal opportunities</b>				
GRI 405	405-1	The structure of governing bodies and the main category personnel of the organization with breakdown by a floor, age groups, belonging to groups of minorities and other signs of a variety	SUSTAINABLE DEVELOPMENT The main value is our employees	
GRI 405	405-2	Ratio of basic salary of men and women by category of employees and by significant regions of the organization 's activities		Women 's base rate to men 's base rate is the same
<b>Anti-corruption</b>				
GRI 205	205-1	Total and percent division concerning which risk assessment was carried out, connected with corruption, and the revealed essential risks		Data on total and percent division concerning which risk assessment was carried out connected with corruption are not available.  The data on the essential risks connected with corruption and revealed in the course of risk assessment are not available.
GRI 205	205-2	Information and training on anti-corruption policies and practices	SUSTAINABLE DEVELOPMENT HIGH ETHICAL STANDARDS AND ANTI-CORRUPTION	
GRI 205	205-3	Confirmed cases of corruption and actions taken	HIGH ETHICAL STANDARDS AND ANTI-CORRUPTION	

Annex 2. Staff movement table

Name of Kazakhtelecom JSC branch	Actual number	Age Groups		Gender		Staff hired to the company in 2019	Age Groups		Gender		Percentage of newly hired workers out of,%	Staff who left the company in 2019	Age Groups		Gender		Percentage of employees who have left the company,%	Staff turnover, %	
Central office	349	Until 30	36	Men	164	33	Until 30	13	Men	17	4.9	37	Until 30	12	Men	18	5.1	7.4	
		31-40	103	Women	185		31-40	16	Women	16			31-40	11	Women	19			5.4
		41-50	123				41-50	3					41-50	10					
		51+	98				51+	1					51+	4					
West regional telecom directorate	2465	Until 30	865	Men	1492	307	Until 30	235	Men	209	8.5	492	Until 30	245	Men	314	12.8	14.5	
		31-40	593	Women	973		31-40	35	Women	98			31-40	81	Women	178			7.2
		41-50	457				41-50	26					41-50	69					
		51+	550				51+	11					51+	97					
East regional telecom directorate	2329	Until 30	614	Men	1544	333	Until 30	225	Men	221	9.7	532	Until 30	207	Men	345	14.8	17.2	
		31-40	591	Women	785		31-40	74	Women	112			31-40	130	Women	187			8.0
		41-50	581				41-50	29					41-50	77					
		51+	543				51+	5					51+	118					
Almatytelecom regional telecommunications directorate	3110	Until 30	1153	Men	2019	504	Until 30	416	Men	350	11.2	628	Until 30	351	Men	405	13.0	15.3	
		31-40	830	Women	1091		31-40	47	Women	154			31-40	130	Women	223			7.17
		41-50	561				41-50	32					41-50	61					
		51+	566				51+	9					51+	86					
Central regional telecommunication directorate	2991	Until 30	983	Men	2039	417	Until 30	298	Men	300	10.0	613	Until 30	297	Men	409	13.6	15.4	
		31-40	735	Women	952		31-40	81	Women	117			31-40	154	Women	204			6.8
		41-50	660				41-50	27					41-50	56					
		51+	613				51+	11					51+	106					
North regional telecommunication directorate	1901	Until 30	449	Men	1312	240	Until 30	153	Men	179	9.4	321	Until 30	135	Men	226	11.9	13.0	
		31-40	599	Women	589		31-40	60	Women	61			31-40	97	Women	95			5.0
		41-50	434				41-50	14					41-50	35					
		51+	419				51+	13					51+	54					
South regional telecommunication directorate	2477	Until 30	615	Men	1597	108	Until 30	83	Men	76	3.0	227	Until 30	88	Men	130	5.2	6.0	
		31-40	468	Women	880		31-40	15	Women	32			31-40	38	Women	97			4.0
		41-50	651				41-50	8					41-50	33					
		51+	743				51+	2					51+	68					
Retail business division	312	Until 30	134	Men	90	178	Until 30	117	Men	65	20.8	57	Until 30	31	Men	24	7.7	16.9	
		31-40	81	Women	222		31-40	43	Women	113			31-40	18	Women	33			10.5
		41-50	57				41-50	13					41-50	7					
		51+	40				51+	5					51+	1					
Long-Haul association	1339	Until 30	259	Men	1102	119	Until 30	66	Men	95	7.1	173	Until 30	40	Men	122	9.1	9.7	
		31-40	365	Women	237		31-40	30	Women	24			31-40	53	Women	51			3.8
		41-50	368				41-50	17					41-50	33					
		51+	347				51+	6					51+	47					



Name of Kazakhtelecom JSC branch	Actual number	Age Groups		Gender		Staff hired to the company in 2019	Age Groups		Gender		Percentage of newly hired workers out of,%	Staff who left the company in 2019	Age Groups		Gender		Percentage of employees who have left the company,%	Staff turnover, %		
Main telecommunication networks control cent	1002	Until 30	431	Men	464	186	Until 30	146	Men	111	11.0	184	Until 30	107	Men	97	9.7	14.7		
		31-40	300	Women	538		31-40	29	Women	75			7.5	31-40	40	Women			87	8.7
		41-50	148				41-50	8						41-50	15					
		51+	123				51+	3						51+	22					
Corporate business division	519	Until 30	123	Men	217	125	Until 30	53	Men	43	8.2	117	Until 30	29	Men	34	6.5	14.8		
		31-40	198	Women	302		31-40	51	Women	82			15.7	31-40	51	Women			83	15.9
		41-50	131				41-50	18						41-50	27					
		51+	67				51+	3						51+	10					
Directorate «Academy of infocommunication technologies»	56	Until 30	8	Men	17	14	Until 30	6	Men	9	16.0	13	Until 30	5	Men	8	14.2	23.2		
		31-40	11	Women	39		31-40	4	Women	5			8.9	31-40	6	Women			5	8.9
		41-50	15				41-50	4						41-50	2					
		51+	22				51+	0						51+	0					
Information systems directorate	427	Until 30	80	Men	281	44	Until 30	19	Men	28	6.5	39	Until 30	18	Men	23	5.3	8.4		
		31-40	169	Women	146		31-40	15	Women	16			3.7	31-40	8	Women			16	3.7
		41-50	107				41-50	8						41-50	11					
		51+	71				51+	2						51+	2					
Telecom Komplekt directorate	244	Until 30	68	Men	130	46	Until 30	25	Men	28	11.5	43	Until 30	13	Men	29	13.5			
		31-40	78	Women	114		31-40	13	Women	18			7.3	31-40	14	Women		14		
		41-50	49				41-50	5						41-50	9					
		51+	49				51+	3						51+	7					
Directorate for telecommunication objects construction and infrastructure	32	Until 30	5	Men	19	8	Until 30	2	Men	6	18.7	5	Until 30	1	Men	4	12.5	15.6		
		31-40	11	Women	13		31-40	5	Women	2			6.2	31-40	2	Women			1	3.1
		41-50	4				41-50	0						41-50	1					
		51+	12				51+	1						51+	1					
Service factory	2252	Until 30	207	Men	1649	240	Until 30	153	Men	179	7.9	170	Until 30	25	Men	125	5.5	5.6		
		31-40	458	Women	603		31-40	60	Women	61			2.7	31-40	53	Women			45	2.0
		41-50	591				41-50	14						41-50	37					
		51+	996				51+	13						51+	54					

# Consolidated financial statements

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

In thousands of tenge	Note	2019	2018 <sup>1,2</sup>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	9	437,315,934	389,930,113
Right-of-use assets	3	89,670,048	-
Intangible assets	10	223,340,462	121,476,465
Goodwill	5, 12	158,684,705	58,286,528
Advances paid for non-current assets	9	8,998,288	765,088
Investments in associates	11	2,218,889	77,669,224
Deferred tax assets	43	1,766,127	246,884
Cost to obtain contracts		977,279	1,037,984
Cost to fulfil contracts		574,012	107,539
Other non-current non-financial assets	15	2,798,316	3,194,682
Other non-current financial assets	14	4,170,159	9,649,734
<b>Total non-current assets</b>		<b>930,514,219</b>	<b>662,364,241</b>
<b>Current assets</b>			
Inventories	16	10,565,074	8,402,436
Trade receivables	17	37,255,772	52,173,348
Advances paid	18	5,696,515	1,416,363
Indemnification assets	33	-	10,171,407
Corporate income tax prepaid		4,237,313	1,849
Cost to obtain contracts		457,366	420,604
Cost to fulfil contracts		859,495	115,285
Other current non-financial assets	21	6,072,482	6,867,549
Other current financial assets	19	5,227,326	4,685,111
Financial assets at fair value through other comprehensive income	20	4,964,633	-
Cash and cash equivalents	22	71,321,822	45,350,092
		146,657,798	129,604,044
Assets held for sale	44	1,878,033	-
<b>Total current assets</b>		<b>148,535,831</b>	<b>129,604,044</b>
<b>TOTAL ASSETS</b>		<b>1,079,050,050</b>	<b>791,968,285</b>
<b>EQUITY</b>			
Share capital	23	12,136,529	12,136,529
Treasury shares	23	(7,065,614)	(6,464,374)

In thousands of tenge	Note	2019	2018 <sup>1,2</sup>
Foreign currency translation reserve	23	(3,292)	(15,157)
Other reserves	23	1,820,479	1,820,479
Retained earnings		420,469,917	373,429,312
		427,358,019	380,906,789
Non-controlling interests	7	35,507,909	33,873,826
<b>Total equity</b>		<b>462,865,928</b>	<b>414,780,615</b>
<b>Non-current liabilities</b>			
Borrowings: non-current portion	24	339,138,061	135,838,411
Lease liabilities: non-current portion	3	55,236,254	-
Finance lease liabilities: non-current portion		-	15,975,306
Other non-current financial liabilities	26	1,318	993,705
Deferred tax liabilities	43	42,448,856	41,056,405
Employee benefit obligations	25	16,315,828	14,471,353
Debt component of preferred shares	23	814,868	874,244
Non-current contract liabilities	27	6,878,309	5,699,301
Asset retirement obligations	28	6,875,583	1,444,530
<b>Total non-current liabilities</b>		<b>467,709,077</b>	<b>216,353,255</b>
<b>Current liabilities</b>			
Borrowings: current portion	24	28,477,663	57,614,129
Lease liabilities: current portion	3	15,291,266	-
Finance lease liabilities: current portion		-	6,754,019
Other current financial liabilities	30	20,151,913	18,853,954
Employee benefit obligations: current portion	25	1,147,812	1,334,417
Trade payables	29	59,397,839	42,147,405
Current corporate income tax payable		1,345,601	3,319,656
Current contract liabilities	31	18,971,934	9,142,320
Obligation to pay a fine for termination of the contract	33	-	14,551,865
Other current non-financial liabilities	32	3,247,984	7,116,650
		148,032,012	160,834,415
Liabilities directly associated with the assets held for sale	44	443,033	-
<b>Total current liabilities</b>		<b>148,475,045</b>	<b>160,834,415</b>
<b>Total liabilities</b>		<b>616,184,122</b>	<b>377,187,670</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,079,050,050</b>	<b>791,968,285</b>

Chairman of the Management Board **Yessekeyev K.B.**  
Chief financial officer **Uzbekov A.A**

The accounting policies and notes on pages 8 to 86 are an integral part of these consolidated financial statements.

1. The Group has initially applied IFRS 16 using the modified retrospective method. Under this method, the comparative information is not restated. See Note 3.  
2. Certain amounts shown here do not correspond to the consolidated financial statements for the year ended 31 December 2018, as they reflect corrections made, as detailed in Note 4 and Note 5.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

In thousands of tenge	Note	2019	2018 <sup>1,2</sup>
Revenue from contracts with customers	34	420,659,896	216,542,790
Compensation for provision of universal services in rural areas	35	7,420,778	6,183,581
		428,080,674	222,726,371
Cost of sales	36	(292,479,664)	(154,015,612)
<b>Gross profit</b>		<b>135,601,010</b>	<b>68,710,759</b>
General and administrative expenses	37	(37,911,683)	(23,311,666)
Impairment losses on financial assets	47	(2,689,585)	(3,907,083)
Impairment losses on non-financial assets	9, 10, 18, 44	(5,679,796)	(1,169,713)
Selling expenses	38	(12,770,588)	(4,387,521)
Reversal of tax and related fines and penalties provision	48	5,816,045	-
<b>Operating profit</b>		<b>82,365,403</b>	<b>35,934,776</b>
Share in profits of associates	11	6,027,195	7,860,084
Finance costs	40	(42,484,296)	(7,349,641)
Finance income	40	4,305,508	3,067,029
Net foreign exchange (loss)/income	41	(1,269,021)	10,591,474
Gain on disposal of property and equipment		386,915	321,632
Gain from re-measurement of previously held interest in the associate	5	17,310,113	-
Other income	42	3,442,931	4,358,724
Other expenses	42	(310,298)	(793,182)
<b>Profit before tax</b>		<b>69,774,450</b>	<b>53,990,896</b>
Income tax expenses	43	(9,429,152)	(11,107,580)
<b>Profit for the year</b>		<b>60,345,298</b>	<b>42,883,316</b>
<b>Attributable to:</b>			
Equity holders of the Parent		57,086,449	43,067,365
Non-controlling interests	7	3,258,849	(184,049)

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

Attributable to equity holders of the Parent

In thousands of tenge	Note	2019	2018 <sup>1,2</sup>
<b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods (net of tax)			
Foreign exchange differences from translation of financial statements of foreign subsidiaries		11,865	(8,803)
<b>Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods</b>		<b>11,865</b>	<b>(8,803)</b>
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods (net of tax)			
Actuarial losses on defined benefits plans, net of tax	25	(1,156,810)	(2,512,956)
<b>Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods</b>		<b>(1,156,810)</b>	<b>(2,512,956)</b>
<b>Other comprehensive loss for the year, net of tax</b>		<b>(1,144,945)</b>	<b>(2,521,759)</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>59,200,353</b>	<b>40,361,557</b>
<b>Attributable to:</b>			
Equity holders of the Parent		55,941,504	40,545,606
Non-controlling interests	7	3,258,849	(184,049)
		<b>59,200,353</b>	<b>40,361,557</b>
<b>EARNINGS PER SHARE</b>			
Basic and diluted, net profit for the year, tenge	23	<b>5,192.83</b>	3,914.04

Chairman of the Management Board **Yesseyev K.B.**  
Chief financial officer **Uzbekov A.A.**  
Chief accountant **Suleimanov Y.E**

1. The Group has initially applied IFRS 16 using the modified retrospective method. Under this method, the comparative information is not restated. See Note 3.  
2. 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.

In thousands of tenge	Shares outstanding	Treasury shares	Foreign currency translation reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
<b>Note</b>	<b>23</b>	<b>23</b>	<b>23</b>	<b>23</b>				
<b>At 1 January 2018</b>	<b>12,136,529</b>	<b>(6,464,374)</b>	<b>(6,354)</b>	<b>1,820,479</b>	<b>351,621,657</b>	<b>359,107,937</b>	<b>-</b>	<b>359,107,937</b>
Change in accounting policy due to application of IFRS 15 and IFRS 9	-	-	-	-	(1,244,742)	(1,244,742)	-	(1,244,742)
<b>At 1 January 2018 (restated)</b>	<b>12,136,529</b>	<b>(6,464,374)</b>	<b>(6,354)</b>	<b>1,820,479</b>	<b>350,376,915</b>	<b>357,863,195</b>	<b>-</b>	<b>357,863,195</b>
Net profit for the year	-	-	-	-	43,067,365	43,067,365	(184,049)	42,883,316
Other comprehensive loss	-	-	(8,803)	-	(2,512,956)	(2,521,759)	-	(2,521,759)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>(8,803)</b>	<b>-</b>	<b>40,554,409</b>	<b>40,545,606</b>	<b>(184,049)</b>	<b>40,361,557</b>
Dividends (Note 23)	-	-	-	-	(17,502,012)	(17,502,012)	-	(17,502,012)
Non-controlling interests (Note 5) <sup>2</sup>	-	-	-	-	-	-	34,057,875	34,057,875
<b>At 31 December 2018<sup>2</sup></b>	<b>12,136,529</b>	<b>(6,464,374)</b>	<b>(15,157)</b>	<b>1,820,479</b>	<b>373,429,312</b>	<b>380,906,789</b>	<b>33,873,826</b>	<b>414,780,615</b>
<b>At 1 January 2019<sup>1</sup></b>	<b>12,136,529</b>	<b>(6,464,374)</b>	<b>(15,157)</b>	<b>1,820,479</b>	<b>373,429,312</b>	<b>380,906,789</b>	<b>33,873,826</b>	<b>414,780,615</b>
Change in accounting policy due to application of IFRS 16 (Note 3) <sup>1</sup>	-	-	-	-	(372,725)	(372,725)	(131,766)	(504,491)

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

In thousands of tenge	Shares outstanding	Treasury shares	Foreign currency translation reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
<b>At 1 January 2019 (restated)</b>	12,136,529	(6,464,374)	(15,157)	1,820,479	373,056,587	380,534,064	33,742,060	414,276,124
Net profit for the year								
Other comprehensive loss	-	-	-	-	57,086,449	57,086,449	3,258,849	60,345,298
<b>Total comprehensive income</b>	-	-	11,865	-	(1,156,810)	(1,144,945)	-	(1,144,945)
Dividends (Note 23)	-	-	11,865	-	55,929,639	55,941,504	3,258,849	59,200,353
Own repurchased shares (Note 23)								
<b>At 31 December 2019</b>	-	-	-	-	(8,516,309)	(8,516,309)	(1,493,000)	(10,009,309)
	-	(601,240)	-	-	-	(601,240)	-	(601,240)
	12,136,529	(7,065,614)	(3,292)	1,820,479	420,469,917	427,358,019	35,507,909	462,865,928

Chairman of the Management Board **Yessekeyev K.B.**  
Chief financial officer **Uzbekov A.A.**  
Chief accountant **Suleimanov Y.E.**

- 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 corrections made, as detailed in Note 5.

In thousands of tenge	Note	2019	2018 <sup>1</sup>
<b>OPERATING ACTIVITIES</b>			
Profit before tax for the year		69,774,450	53,990,896
<b>Adjustment for:</b>			
Depreciation of property and equipment and right of use assets (for the year ended 31 December 2018: depreciation of property and equipment)	3, 9	73,481,369	35,546,828
Amortisation of intangible assets	10	21,470,527	3,329,003
Impairment loss on non-financial assets		5,679,796	1,169,713
Impairment loss on financial assets	47	2,689,585	3,907,083
Unrealised foreign exchange loss/(gain), net		1,357,817	(6,405,452)
Changes in employee benefit obligations		266,452	126,551
Write-down of inventories to net realizable value	37	57,343	30,673
Share in profits of associates	11	(6,027,195)	(7,860,084)
Finance costs	40	42,484,296	7,349,641
Finance income	40	(4,305,508)	(3,067,029)
Gain on disposal of property and equipment		(386,915)	(321,632)
Reversal of tax and related fines and penalties provision	48	(5,816,045)	-
Gain from re-measurement of previously held interest in the associate	5	(17,310,113)	-
<b>Operating cash flows before changes in operating assets and liabilities</b>		183,415,859	87,796,191
<b>Changes in operating assets and liabilities</b>			
Change in trade receivables		21,894,941	(5,602,091)
Change in inventories		(1,320,367)	262,303
Change in indemnification assets		10,171,407	-
Change in other current assets		13,320,260	(4,152,583)
Change in advances paid		138,132	888,909
Change in trade payables		(20,225,411)	(318,020)
Change in cost to obtain contracts and cost to fulfil contracts		(1,186,740)	(375,931)
Change in contract liabilities		3,303,265	906,894
Changes in other current liabilities		(12,242,827)	283,619
<b>Cash flows from operating activities</b>		197,268,519	79,689,291
Income tax paid		(21,593,054)	(11,211,037)
Interest paid	47	(35,690,260)	(3,788,368)
Interest received		1,136,754	1,661,720

In thousands of tenge	Note	2019	2018 <sup>1</sup>
<b>NET CASH FLOWS RECEIVED FROM OPERATING ACTIVITIES</b>		<b>141,121,959</b>	<b>66,351,606</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment		(60,371,459)	(19,615,661)
Purchase of intangible assets		(9,337,598)	(2,875,572)
Purchase of financial assets at fair value through other comprehensive income	20	(5,021,171)	-
Proceeds from sale of property and equipment		972,881	1,534,246
Acquisition of subsidiary, net of cash received	5	(176,143,312)	(158,819,914)
Placement of deposits		-	(12,196,800)
Return of cash on deposits		175,968	74,525,196
Issuance of a covered bank guarantee		(997,730)	(7,411,000)
Issue of long-term loans to employees		(2,567,141)	(2,858,020)
Repayment of loans to employees		401,182	394,960
Investments in associates	11	(423,980)	(563,000)
Return of funds of covered bank guarantee		1,018,925	7,608,800
<b>Net cash flows used in investing activities</b>		<b>(252,293,435)</b>	<b>(120,276,765)</b>
<b>FINANCING ACTIVITIES</b>			
Borrowings received	47	214,202,637	100,000,000
Borrowings repaid	47	(53,118,449)	(2,029,593)
Dividends paid to equity holders of the parent	23	(9,041,085)	(16,996,235)
Dividends paid to non-controlling interests	7, 23	(1,493,000)	-
Repayment of finance lease liabilities	47	-	(3,697,239)
Repayment of lease liabilities	47	(11,332,544)	-
Own repurchased shares	23	(660,616)	-
<b>Net cash flows received from financing activities</b>		<b>138,556,943</b>	<b>77,276,933</b>
Effect of exchange rate changes on cash and cash equivalents		(1,086,160)	6,519,140
Effect of changes in expected credit losses	22	(12,021)	(506,765)
<b>Net change in cash and cash equivalents</b>		<b>26,287,286</b>	<b>29,364,149</b>
Cash and cash equivalents, as at 1 January		45,350,092	15,985,943
<b>Cash and cash equivalents, as at 31 December</b>	<b>22</b>	<b>71,637,378</b>	<b>45,350,092</b>

Chairman of the Management Board **Yessekeyev K.B.**  
Chief financial officer **Uzbekov A.A.**  
Chief accountant **Suleimanov Y.E.**

*Disclosure of significant non-cash transactions is presented in Note 45.*

<sup>1</sup> The Group has initially applied IFRS 16 using the modified retrospective method. Under this method, the comparative information is not restated. See Note 3.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

## 1. GENERAL INFORMATION

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

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

The Company is controlled by the Government of the Republic of Kazakhstan through Sovereign Wealth Fund "Samruk-Kazyna" JSC ("Samruk-Kazyna" or the "Parent"), which owns 51% of the Company's controlling shares. Below is a list of the Company's shareholders as at 31 December 2019:

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

The Company and its subsidiaries listed in Note 6 (hereinafter collectively referred to as the "Group") have a significant share of the fixed line communication market, including local, long-distance intercity and international telecommunication services including CIS and non-CIS countries; and also leases out lines and provides data transfer services, as well as wireless communication.

These consolidated financial statements of the Group were approved for issue by the Chairman of the Management Board on behalf of the Management of the Company on 16 March 2020.

	At 31 December 2019	At 31 December 2018
Samruk-Kazyna	51.0%	51.0%
SKYLINE INVESTMENT COMPANY S.A.	24.5%	24.5%
ADR (The Bank of New York – depositor)	9.6%	9.2%
Alatau Capital Invest LLP	3.7%	3.7%
United Accumulative Pension Fund JSC	3.4%	3.4%
Deran Investment B.V.	-	2.0%
Other	7.8%	6.2%
	<b>100%</b>	<b>100%</b>

## 2. BASIS FOR 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 thousand, except when otherwise indicated.

### Basis of consolidation

The consolidated financial statements include financial statements of the Kazakhtelecom JSC 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 result 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 with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- Voting rights or potential voting rights belonging to the Group.

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 over subsidiary. Assets, liabilities, revenue and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group obtains 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 into line with the Group's accounting policies. All intra-group assets and liabilities, equity, revenue, 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 interests 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 applies IFRS 16 Leases for the first time. The nature and effect of these 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').

In thousands of tenge	Adjustments
<b>NON-CURRENT ASSETS</b>	
Right-of-use assets	71,929,617
Property and equipment (Note 9)	(42,229,062)
<b>Total non-current assets</b>	<b>29,700,555</b>
<b>Current assets</b>	
Advances paid	(10,202)
<b>Total current assets</b>	<b>(10,202)</b>
<b>TOTAL ASSETS</b>	<b>29,690,353</b>
<b>NON-CURRENT LIABILITIES</b>	
Lease liabilities	27,303,654
Deferred tax liabilities	(154,337)
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>27,149,317</b>
<b>CURRENT LIABILITIES</b>	
Lease liabilities	3,168,590
Other payables	(123,063)
<b>Total current liabilities</b>	<b>3,045,527</b>
<b>TOTAL LIABILITIES</b>	<b>30,194,844</b>
<b>Total adjustment on equity</b>	
Retained earnings	(372,725)
Non-controlling interests	(131,766)
	<b>(504,491)</b>

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

The Group has lease contracts for cell sites (land, space in cell tower or rooftop surface areas), equipment, buildings used for administrative or technical purposes. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present

value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liabilities. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under advances paid and other payables, respectively.

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

#### Leases previously classified as finance leases

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

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

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

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

#### (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:

In thousands of tenge	Right-of-use assets			Lease liabilities
	Buildings and constructions	Equipment	Total	
<b>At 1 January 2019</b>	<b>29,700,555</b>	<b>42,229,062</b>	<b>71,929,617</b>	<b>53,201,569</b>
Additions and modifications	4,160,502	619,429	4,779,931	4,779,931
Acquisition of subsidiary (Note 5) <sup>1</sup>	23,423,176	-	23,423,176	23,878,564
Depreciation expenses	(6,563,967)	(3,898,709)	(10,462,676)	-
Interest expenses (Note 40)	-	-	-	8,006,074
Payments	-	-	-	(19,338,618)
<b>At 31 December 2019</b>	<b>50,720,266</b>	<b>38,949,782</b>	<b>89,670,048</b>	<b>70,527,520</b>
<b>Current portion</b>	-	-	-	<b>15,291,266</b>
<b>Non-current portion</b>	-	-	-	<b>55,236,254</b>

<sup>1</sup>. Certain amounts shown here do not correspond to the Note 5, as they reflect elimination adjustments made.



The following are the amounts recognised in profit or loss:

In thousands of tenge	2019
Depreciation expense of right-of-use assets	10,462,676
Interest expense on lease liabilities	8,006,074
Expense relating to short-term leases (included in cost of sales)	1,708,320
Expense relating to short-term leases (included in general and administrative expenses)	111,427
<b>TOTAL AMOUNT RECOGNISED IN PROFIT OR LOSS</b>	<b>20,288,497</b>

The Group had total cash outflows for leases of KZT 21,158,365 thousand in 2019. The Group also had non-cash additions to right-of-use assets and lease liabilities of KZT 4,779,931 thousand 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.

**Amendments to IFRS 9 Prepayment Features with Negative Compensation**

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

**Amendments to IAS 19 Plan Amendment, Curtailment or Settlement**

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

under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

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

**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.

**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.

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.

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 and interpretations 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.

International Accounting Standards Board tentatively decided to propose an amendment of the IFRS 17 effective date to reporting periods beginning on or after 1 January 2022. This is a deferral of one year compared to the current date of 1 January 2021. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

#### 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.

The amendments to IFRS 3 must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. Consequently, entities do not have to revisit such transactions that occurred in prior periods. Earlier application is permitted and must be disclosed.

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 IAS 1 and IAS 8 are required to be applied for annual periods beginning on or after 1 January 2020. The amendments must be applied prospectively and earlier application is permitted. The amendments to the definition of "material" is not expected to have a significant impact on the Group's consolidated financial statements.

#### 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 apply for annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted. 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.

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value

is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

Foreign exchange rates are presented in the following table:

	31 December 2019	31 December 2018
US dollar	382.59	384.20
Euro	429.00	439.37
Russian rouble	6.16	5.52

The functional currencies of foreign operations KT-IX LLC (Russian Federation) are Russian Roubles. During consolidation the assets and liabilities of foreign operations are translated into tenge at the rate of exchange prevailing at the reporting date and their statements of comprehensive income are translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income.

### Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in general and administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

### Investments in associates

An associate is a company, which is significantly influenced by the Company. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Group's investments in its associates are accounted for using the equity method.

According to the equity method, investment in an associate is initially stated at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment individually.

If interest in an associate is acquired in exchange for contribution of a non-monetary asset in an associate, the Group (a) assesses its share in an associate at fair value in accordance with IFRS 3; and (b) fully recognises profit or loss incurred due to sale or contribution of assets that are businesses as defined in accordance with IFRS 3.

The consolidated statement of comprehensive income reflects the Group share in the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The Group's share in profit or loss of the associate is shown directly in the consolidated statement of comprehensive income beyond the operating profit. It represents profit or loss after taxes and non-controlling interests in subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring their accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the investment in an associate and its carrying amount and recognises resulting loss in the 'share in profits of associates' line in the consolidated statement of comprehensive income.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at fair value. Any difference between the carrying amount of the investment in associate upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss..

### 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 within 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 terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

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 47.

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 the best use or by selling it to another market participant that would use the asset in its highest and the 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.

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 Company.

External valuation experts are involved for valuation of significant assets, such as investment property and AFS financial assets, and significant liabilities, such as contingent consideration. The decision to engage external value experts is taken on an annual basis by the Working Group after it is discussed and approved by the Company's Audit committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Working Group decides, after discussions with the Group's external valuation experts, which valuation techniques and inputs to use for each case.

At each reporting date the Working Group analyses changes in the cost of assets and liabilities that should be reanalyzed reassessed in accordance with the Group's accounting policy. As a part of such analysis, the Working Group checks main inputs used at the latest valuation by comparing information used at valuation with agreements and other relevant documents.

The Working Group and external valuation experts of the Group also compare changes in fair value of each asset and liability with relevant external sources in order to determine the change relevancy.

The Working Group and external valuation experts of the Group provide valuation results to the Audit committee and independent auditors of the Group on a regular basis that assumes discussion of main assumptions used in valuation.

For the purpose of fair value disclosure, the Group classified assets and liabilities based on their nature, characteristics and risks related to them and applicable level of fair value hierarchy, as specified above.

### Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Criteria for classification of the item as held-for-sale is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property and equipment and intangible assets once classified as held for sale are not depreciated or amortized.

Assets and liabilities classified as held for distribution are presented separately as current items in the consolidated statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented in the consolidated statement of comprehensive income as a separate item as profit or loss after tax from discontinued operations.

### 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 obligations (Note 28) 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	50
Constructions	10–20
Telecommunication equipment	3–20
Other	3–20

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.

### Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing component of an existing investment property

at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and accumulated impairment loss. Depreciation is calculated on a straight-line basis over the estimated useful life, which is 50 years.

Investment properties are derecognised in the consolidated statement of financial position when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of comprehensive income when the asset is derecognized.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

### 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 initial cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

Intangible assets have finite useful lives.

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

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds

and the carrying amount of the asset and are recognised in the consolidated statement of comprehensive income when the asset is derecognised.

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

	Years
Licenses and trademarks	3-20
Computer software	1-14
Customer base	8-10
Other	2-15

### 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.

For assets excluding goodwill, 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.

The following criteria are also applied in assessing impairment of specific assets:

### Goodwill

Goodwill is tested for impairment annually as at 31 December, and when circumstances indicate that the carrying amount may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

### 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 receivables, 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 receivables, loans to employees, bank deposits and other non-current and current financial assets

**Financial assets at fair value through OCI (debt instruments)**

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Group's debt instruments at fair value through OCI includes investments in quoted debt instruments included under other non-current financial assets.

**Derecognition**

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

- 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 not retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

**Financial assets carried at amortised cost**

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other 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 and contract assets, 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 payables, loans and borrowings, lease liabilities and debt component of preferred shares

**Subsequent measurement**

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

**Loans and borrowings**

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

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

This category generally applies to interest-bearing loans and borrowings. Further details are contained in Note 24.

**Financial guarantee contracts**

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of: the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

**Debt component of preferred shares recorded in liabilities**

The debt component of the preferred shares that exhibits characteristics of a liability is recognised as a liability in the consolidated statement of financial position, net of transaction costs. The corresponding minimal guaranteed dividends on those shares are charged as interest expense in the consolidated statement of comprehensive income. On initial recognition, the fair value of the liability component is determined by discounting expected future cash flows at a market interest rate for a comparable debt instrument. The fair value of the equity component on initial recognition is assigned the residual amount after deducting from the initial carrying amount of the instrument as a whole the fair value

determined for the liability component. Subsequently, the liability component is measured according to the same principles used for loans and borrowings, and the equity component is not remeasured in subsequent years.

**Trade payables**

Liabilities for trade payables 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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised through 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.

**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.

**Cash and short-term deposits**

Cash and short-term deposits in the consolidated statement of financial position comprise cash at banks and on hand and short-term highly

liquid deposits with a maturity of three months or less, that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

**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.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

	Years
Buildings and constructions	5–10
Equipment	3–15

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.

**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 insubstance 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 property and equipment that have a lease term of 12 months or less from the commencement date. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

#### Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis

over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

### 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 any provision is presented in the consolidated statement of comprehensive income 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 liabilities

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

### Employee benefit

#### Social tax

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

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

#### Pension payments

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

#### Defined benefits pension plan

In accordance with the Collective Agreement the Company provides certain long-term and retirement benefits to some of its employees (the "Defined Benefit Scheme").

Long-term benefits are paid to employees upon completion of a certain number of years of service whereas retirement benefits represent one-off payments paid upon retirement in accordance with the the Collective Agreement.

Both items vary according to the employee's average salary and length of service.

Cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit obligation and the return on plan assets (excluding amounts included in net interest on the net defined benefit obligation), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment; and
- The date that the Group recognises related restructuring costs.

Net interest is calculated by applying the discount rate to the net defined benefit obligation or asset. The Group recognises the outlined changes of net defined benefit obligation in the lines: "cost of sales", "general and administrative expenses" in the consolidated statement of comprehensive income.

#### Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the acquisition, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in equity.

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

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

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

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

### Revenue from contracts with customers

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

The Group's activities mainly relates to the provision of data transmission services, rendering of fixed line and wireless phone services, rent of channels, local, intercity and international calls, interconnect / traffic transmission of other operators, value added services and sale of handsets..

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

At the beginning of the contract, the Group assesses the goods and services promised in the contract with the buyer and defines as a performance obligation each promise to transfer to the buyer a certain product or service or a set of certain goods or services.

The Group has concluded that it is acting as a principal in all of its revenue arrangements, since in all cases it is the main party that assumed

obligations under the contract, controls the goods and services before transferring them to the customer.

### Rendering of services

The main sources of income of the Group are the provision of local, long-distance and international telecommunication services.

Interconnection fees from domestic and foreign telecommunication operators are recognized when the services are rendered based on the actual minutes of traffic transferred through the network.

Revenue from international and intercity calls and calls to local operators are recognized at the time the call is made over the Group's network.

Subscription fees, consisting primarily of monthly charges for access to broadband and other internet services or voice services, are recognised as revenue over time on a straight-line basis. Revenue from dial up internet is recognized based on the actual airtime provided to the customers.

Revenue from the rental of analogue and digital channels and private circuits as well as wholesale access revenue is recognised on a straight-line basis over the period to which it relates.

Non-refundable upfront fees received for initial connection of new subscribers to fixed line and wireless networks are recognized during the expected period of the customer relationship. The expected period of the customer relationship is based on past history of customer period and industry practice.

### Equipment provided to customers

The Group provides Internet and other data transmission services and equipment for the provision of these services, including modem, routers and others.

Based on the analysis of current operating indicators, the Group concluded that equipment that cannot be used by the subscriber separately from the services of the Group is not a separately identifiable performance obligation.

The Group capitalized the cost of equipment provided free of charge as costs to fulfil a contract. Costs to fulfil a contract are amortized over the period the service is provided to the customer.

### Sale of equipment and mobile devices

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.

### 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 statement of financial position.

### Significant financing component

Generally, the Group receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

The Group also receives long-term advances from customers for the connection to international telecommunication network. The transaction price for such contracts is discounted, using the rate that would be reflected in a separate financing transaction between the Group and its customers at contract inception, to take into consideration the significant financing component.

### Costs to obtain a contract

The Group sells part of payment scratch cards, sim cards, and handsets using sales agents. The Group pays commission to sales agents for new connected subscribers in the B2C segment. The commission to sales agents is capitalized as costs to obtain a contract in the consolidated statements of financial position. Costs to obtain a contract are amortized over the period the service is provided to the customer.

**Contract balances**

**Contract asset**

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 represents the Group's right to an amount of consideration that is unconditional (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 the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

**Compensation for provision of universal services in rural areas**

Compensation for provision of universal services is recognised where there is reasonable assurance that the compensation will be received and all attached conditions will be complied with. When the compensation relates to an expense item, it is recognised as income over the period necessary to match the compensation on a systematic basis to the costs that

it is intended to compensate. Where the compensation relates to an asset, it is recognised as deferred income and released to the consolidated statement of comprehensive income in equal amounts over the expected useful life of the related asset.

Compensation related to income is presented separately in the consolidated statement of comprehensive income within revenues from operating activities.

**Interest income**

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

**Dividends**

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

**Expense recognition**

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

**Connection cost**

The Group records connection costs incurred and attributable to the related deferred income over the expected period of the customer relationship.

**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 the Group incurs in connection with the borrowing of funds.

**Income tax**

**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, by the reporting date, in the countries where the Group operates and generates taxable profit.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated statement of comprehensive income. Management of the Group 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 income tax**

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

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 reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in relation to the underlying transaction either in the consolidated statement of comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets

and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

#### Contingent assets and liabilities

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

Contingent liabilities are not recognized in the consolidated financial statements. 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 consolidated financial statements.

## 4. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires the management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of these items and 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 47;
- Sensitivity analyses disclosures – Notes 12 and 25.

#### 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.

The Group included the renewal period as part of the lease term for leases of space for technical sites with shorter non-cancellable period. The Group typically exercises its option to renew for these leases because there will be a significant negative effect on production if a replacement asset is not readily available.

*Refer to Note 47 for information on potential future rental payments relating to periods following the exercise date of extension and termination options that are not included in the lease term.*

#### Assets held for sale

On 17 June 2019, the Group announced the decision of its Board of Directors to sell 100% share in the charter capital of KT Cloud Lab LLP, a wholly owned subsidiary, through open of two-step tender. Operations of KT Cloud Lab LLP are classified as a disposal group held for sale. The Board considered the subsidiary met the criteria to be classified as held for sale at that date for the following reasons:

- KT Cloud Lab LLP is available for immediate sale and can be sold to the buyer in its current condition;
- The actions to complete the sale were initiated and expected to be completed within one year from the date of initial classification;
- A potential buyer has been identified and negotiations as at the reporting date are at an advance stage;
- The shareholders approved the plan to sell on 17 June 2019.

*For more details on the disposed group, refer to Note 44.*

#### 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.

#### 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.

#### Impairment of non-financial assets

An impairment exists when the carrying amount 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 to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next 5 (five) years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and growth rates used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Note 12.



### Provision for expected credit losses

The Group recognizes provision for expected credit losses for trade receivable, other current financial assets and funds in credit institutions (cash and cash equivalents, bank deposits).

For trade receivables, 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 Company 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 17.

For funds in credit institutions (cash and cash equivalents, 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 KZT 9,791,112 thousand (2018: KZT 7,902,678 thousand) (Notes 14, 17, 19 and 22). Changes in the economy, industry or specific customer conditions would have impact to these allowance recorded in the consolidated financial statements.

### Significant financing component

The Group concludes that certain long-term contracts contain significant financing components due to the time interval between the provision of the Group's services to the customer and the moment the customer pays for such services.

The transaction price for such contracts is discounted, using the rate that would be reflected in a separate financing transaction between the Group and its customers at contract inception, to take into consideration the significant financing component.

### Costs to obtain a contract

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

### Contract liabilities

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

### Non-refundable upfront fees

Upfront fees received for activation and connection to the fixed line and wireless network that do not represent a separate earning process are recognized as contract liabilities and recognized over the expected period of the customer relationship. In making its judgments, management considered the detailed criteria for the recognition of revenues from connection fees set out in IFRS 15, industry practice and the Company's historical churn rate. As at 31 December 2019, average customer relationship period is assessed as 13 (thirteen) years for fixed line customers and 5 (five) years for internet customers.

### Decommissioning liability

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

The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs, or in the discount rate applied, are added to or deducted from the cost of the asset.

### Employee benefit obligations

The Group uses actuarial valuation method for measurement of the present value of defined employee benefit obligation and related current service cost. This involves the use of demographic assumptions about the future characteristics of current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, etc.) as well as financial assumptions (discount rate, future salary increases). Due to the long term nature of these benefits, such estimates are subject to significant uncertainty.

The current portion of employee benefit obligations represents the obligations which the Group is going to repay within the twelve months period since the end of the annual reporting period.

In determining the appropriate discount rate, management of the Group considers the interest rates of high-yield corporate bonds in respective currencies.

The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates.

*Further details about employee benefit obligations are contained in Note 25.*

### 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.

In 2019 the Group reconsidered the tax treatment of deductibility of allowance for expected credit loss from physical entities, and derecognized deferred tax assets on the allowance for expected credit losses related to the trade receivables from physical entities in the amount of KZT 520,178 thousand.



As at 31 December 2019 the Group recognized tax loss carry forward in the amount of KZT 1,377,725 thousand (31 December 2018: 1,377,725 KZT).

As at 31 December 2019, deferred tax assets of the Group were equal to KZT 1,766,127 thousand (at 31 December 2018: KZT 246,884 thousand). As at 31 December 2019, the carrying amount of non-recognized tax assets was equal to nil KZT (31 December 2018: nil KZT).

Further details are contained in Note 43.

### Leases – estimating the incremental borrowing rate

For those lease agreements, for which the Group cannot readily determine the interest rate implicit in the lease, 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 or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

### 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. 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 47.

### Fair value of assets and liabilities acquired in a business combination

The Group must separately, at the acquisition date, recognize identifiable assets, liabilities and contingent liabilities acquired or assumed in a business combination at their fair value, which implies the use of valuations. Such estimates are based on various valuation methods, which require the use of significant judgments in predicting future cash flows and making other assumptions.

At the acquisition dates, net assets of Kcell JSC and Khan Tengri Holding B.V. were recognized based on their fair value (Note 5).

### Reclassifications of comparative information

Certain amounts in the consolidated statement of comprehensive income for the year ended 31 December 2018 were reclassified to conform with the presentation adopted in the consolidated statement of comprehensive income 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 presented earlier	Reclassifications	Notes	Corrected
<b>CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018</b>				
Impairment loss on non-financial assets <sup>1</sup>	-	(1,169,713)	[1]	(1,169,713)
<b>Operating profit</b>	<b>37,104,489</b>	<b>(1,169,713)</b>		<b>35,934,776</b>
Other expenses	(1,962,895)	1,169,713	[1]	(793,182)
<b>Profit before tax</b>	<b>53,990,896</b>	-		<b>53,990,896</b>

The above reclassification had no impact on net profit, total comprehensive income or equity.

Additionally, goodwill was reclassified as separate line in the consolidated statement of financial position as at 31 December 2018 to conform with the presentation adopted in the consolidated statement of financial position as at 31 December 2019.

## 5. BUSINESS COMBINATIONS

### Acquisition in 2019

#### Acquisition of Khan Tengri Holding B.V.

On 29 February 2016, the Group acquired 51% share capital and 49.48% of voting shares in Khan Tengri Holding B.V., the company rendering GSM and LTE mobile telecommunication services in the Republic of Kazakhstan. Khan Tengri Holding B.V. is a private entity and not listed on the stock exchange. Khan Tengri Holding B.V. was an equity accounted associate for the Group till 28 June 2019 (Note 11).

According to the agreement between the Group and Tele2, the Group had an unconditional right to require Tele2 to sell its 49% of the interest in Khan Tengri Holding B.V. at any time, after three

years after the closing date of the transaction on 29 February 2016 (call option). Tele2 had a similar unconditional right to require the Group to acquire a 49% interest in Khan Tengri Holding B.V. (put option).

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

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

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

<sup>1</sup> Impairment loss on non-financial assets in the amount of KZT 1,169,713 thousand were reclassified from other non-operating expenses into separate line within the operating expenses in its consolidated statement of comprehensive income.

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

On 25 February 2016, the Group provided a guarantee to associate organization Khan

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

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

Provisional fair value of the identified assets and liabilities of Khan Tengri Holding B.V. as at the date of acquisition were:

In thousands of tenge	Provisional fair value recognized on acquisition
<b>ASSETS</b>	
Property and equipment	99,771,598
Right-of-use assets	26,457,939
Intangible assets	112,272,032
Advances paid for non-current assets	2,061,017
Cash and cash equivalents	5,391,581
Other non-current financial assets	77,640
Trade receivables	14,921,849
Inventories	909,245
Advances paid	2,439,609
Corporate income tax prepaid	614,125
Other current non-financial assets	2,023,828
Other current financial assets	887,739
<b>TOTAL ASSETS</b>	<b>267,828,202</b>
<b>LIABILITIES</b>	
Trade payables	(27,070,515)
Borrowings	(8,799,548)
Lease liabilities	(26,913,327)
Contract liabilities	(8,094,854)
Deferred tax liabilities	(9,058,099)
Asset retirement obligations	(4,826,230)
Other current financial liabilities	(2,460,538)
Other current non-financial liabilities	(1,193,897)
<b>TOTAL LIABILITIES</b>	<b>(88,417,008)</b>

In thousands of tenge	Provisional fair value recognized on acquisition
<b>Net identifiable assets at fair value</b>	<b>179,411,194</b>
Consideration transferred for 49% interest acquired on 28 June 2019*	181,534,893
Acquisition-date provisional fair value of initial 51% interest	99,211,623
	<b>280,746,516</b>
Acquisition-date provisional fair values of identifiable net assets acquired	179,411,194
Guarantee issued to Mobile Telecom Service LLP	937,145
<b>Goodwill</b> (Note 12)	<b>100,398,177</b>
<b>ANALYSIS OF CASH FLOWS ON ACQUISITION</b>	
Net cash acquired with the subsidiary	5,391,581
Consideration transferred <sup>1</sup>	(181,534,893)
<b>Net cash outflow</b>	<b>(176,143,312)</b>

Net assets recognized in the consolidated financial statements as at 31 December 2019 are based on a preliminary assessment of their fair value, while the Group makes an independent assessment of assets owned by Khan Tengri Holding B.V. This estimate has not been completed at the time of issuing the consolidated financial statements for the year ended 31 December 2019.

The main components of intangible assets are licenses, trademarks, software and subscriber base.

At the date of the acquisition, the fair value of the trade receivables was KZT 14,921,849 thousand. The carrying amount of trade receivables is KZT 14,921,849 thousand and it is expected that the full contractual amounts can be collected.

The Group measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use assets were measured at an amount equal to the lease liabilities and adjusted to reflect the favourable terms of the lease relative to market terms.

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

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

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

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

From the date of acquisition, the contribution of Khan Tengri Holding B.V. to the Group's revenue amounted to KZT 75,553,128 thousand, and to the Group's net profit before tax in the amount of KZT 13,211,745 thousand. If the combination had taken place at the beginning of 2019, the Group's revenues would have been KZT 468,651,157 thousand, and the profit before tax would have been KZT 80,653,198 thousand.

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

## Acquisition in 2018

### Acquisition of Kcell JSC

On 21 December 2018, the Group acquired 75% of voting shares in Kcell JSC, whose shares are listed on London Stock Exchange and Kazakhstan Stock Exchange. Kcell JSC is registered in Republic of Kazakhstan and provides mobile services in Republic of Kazakhstan.

The Group has acquired Kcell JSC, because it allows to significantly expand its presence in the segment of Mobile telecom-munication services in GSM and LTE standards.

As part of the purchase agreement with the previous owners of Kcell JSC, the consideration in the amount of KZT 165,742,447 thousand was transferred by cash payments.

The Group decided to measure the non-controlling interests in the acquisition object by the proportionate share of its participation in the identifiable net assets of the acquisition.

The fair value of the identified assets and liabilities of Kcell JSC as at the date of acquisition were:

In thousands of tenge	Fair value recognized on acquisition
<b>ASSETS</b>	
Property and equipment	120,440,693
Intangible assets	110,130,516
Advances paid for non-current assets	729,049
Cash and cash equivalents	6,922,533
Indemnification assets	10,171,407
Trade receivables	15,969,678
Inventories	5,680,540
Advances paid	975,529
Cost to obtain contracts	388,802
Other non-current assets	37,986
Other current assets	6,232,204
<b>TOTAL ASSETS</b>	<b>277,678,937</b>
<b>LIABILITIES</b>	
Trade payables	(14,047,602)
Borrowings	(66,316,119)
Contract liabilities	(3,772,341)
Taxes payable other than income tax	(2,694,377)
Deferred tax liabilities	(22,679,511)
Asset retirement obligations	(1,285,482)
Obligation to pay a fine for termination of the contract	(14,551,865)
Other current liabilities	(8,111,511)
<b>TOTAL LIABILITIES</b>	<b>(133,458,808)</b>
<b>Net identifiable assets at fair value</b>	<b>144,220,129</b>
Non-controlling interests	(34,057,875)
<b>Total identifiable net assets at fair value</b>	<b>110,162,254</b>
Goodwill arising on acquisition (Note 12)	55,580,193
<b>Purchase consideration transferred</b>	<b>165,742,447</b>
<b>ANALYSIS OF CASH FLOWS ON ACQUISITION</b>	
Net cash acquired with the subsidiary	6,922,533
Cash paid	(165,742,447)
<b>Net cash outflow</b>	<b>(158,819,914)</b>

Net assets recognized in the consolidated financial statements as at 31 December 2018 were based on a provisional assessment of their fair value, while the Group sought an independent valuation for the assets owned by Kcell JSC. The valuation had not been completed by the date the 2018. Consolidated financial statements were approved for issue by the Chairman of the Management Board.

In December 2019, the valuation was completed and the acquisition date fair value of the following accounts has been changed:

- Property and equipment was KZT 120,440,693 thousand, decrease of KZT 379,000 thousand over the provisional value;
- Intangible assets was KZT 110,130,516 thousand, increase of KZT 2,297,000 thousand over the provisional value;
- Indemnification assets was KZT 10,171,407 thousand, decrease of KZT 742,492 thousand over the provisional value;
- Other current assets was KZT 6,232,204 thousand and contract liabilities was KZT 3,772,341, decrease of KZT 3,525,405 thousand over the provisional value;
- Deferred tax liabilities was KZT 22,679,511 thousand, increase of KZT 2,159,279 thousand over the provisional value.

The 2018 comparative information was restated to reflect the adjustment to the provisional amounts. As a result, there was a decrease in the non-controlling interests of KZT 60,320 thousand and a corresponding increase in goodwill of KZT 923,451 thousand, resulting in KZT 55,580,193 thousand of total goodwill arising on the acquisition. The increased depreciation charge on the tangible assets from the acquisition date to 31 December 2018 was not material.

The main components of intangible assets are licenses, trademarks, software and subscriber base.

At the date of the acquisition, the fair value of the trade receivables amounts to KZT 15,969,678 thousand. The gross amount of trade receivables is KZT 15,969,678 thousand and it is expected that the full contractual amounts can be collected.

Transaction costs in the amount of KZT 1,933,255 thousand were included in administrative expenses.

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

The amount of goodwill equal to KZT 55,580,193 thousand and includes the cost of the expected synergetic effect from the acquisition. The entire amount of goodwill is allocated to the mobile telecommunications segment. It is expected that recognized goodwill will not be deductible for the purposes of the taxation either in full or in part.

At the acquisition date, was recognized the obligation to pay a fine for termination of the Network Sharing Agreement between Kcell JSC and Kar-Tel LLP in the amount of KZT 14,551,865 thousand and a indemnification asset for reimbursement of 75% of this penalty receivable from Telia Company and Fintur Holding B.V. in the amount of KZT 10,171,407 thousand, and the effect of the above amounts on deferred tax liabilities.

From the date of acquisition, the contribution of Kcell JSC to the Group's revenue amounted to KZT 4,257,756 thousand, and to the Group's net profit before tax – loss before tax in the amount of KZT 544,955 thousand. If the combination had taken place at the beginning of 2018, the Group's revenues would have been KZT 355,148,278 thousand, and the profit before tax would have been KZT 50,722,371 thousand.



## 6. CONSOLIDATION

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

	Country of incorporation	Percentage ownership	
		31 December 2019	31 December 2018
Khan Tengri Holding B.V.	Netherlands	100.00%	51%
KT-IX LLC	Russia	100.00%	100.00%
KT Cloud Lab LLP	Kazakhstan	100.00%	100.00%
VostokTelecom LLP	Kazakhstan	100.00%	100.00%
Info-Net Wireless LLP	Kazakhstan	100.00%	100.00%
Nursat+ LLP	Kazakhstan	100.00%	100.00%
Kcell JSC	Kazakhstan	75.00%	75.00%
Nursat JSC	Kazakhstan	-	100.00%

On 28 June 2019, the Group has obtained control over Khan Tengri Holding B.V., in which the Group previously held investment in associate as described in Note 5.

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

## 7. MATERIAL PARTLY-OWNED SUBSIDIARIES

### Kcell JSC

Financial information of subsidiary Kcell JSC that has material non-controlling interests is provided below:

	Country of incorporation	Percentage ownership	
		31 December 2019	31 December 2018
Kcell JSC	Kazakhstan	25.00%	25.00%

The following tables illustrate summarized financial information of subsidiary on a stand-alone basis, in which the Group has significant non-controlling interests. This information is based on amounts before inter-company eliminations.

Summarised statement of comprehensive income of Kcell JSC for 2019 and 2018 from the acquisition date:

In thousands of tenge	2019	For the period from 21 December 2018 till 31 December 2018
Revenue from contracts with customers	156,656,861	4,529,042
Cost of sales	(122,318,966)	(3,908,547)
General and administrative expenses	(8,924,684)	(539,329)
Impairment of financial assets	(2,256,120)	(32,153)
Impairment of property and equipment	(1,844,104)	-
Selling expenses	(2,887,221)	(94,600)
Reversal of tax and related fines and penalties provision	5,816,045	-
Finance costs	(11,533,490)	(519,149)
Finance income	1,448,836	34,703
Net foreign exchange (loss)/income	(91,454)	4,464
Gain on disposal of property and equipment	18,740	372
Other income	298,312	-
Other expenses	(84,469)	(19,758)
<b>Profit before tax</b>	<b>14,298,286</b>	<b>(544,955)</b>
Income tax expenses	(1,262,891)	(191,237)
<b>Profit for the year</b>	<b>13,035,395</b>	<b>(736,192)</b>
Profit attributable to equity holders of the Parent	9,776,546	(552,143)
Profit attributable to non-controlling interests	3,258,849	(184,049)
Dividends paid to non-controlling interests	1,493,000	-

Summarised statement of financial position of Kcell JSC as at 31 December 2019 and 2018:

In thousands of tenge	31 December 2019	31 December 2018
Non-current assets	233,814,894	233,763,209
Current assets	42,545,530	30,830,529
Non-current liabilities	(94,966,875)	(36,799,969)
Current liabilities	(39,361,913)	(92,298,465)
<b>Total equity</b>	<b>142,031,636</b>	<b>135,495,304</b>
<b>Attributable to:</b>		
Equity holders of the Participants	106,523,727	101,621,478
Non-controlling interests	35,507,909	33,873,826

Summarised cash flow information of Kcell JSC for the years ended 31 December 2019 and 2018:

In thousands of tenge	2019	For the period from 21 December 2018 till 31 December 2018
Operating cash flows	34,625,643	(637,956)
Investing cash flows	(18,182,552)	6,662,534
Financing cash flows	(13,596,795)	-
Foreign exchange implementation on cash and cash equivalents	(50,290)	4,464
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>2,796,006</b>	<b>6,029,042</b>

## 8. SEGMENT INFORMATION

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

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

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

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

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

The following tables disclose revenue and profit information for the Group's operating segments for the years ended 31 December 2019 and 2018.

### For the year ended 31 December 2019

In thousands of tenge	Fixed line	Mobile telecommunication services in GSM and LTE standards	Other	Eliminations and adjustments	Group
<b>REVENUE FROM CONTRACTS WITH CUSTOMER</b>					
Sales to external customers					
Inter-segment	211,648,838	215,977,168	454,668	-	428,080,674
Реализация между сегментами	22,294,505	6,957,249	280,201	(29,531,955)	-
<b>Total revenue from contracts with customers</b>	<b>233,943,343</b>	<b>222,934,417</b>	<b>734,869</b>	<b>(29,531,955)</b>	<b>428,080,674</b>
<b>FINANCIAL RESULTS</b>					
Depreciation and amortisation	(37,694,711)	(57,869,046)	(228,346)	840,207	(94,951,896)
Finance costs	(26,007,763)	(19,222,602)	-	2,746,069	(42,484,296)
Finance income	4,932,477	1,585,120	433	(2,212,522)	4,305,508
Dividends income	9,101,302	-	-	(9,101,302)	-
Share in profits of associates	-	5,830,925	196,270	-	6,027,195
Impairment losses on non-financial assets	(300,971)	(5,377,947)	(878)	-	(5,679,796)
Impairment losses on financial assets	(28,402)	(2,653,023)	(8,160)	-	(2,689,585)
Income tax expenses	(6,307,021)	(3,090,505)	(5,687)	(25,939)	(9,429,152)
<b>Segment profit/ (loss)</b>	<b>32,337,163</b>	<b>13,808,437</b>	<b>(148,686)</b>	<b>23,777,536</b>	<b>69,774,450</b>
<b>Operating assets</b>	<b>750,602,980</b>	<b>699,934,914</b>	<b>2,677,106</b>	<b>(374,164,950)</b>	<b>1,079,050,050</b>
<b>Operating liabilities</b>	<b>348,535,158</b>	<b>301,021,346</b>	<b>317,483</b>	<b>(33,689,865)</b>	<b>616,184,122</b>
<b>OTHER DISCLOSURES</b>					
Investments in associates	-	-	2,218,889	-	2,218,889
Assets held for sale	-	-	-	1,878,033	1,878,033
Capital expenditures	41,930,188	28,758,575	-	41,085	70,729,848

For the year ended 31 December 2018

In thousands of tenge	Fixed line	Mobile telecommunication services in GSM and LTE standards	Other	Eliminations and adjustments	Group
<b>REVENUE FROM CONTRACTS WITH CUSTOMER</b>					
Sales to external customers	217,668,184	4,493,142	565,045	-	222,726,371
Inter-segment	252,366	35,900	222,987	(511,253)	-
<b>Total revenue from contracts with customer</b>	<b>217,920,550</b>	<b>4,529,042</b>	<b>788,032</b>	<b>(511,253)</b>	<b>222,726,371</b>
<b>FINANCIAL RESULTS</b>					
Depreciation and amortisation	(37,477,326)	(1,288,815)	(109,690)	-	(38,875,831)
Finance costs	(6,830,492)	(519,149)	(72)	72	(7,349,641)
Finance income	3,030,209	34,703	2,189	(72)	3,067,029
Share in profit/(loss) of associates	-	7,743,570	116,514	-	7,860,084
Impairment losses on non-financial assets	(1,169,713)	-	-	-	(1,169,713)
Impairment losses on financial assets	(3,874,468)	(32,153)	(462)	-	(3,907,083)
Income tax expenses	(10,915,839)	(191,237)	(504)	-	(11,107,580)
<b>Segment profit/(loss)</b>	<b>46,187,814</b>	<b>7,198,613</b>	<b>(130,593)</b>	<b>735,062</b>	<b>53,990,896</b>
<b>Operating assets</b>	<b>551,021,413</b>	<b>406,415,921</b>	<b>2,218,590</b>	<b>(167,687,639)</b>	<b>719,968,285</b>
<b>Operating liabilities</b>	<b>247,072,042</b>	<b>131,281,208</b>	<b>260,773</b>	<b>(1,426,353)</b>	<b>377,187,670</b>
<b>OTHER DISCLOSURES</b>					
Investments in associates	-	76,070,585	1,598,639	-	77,669,224
Capital expenditures	49,676,196	316,434	90,946	-	50,083,576

Income and expenses between segments are excluded during consolidation

1. Finance costs and finance income comprise intersegment finance costs and intersegment finance income;
2. Operating income of segments comprises income from intersegment transactions;
3. Capital expenditures include additions to property and equipment and intangible assets.

Reconciliation of profit

In thousands of tenge	2019	2018
<b>Segment profit</b>	<b>45,996,914</b>	53,255,834
Other	<b>23,777,536</b>	735,062
<b>Profit of the Group</b>	<b>69,774,450</b>	53,990,896

Reconciliation of assets

In thousands of tenge	2019	2018
<b>Segment operating assets</b>	<b>1,453,215,000</b>	959,655,924
Elimination of the Company's investments in subsidiaries	<b>(338,530,820)</b>	(166,261,286)
Elimination of intra-group receivables and payables	<b>(35,634,130)</b>	(1,426,353)
<b>TOTAL ASSETS OF THE GROUP</b>	<b>1,079,050,050</b>	<b>791,968,285</b>

Reconciliation of liabilities

In thousands of tenge	2019	2018
<b>Segment operating liabilities</b>	<b>649,873,987</b>	378,614,023
Elimination of intra-group receivables and payables	<b>(33,689,865)</b>	(1,426,353)
<b>TOTAL LIABILITIES OF THE GROUP</b>	<b>616,184,122</b>	<b>377,187,670</b>

## 9. PROPERTY AND EQUIPMENT

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

In thousands of tenge	Land	Buildings and constructions	Equipment	Other	Construction in progress	Total
<b>COST</b>						
<b>At 1 January 2018</b>	691,098	49,047,691	517,931,603	13,835,617	17,391,796	598,897,805
Additions	451	101,547	9,502,685	533,433	36,955,437	47,093,553
Acquisition of subsidiary (Note 5)	2,249,378	4,628,774	92,836,754	2,544,564	18,181,223	120,440,693
Transfers	-	1,947,461	17,652,886	16,638	(19,616,985)	-
Disposals	(13,317)	(978,467)	(5,418,161)	(215,536)	(258,846)	(6,884,327)
<b>At 31 December 2018</b>	2,927,610	54,747,006	632,505,767	16,714,716	52,652,625	759,547,724
<b>At 1 January 2019</b>	2,927,610	54,747,006	632,505,767	16,714,716	52,652,625	759,547,724
Change in accounting policy due to application of IFRS 16 (Note 3)	-	-	(87,599,840)	-	-	(87,599,840)
<b>At 1 January 2019 (restated)</b>	2,927,610	54,747,006	544,905,927	16,714,716	52,652,625	671,947,884
Additions	23	404,498	20,516,975	794,880	36,868,969	58,585,345
Acquisition of subsidiary (Note 5)	130,814	12,424,003	67,354,510	1,498,750	18,363,521	99,771,598
Change in estimate of asset retirement obligations (Note 28)	-	-	577,768	-	-	577,768
Transfers	-	1,375,068	22,942,450	133,075	(24,450,593)	-
Disposals	(13,973)	(325,011)	(4,094,966)	(372,918)	(87,885)	(4,894,753)
Assets held for sale (Note 44)	-	(405,118)	(1,021,623)	(74,182)	-	(1,500,923)
<b>At 31 December 2019</b>	3,044,474	68,220,446	651,181,041	18,694,321	83,346,637	824,486,919

In thousands of tenge	Land	Buildings and constructions	Equipment	Other	Construction in progress	Total
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>						
<b>At 1 January 2018</b>	589	18,346,827	309,326,682	10,942,557	1,259,538	339,876,193
Depreciation charge	-	1,976,120	32,722,740	745,830	-	35,444,690
Disposals	(589)	(284,707)	(5,052,424)	(209,739)	(155,813)	(5,703,272)
<b>At 31 December 2018</b>	-	20,038,240	336,996,998	11,478,648	1,103,725	369,617,611
<b>At 1 January 2019</b>	-	20,038,240	336,996,998	11,478,648	1,103,725	369,617,611
Change in accounting policy due to application of IFRS 16 (Note 3)	-	-	(45,370,778)	-	-	(45,370,778)
<b>At 1 January 2019 (restated)</b>	-	20,038,240	291,626,220	11,478,648	1,103,725	324,246,833
Depreciation charge	-	2,540,063	58,978,020	1,500,610	-	63,018,693
Impairment	-	-	2,136,947	-	3,077,728	5,214,675
Disposals	-	(136,918)	(3,837,861)	(358,882)	4,565	(4,329,096)
Assets held for sale (Note 44)	-	(43,346)	(886,731)	(50,043)	-	(980,120)
<b>At 31 December 2019</b>	-	22,398,039	348,016,595	12,570,333	4,186,018	387,170,985
<b>NET BOOK VALUE</b>						
<b>At 31 December 2018</b>	2,927,610	34,708,766	295,508,769	5,236,068	51,548,900	389,930,113
<b>At 31 December 2019</b>	3,044,474	45,822,407	303,164,446	6,123,988	79,160,619	437,315,934

During 2019, the Group recognized an impairment loss of KZT 4,921,832 thousand, related to write down of certain property and equipment to the recoverable amount as a result of technological obsolescence and damage (2018: nil KZT). Impairment was recognized in the consolidated statement of comprehensive income as an operating expense. Additionally, the Group recognized an impairment loss of KZT 292,843 thousand to reduce the carrying amount of the assets in the disposal group to their fair value less costs to sell (Note 44).

As at 31 December 2019 and 2018, assets under construction 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 KZT 347,558,082 thousand (as at 31 December 2018: KZT 166,079,984 thousand).

As at 31 December 2019, advances paid for non-current assets in the amount of KZT 8,998,288 thousand mainly represented by advances paid for «Broadband access to rural settlements of the Republic of Kazakhstan on the technology of fiber-optic communication lines» project and for installation of base stations, construction and delivery of fixed assets (as at 31 December 2018: KZT 765,088 thousand). During 2019, the Group has recognized impairment loss on its advances paid for non-current assets for KZT 423,395 thousand.

## 10. INTANGIBLE ASSETS

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

In thousands of tenge	Licenses and trademarks	Software	Other	Construction in progress	Total
<b>COST</b>					
<b>At 1 January 2018</b>	15,729,998	20,949,661	4,368,577	-	41,048,236
Additions	596,243	375,271	13	2,018,496	2,990,023
Acquisition of subsidiary (Note 5)	99,965,947	1,365,031	7,609,096	1,190,442	110,130,516
Transfers	55,461	(55,335)	(126)	-	-
Disposals	(3,870,985)	(144,726)	(1,243,671)	-	(5,259,382)
Transfers from construction-in-progress	152,071	1,866,425	-	(2,018,496)	-
<b>At 31 December 2018</b>	112,628,735	24,356,327	10,733,889	1,190,442	148,909,393
Additions	<b>3,604,581</b>	<b>5,503,654</b>	<b>186,964</b>	<b>2,271,536</b>	<b>11,566,735</b>
Acquisition of subsidiary (Note 5)	<b>108,505,524</b>	<b>1,889,628</b>	<b>1,876,880</b>	-	<b>112,272,032</b>
Disposals	<b>(1,185,574)</b>	<b>(1,489,826)</b>	-	-	<b>(2,675,400)</b>
Assets held for sale (Note 44)	-	<b>(729,247)</b>	-	-	<b>(729,247)</b>
Transfers from construction-in-progress	<b>90,406</b>	<b>2,181,130</b>	-	<b>(2,271,536)</b>	-
<b>At 31 December 2019</b>	<b>223,643,672</b>	<b>31,711,666</b>	<b>12,797,733</b>	<b>1,190,442</b>	<b>269,343,513</b>
<b>ACCUMULATED AMORTISATION AND IMPAIRMENT</b>					
<b>At 1 January 2018</b>	8,581,883	16,524,377	3,055,767	-	28,162,027
Amortisation charges	1,507,815	1,138,848	682,348	-	3,329,011
Impairment	1,169,713	-	-	-	1,169,713
Disposals	(3,869,426)	(123,726)	(1,234,671)	-	(5,227,823)
<b>At 31 December 2018</b>	7,389,985	17,539,499	2,503,444	-	27,432,928
Amortisation charges	<b>14,323,291</b>	<b>5,973,030</b>	<b>1,174,206</b>	-	<b>21,470,527</b>
Disposals	<b>(1,165,320)</b>	<b>(1,489,771)</b>	-	-	<b>(2,655,091)</b>
Assets held for sale (Note 44)	-	<b>(245,313)</b>	-	-	<b>(245,313)</b>
<b>At 31 December 2019</b>	<b>20,547,956</b>	<b>21,777,445</b>	<b>3,677,650</b>	-	<b>46,003,051</b>
<b>NET BOOK VALUE</b>					
<b>At 31 December 2018</b>	105,238,750	6,816,828	8,230,445	1,190,442	121,476,465
<b>At 31 December 2019</b>	<b>203,095,716</b>	<b>9,934,221</b>	<b>9,120,083</b>	<b>1,190,442</b>	<b>223,340,462</b>

Licenses and trademarks, software and other include intangible assets acquired as a result of business combinations (Note 5).

During 2018, the Group recognized an impairment loss in the amount of KZT 1,169,713 thousand, which was a write-off of certain licenses in the fixed telecommunications segment to the recoverable amount due to changes in the activities of subsidiaries (KT Cloud Lab

LLP, Vostoktelekom LLP). The loss was recorded in the consolidated statement of comprehensive income as part of impairment losses on non-financial assets. The recoverable amount as of 31 December 2018 in the amount of nil tenge was determined based on the calculation of the value of use of assets at the level of individual assets.

As at 31 December 2019 the gross carrying value of intangible assets, which have been fully amortized and still in use was KZT 52,411,724 thousand (as at 31 December 2018: KZT 10,408,974 thousand).

## 11. INVESTMENTS IN ASSOCIATES

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

In thousands of tenge	Primary activities	Country of incorporation	31 December 2019		31 December 2018	
			Carrying amount	Ownership share	Carrying amount	Ownership share
QazCloud LLP	IT services	Kazakhstan	<b>2,218,889</b>	<b>49%</b>	1,598,639	49%
Khan Tengri Holding B.V.	Telecommunication services	Netherlands	-	<b>51%</b>	76,070,585	51%
			<b>2,218,889</b>		77,669,224	

Movements in investments in associates for the years 2019 and 2018 are as follows:

In thousands of tenge	Khan Tengri Holding B.V.	QazCloud LLP	Total
<b>At 31 December 2017</b>	68,327,015	919,125	69,246,140
Additional contribution to the charter capital of an associate	-	563,000	563,000
Share in profit of associates	7,743,570	116,514	7,860,084
Share in other comprehensive income of associates	-	-	-
Dividends declared	-	-	-
<b>At 31 December 2018</b>	76,070,585	1,598,639	77,669,224
Additional contribution to the charter capital of an associate	-	<b>423,980</b>	<b>423,980</b>
Share in profits of associates	<b>5,830,925</b>	<b>196,270</b>	<b>6,027,195</b>
Share in other comprehensive income of associates	-	-	-
Dividends declared	-	-	-
Derecognition of investment in associate (Note 5)	<b>(81,901,510)</b>	-	<b>(81,901,510)</b>
<b>At 31 December 2019</b>	-	<b>2,218,889</b>	<b>2,218,889</b>

### Investments in Khan Tengri Holding B.V.

As described in Note 5 the Group obtained control over in Khan Tengri Holding B.V. and since the date of control Khan Tengri Holding B.V. is consolidated. In the consolidated financial statements, the Group's interest in Khan Tengri Holding B.V. was accounted using the equity method till the date of obtaining control.

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

In thousands of tenge	31 December 2019	31 December 2018
Non-current assets	-	155,086,820
Current assets, including	-	23,058,916
Cash and cash equivalents	-	2,210,329
Non-current liabilities, including	-	(104,123,963)
Non-current financial liabilities	-	(96,705,693)
Current liabilities, including	-	(38,288,604)
Current financial liabilities	-	(1,732,635)
<b>Equity</b>	-	35,733,169
Share of the ownership – 51%	-	18,223,916
Goodwill	-	57,846,669
<b>Carrying amount of investment of the Group</b>	-	76,070,585
<b>From 1 January 2019 till 28 June 2019</b>		2018
Revenue from contracts with customers	67,183,065	120,803,222
Depreciation and amortization	(9,540,681)	(13,221,235)
Finance income	134,131	313,473
Finance costs	(6,428,117)	(10,440,744)
Income tax (expense)/benefit	(1,991,712)	4,792,155
<b>Profit for the year</b>	11,433,187	15,183,470
Other comprehensive income	-	-
<b>TOTAL COMPREHENSIVE INCOME</b>	11,433,187	15,183,470
Share of the Group in profit for the year	5,830,925	7,743,570

### Investments in QazCloud LLP

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

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

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

On 15 November 2017, 27 April 2018, 29 April 2019 and 30 December 2019, the Group made contributions to the charter capital of QazCloud LLP, in the amount of KZT 986,980 thousand, KZT 563,000 thousand, KZT 200,000 thousand and KZT 223,980 thousand, respectively. The additional contributions to the charter capital of QazCloud LLP did not lead to the change in share of interest of the Group as the second participant, Samruk-Kazyna Business Service LLP, also made the contributions to the charter capital of QazCloud LLP according to its share.

The table below provides a summarized financial information on the Group's investment in QazCloud LLP on the basis of an assessment of the fair value:

In thousands of tenge	31 December 2019	31 December 2018
Non-current assets	2,982,071	2,547,778
Current assets, including	3,356,967	1,683,356
Cash and cash equivalents	2,621,936	979,863
Non-current liabilities, including	(395,465)	(393,421)
Non-current financial liabilities	-	-
Current liabilities, including	(1,415,229)	(575,184)
Current financial liabilities	(855,425)	(180,537)
<b>Equity</b>	4,528,344	3,262,529
Share of the ownership – 49%	2,218,889	1,598,639
<b>Carrying amount of the investment of the Group</b>	2,218,889	1,598,639
Revenue from contracts with customers	3,489,009	3,767,779
Depreciation and amortization	(603,879)	(290,644)
Finance income	27,085	75,454
Finance costs	(57,264)	(30,798)
Income tax expense	(100,137)	(52,915)
<b>Profit for the year</b>	400,550	237,784
Прочий совокупный доход	-	-
<b>TOTAL COMPREHENSIVE INCOME</b>	400,550	237,784
Share of the Group in profit for the year	196,270	116,514

## 12. IMPAIRMENT TESTING

### Goodwill

For impairment testing, goodwill acquired through business combinations was allocated to three cash-generating units (“CGUs”) (“IP TV”, “Kcell JSC” and “Khan Tengri Holding B.V.”).

IP TV CGU is part of the fixed telecommunications segment, while Kcell JSC and Khan Tengri Holding B.V. are the part of the mobile telecommunications segment.

The carrying amount of goodwill allocated to each of CGUs was as follows:

In thousands of tenge	2019	2018
Khan Tengri Holding B.V. (Note 5)	100,398,177	-
Kcell JSC (Note 5)	55,580,193	55,580,193
IP TV	2,706,335	2,706,335
	158,684,705	58,286,528

The Group performed its annual impairment test in December 2019 and 2018.

#### Khan Tengri Holding B.V.

The recoverable amount of the Khan Tengri Holding B.V. CGU has been determined based on the calculation of fair value less costs of disposal as it was deemed to produce a more reliable result. This valuation method was based on unobservable inputs (discounted cash flows), which represent Level 3 of the fair value hierarchy.

The pre-tax discount rate applied to projected cash flows was 16.96% (2018: 12%), and cash flows beyond the five-year period were extrapolated taking into account a growth rate of 1.5% (2018: 1.5%).

As a result of this analysis, management has not identified an impairment for this CGU as at 31 December 2019.

#### Kcell JSC

The recoverable amount of Kcell JSC CGU was has been determined based on the calculation of fair value less costs of disposal as it was deemed to produce a more reliable result. This valuation method was based on unobservable

inputs (discounted cash flows), which represent Level 3 of the fair value hierarchy.

The pre-tax discount rate applied to projected cash flows was 16.71%, and cash flows beyond the five-year period were extrapolated taking into account a growth rate of 1.5%.

As a result of this analysis, management have not identified an impairment for this CGU as at 31 December 2019.

#### IP TV

The recoverable amount of IP TV CGU has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period.

The pre-tax discount rate applied to the cash flow projections is 15.14% (2018: 13.10%), and cash flows beyond the five-year period are extrapolated using a 1.5% growth rate (2018: 0%).

As a result of this analysis, the management have not identified an impairment for this CGU as at 31 December 2019.

### Key assumptions used in value in use calculations

The calculation of value-in-use for IPTV and fair value less costs of disposal for Mobile telecommunications CGUs is most sensitive to the following assumptions:

- Customer base over the forecast period and average revenue per customer with direct impact on revenue growth rates;
- The level of capital investments included in the financial plan;
- EBITDA margin included in the financial plan;
- Growth rate for cash flow extrapolation beyond the forecast period;
- Discount rate.

#### Customer base and average revenue per customer

The customer base and average revenue per customer is important because management of the Group estimates how the unit’s position may change over the forecast period against its competitors.

The Group expects to increase IPTV customer base over the forecast period, as the Group plans to use the advantage of Kazakhtelecom JSC infrastructure to increase the market share of Kazakhtelecom JSC.

The Group’s management expects an increase in the customer base of mobile segment over the forecast period based on forecasted increase in population. As a result the Group expects modest increase in revenue of the unit over the entire forecast period.

#### Level of capital investments

The level of capital investments is important in Mobile telecommunications CGUs because it defines the ability of the unit to technically maintain its customer base and meet the changing market requirements. The level

of investments is determined by the needs of the units in completing the technical integration of the two networks in a timely manner, as well as the need to secure and strengthen the advantages of covering the public demand for communication services and improve network quality.

#### EBITDA margin

EBITDA margin reflects the rate of return included by the unit Mobile telecommunications CGUs into its financial plan with consideration of market conditions, competition and other factors. The growing dynamics of this index corresponds to operational growth of the unit and related cost savings.

#### Growth rates

Rates are based on published industry research.

#### Discount rate

Discount rates represent the current market assessment of the risks specific to CGU, taking into consideration the time value of money and individual risks of the CGU underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the group’s investors. The cost of debt is based on the interest-bearing borrowings the group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

### Sensitivity to changes in assumptions – IP TV

The effect of changes in key assumptions on the recoverable amount is discussed below:

#### Customer base, average revenue per customer and revenue growth rates

Although the management expects that the market share owned by the Group would not grow over the forecast period, according to the financial plan, slowing growth of customer base or decrease in the average revenue per customer, leading to a decrease in revenue from current business plan by more than 16.80%, would result in a loss from impairment in IP TV GCU for KZT 1,247 thousand.

#### Level of capital investments

Increase in capital investments by more than 366.50% would result in loss from impairment in IP TV CGU for KZT 2,127 thousand.

#### Growth rates

Management recognises that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions. A reduction in the long-term growth rate in IP TV CGU would not result in impairment loss.

#### Discount rate

An increase in pre-tax discount rate to 34.00% would result in impairment loss in IP TV CGU for KZT 2,620 thousand.

#### Sensitivity to changes in assumptions – Khan Tengri Holding B.V.

The effect of changes in key assumptions on the recoverable amount is discussed below:

#### Customer base, average revenue per customer and revenue growth rates

Although the management expects that the market share owned by the Group would not grow over the forecast period, according to the financial plan, slowing growth of customer base or decrease in the average revenue per customer, leading to a decrease in revenue from current business plan by more than 9.54%, would result in a loss from impairment in Khan Tengri Holding B.V. CGU for KZT 4,531,171 thousand.

#### Level of capital investments

Increase in capital investments by more than 72.39% would result in loss from impairment in Khan Tengri Holding B.V. CGU for KZT 4,513,932 thousand.

#### EBITDA margin

Decrease in EBITDA margin by more than 12.23% would result in loss from impairment in Khan Tengri Holding B.V. CGU for KZT 4,466,584 thousand.

#### Growth rates

Management recognises that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions. A reduction to more than 21.39% per annum in the long-term growth rate in Khan Tengri Holding B.V. CGU would result in impairment loss for KZT 4,502,738 thousand.

#### Discount rate

An increase in pre-tax discount rate to 28.59% would result in impairment loss in Khan Tengri Holding B.V. CGU for KZT 4,538,160 thousand.

#### Sensitivity to changes in assumptions – Kcell JSC

The effect of changes in key assumptions on the recoverable amount is discussed below:

#### Customer base and average revenue per customer

Although the management expects that the market share of mobile telecommunications owned by the Group would not grow over the forecast period, according to the financial plan, slowing growth of customer base or decrease in the average revenue per customer, leading to a decrease in revenue from current business plan by more than 12.48%, would result in a loss from impairment in Kcell CGU for KZT 237,528 thousand.

#### Level of capital investments

Increase in capital investments by more than 53.24% would result in loss from impairment in Kcell CGU for KZT 230,913 thousand.

#### EBITDA margin

Decrease in EBITDA margin by more than 7.99% would result in loss from impairment in Kcell CGU for KZT 285,645 thousand.

#### Growth rates

Management recognises that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions. A reduction by 13.57% per annum and more in the long-term growth rate in Kcell CGU would result in impairment loss for KZT 242,484 thousand.

#### Discount rate

An increase in pre-tax discount rate to 25.05% would result in loss from impairment in Kcell CGU for KZT 231,239 thousand.

## 13. INVESTMENT PROPERTY

Movements in investment property for the years ended 31 December 2019 and 2018 were as follows:

In thousands of tenge	2019	2018
<b>COST</b>		
At 1 January	1,264,668	1,264,668
<b>At 31 December</b>	<b>1,264,668</b>	1,264,668
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>		
At 1 January	(1,264,668)	(1,264,668)
<b>At 31 December</b>	<b>(1,264,668)</b>	(1,264,668)
<b>CARRYING AMOUNT</b>		
At 1 January	1. –	2. –
<b>At 31 December</b>	<b>3. –</b>	4. –

Investment property is represented by an office building constructed in order to lease it out to the Government related entities.

The impairment of KZT 1,264,668 thousand represents the write down of the carrying amount of the investment property to its recoverable amount. The recoverable amount

was based on analysis of value in use and fair value less costs to sell and estimated to be nil as at 31 December 2019 and 2018, as it is unlikely that the Group will receive reimbursement for its construction costs either through sale of the office building or rental payments. However, these assumptions may change in the future. The fair value of investment property is determined by reference to significant unobservable in-puts (Level 3).

## 14. OTHER NON-CURRENT FINANCIAL ASSETS

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

In thousands of tenge	2019	2018
Loans to employees	2,767,965	2,760,145
Long-term accounts receivable	1,118,077	6,669,328
Cash restricted in use	2,653	–
Other	281,464	220,396
	<b>4,170,159</b>	9,649,869
Less: allowance for expected credit losses	–	(135)
	<b>4,170,159</b>	9,649,734

As at 31 December 2019 and 2018, all Group's other non-current financial assets were denominated in tenge.



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

As at 31 December 2018, the long-term receivables represent amounts due from Mobile Telecom Service LLP in the amount

of KZT 3,659,333 thousand. On 29 February 2016 the Group and Mobile Telecom Service LLP agreed to extend the maturity of the Company's receivables from Mobile Telecom Service LLP until 2031. These receivables were discounted at the date of restructuring using 10% rate. However, as the Group obtained control over Khan Tenrgi Holding B.V. as described in Note 5, as at 31 December 2019 the related outstanding amount was fully eliminated.

As at 31 December 2019, the long-term receivables represented by special agreements with customers for the purchase of contract phones for KZT 1,118,077 thousand (as at 31 December 2018: KZT 3,009,995 thousand).

## 15. OTHER NON-CURRENT NON-FINANCIAL ASSETS

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

In thousands of tenge	2019	2018
Deferred connection cost of operators	1,679,290	671,168
Long-term VAT receivable	1,041,255	1,711,640
Deferred connection cost of subscribers	-	692,795
Other	77,771	119,079
	<b>2,798,316</b>	3,194,682

As at 31 December 2019 and 2018, the Group's other non-current non-financial assets were denominated in the following currencies:

In thousands of tenge	2019	2018
US dollars	1,216,292	190,440
Tenge	1,119,026	2,523,514
Other currencies	462,998	480,728
	<b>2,798,316</b>	3,194,682

## 16. INVENTORIES

As at 31 December 2019 and 2018, inventories comprised:

In thousands of tenge	2019	2018
Goods for resale at net realisable value	7,261,070	4,580,048
Cable materials at cost	1,506,324	1,657,088
Raw and other materials at cost	926,043	1,076,600
Spare parts at cost	541,525	636,318
Fuel at cost	330,112	452,382
	<b>10,565,074</b>	8,402,436

During 2019, an amount of KZT 57,343 thousand (2018: KZT 30,673 thousand) was recognized as expenses in respect of inventories recorded at net realizable value (Note 37). This amount was recorded within the item "General and administrative expenses".

## 17. TRADE RECEIVABLES

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

In thousands of tenge	2019	2018
Trade receivables	42,206,665	55,348,456
	<b>42,206,665</b>	55,348,456
Less: allowance for expected credit losses	(4,950,893)	(3,175,108)
	<b>37,255,772</b>	52,173,348

Movements in the allowance for expected credit losses were as follows for the years ended 31 December:

Allowance for expected credit losses at the beginning of the year	(3,175,108)	(3,146,484)
Charge for the year (Note 47)	(2,569,696)	(622,360)
Write-off for the year	785,721	593,736
Assets held for sale	8,190	-
Allowance for expected credit losses at the end of the year	<b>(4,950,893)</b>	(3,175,108)

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

In thousands of tenge	Days past due							Total
	Current	1 to 30 days	31 to 60 days	61 to 90 days	91 to 120 days	121 to 360 days	Over 360 days	
Estimated credit loss rate	2.00%	2.44%	8.04%	7.64%	8.10%	32.59%	100%	
Estimated total gross carrying amount at default	29,549,281	3,480,458	1,152,284	1,244,615	1,041,629	2,576,623	3,161,775	42,206,665
Allowance for expected credit losses	(592,272)	(85,006)	(92,587)	(95,109)	(84,370)	(839,774)	(3,161,775)	(4,950,893)

Below is information as at 31 December 2018 about the credit risk exposure on the Group's trade receivables using a matrix of reserves:

In thousands of tenge	Days past due							Total
	Current	1 to 30 days	31 to 60 days	61 to 90 days	91 to 120 days	121 to 360 days	Over 360 days	
Estimated credit loss rate	0.49%	4.52%	9.12%	9.33%	15.11%	23.98%	100%	
Estimated total gross carrying amount at default	38,033,653	4,302,479	2,970,636	2,381,772	1,772,938	5,069,507	817,471	55,348,456
Allowance for expected credit losses	(186,502)	(194,524)	(270,799)	(222,139)	(267,811)	(1,215,862)	(817,471)	(3,175,108)

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

In thousands of tenge	2019	2018
Tenge	35,008,599	48,905,384
US dollars	1,830,387	3,098,781
Russian rubles	261,932	165,322
Other currencies	154,854	3,861
	37,255,772	52,173,348

As at 31 December 2018 the Group's trade receivables include amounts due from Mobile Telecom Service LLP of KZT 12,400,895 thousand resulted from rendering of telecommunication services and providing access to data transfer

via IP VPN network. As the Group obtained control over Khan Tenrgi Holding B.V. as described in Note 5, as at 31 December 2019 the related outstanding amount was fully eliminated.

## 18. ADVANCES PAID

As at 31 December 2019 and 2018, advances paid comprised:

In thousands of tenge	2019	2018
Advances paid	5,741,078	1,419,500
	5,741,078	1,419,500
Less: allowance for doubtful amounts	(44,563)	(3,137)
	5,696,515	1,416,363

Movements in the allowance for doubtful amounts were as follows for the years ended 31 December:

In thousands of tenge	2019	2018
Allowance at the beginnings of the year	(3,137)	(70,653)
(Charge)/reversal for the year	(41,426)	67,516
Allowance at the end of the year	(44,563)	(3,137)

As at 31 December 2019 and 2018, advances paid for short term assets were given to contractors for services and delivery of inventories for operational activities of the Group.

## 19. OTHER CURRENT FINANCIAL ASSETS

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

In thousands of tenge	2019	2018
Bank deposits	3,399,500	3,576,340
Loans to employees	1,879,405	2,132,007
Restricted cash	929,499	438,812
Due from employees	283,688	228,993
Interest receivable	-	108,103
Other accounts receivable	3,555,821	2,421,526
	<b>10,047,913</b>	8,905,781
Less: allowance for expected credit losses	<b>(4,820,587)</b>	(4,220,670)
	<b>5,227,326</b>	4,685,111

As at 31 December 2019, the Group does not have bank deposits with initial maturity of more than 3 (three) months but less than 12 (twelve) months, except deposit placed in Eximbank Kazakhstan JSC (2018: 1.25% to 10.5% per annum).

on a deposit placed in Eximbank Kazakhstan JSC due to the liquidation of the bank.

Cash restricted in use represents cash on the accounts with KazInvestBank JSC and Eximbank Kazakhstan JSC for KZT 430,045 thousand and KZT 499,454 thousand, respectively, which are assessed as unlikely to be recovered due to the revocation of its banking license. Allowance for expected credit loss was recorded for the whole amount of this cash.

As at 31 December 2019, the allowance for expected credit losses includes a provision in the amount of KZT 3,399,500 thousand accrued

Changes in allowance for expected credit losses were as follows for the years ended 31 December:

In thousands of tenge	2019	2018
<b>Allowance for expected credit losses at the beginning of the year</b>	<b>(4,220,670)</b>	(1,281,945)
Charge for the year (Note 47)	<b>(108,003)</b>	(2,860,001)
Forex effect	-	(106,000)
Write-off for the year	<b>7,540</b>	27,276
Transfer from cash and cash equivalents (Note 22)	<b>(499,454)</b>	-
<b>Allowance for expected credit losses at the end of the year</b>	<b>(4,820,587)</b>	(4,220,670)

Below is information as at 31 December 2019 about the credit risk exposure on the Group's loans to employees, due from employees and other receivables using the reserve matrix:

In thousands of tenge	Days past due							Total
	Current	1 to 30 days	31 to 60 days	61 to 90 days	91 to 120 days	121 to 360 days	Over 360 days	
Estimated credit loss rate	1.36%	3.45%	8.83%	3.48%	11.64%	46.78%	100.00%	
Estimated total gross carrying amount at default	5,271,177	3,918	10,692	4,138	3,221	13,692	412,076	5,718,914
Allowance for expected credit losses	(71,509)	(135)	(944)	(144)	(375)	(6,405)	(412,076)	(491,588)

Below is information as at 31 December 2018 about the credit risk exposure on the Group's loans to employees, due from employees and other receivables using the reserve matrix:

In thousands of tenge	Days past due							Total
	Current	1 to 30 days	31 to 60 days	61 to 90 days	91 to 120 days	121 to 360 days	Over 360 days	
Estimated credit loss rate	1.02%	5.01%	9.99%	10.00%	25.01%	70.01%	100.00%	
Estimated total gross carrying amount at default	4,419,090	12,522	5,305	3,211	5,709	13,406	431,386	4,890,629
Allowance for expected credit losses	(44,921)	(627)	(530)	(321)	(1,428)	(9,385)	(431,386)	(488,598)

As at 31 December 2019 and 2018, other current financial assets were denominated in the following currencies:

In thousands of tenge	2019	2018
Tenge	5,070,053	4,552,766
US dollars	157,273	124,948
Other	-	7,397
	<b>5,227,326</b>	4,685,111

## 20. 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 recognized the financial assets at fair value through other comprehensive income as the contractual

cash flows are solely principal and interest and the financial assets is held within a business model for collecting contractual cash flows and selling financial assets. Nominal amount is 12,880,000 USD (equivalent to 5,021,171 thousand tenge at the date of acquisition), with maturity till August 2020 and yield to maturity at 1.7%. Fair values of the equity shares are determined by reference to published price quotations in an active market (Level 1).

## 21. OTHER CURRENT NON-FINANCIAL ASSETS

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

In thousands of tenge	2019	2018
VAT receivable	3,468,766	4,046,770
Taxes prepaid other than corporate income tax	1,734,131	1,345,611
Deferred connection cost of operators	237,750	143,086
Deferred connection cost of subscribers	-	799,362
Other	631,835	532,720
	<b>6,072,482</b>	<b>6,867,549</b>

## 22. CASH AND CASH EQUIVALENTS

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

In thousands of tenge	2019	2018
Cash on current bank accounts	67,674,762	45,763,434
Deposits with less than 90 days' maturity from the date of opening	3,631,562	72,802
Cash on hand	34,830	20,621
	<b>71,341,154</b>	<b>45,856,857</b>
Less: allowance for expected credit losses	(19,332)	(506,765)
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>71,321,822</b>	<b>45,350,092</b>

Cash on current bank accounts earn interest at the rates ranging from 0.2% to 8.0% per annum (2018: from 0.1% to 8.5% per annum).

As at 31 December 2019, short-term deposits for KZT 3,631,562 thousand were placed for varying periods between one day and three months, depending on the immediate cash requirements of the Group, and earned interest at the rates ranging from 7.5% to 8.40% per annum (as at 31 December 2018: KZT 72,802 thousand).

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following at 31 December:

In thousands of tenge	2019	2018
Cash on current bank accounts	67,674,762	45,763,434
Deposits with less than 90 days' maturity from the date of opening	3,631,562	72,802
Cash on current bank accounts attributable to disposed group (Note 44)	315,556	-
Cash on hand	34,830	20,621
	<b>71,656,710</b>	<b>45,856,857</b>
Less: allowance for expected credit losses	(19,332)	(506,765)
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>71,637,378</b>	<b>45,350,092</b>

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

In thousands of tenge	2019	2018
US dollars	43,199,243	29,886,154
Tenge	27,356,685	15,314,144
Euro	652,984	21,541
Russian roubles	107,521	128,024
Other	5,389	229
	<b>71,321,822</b>	<b>45,350,092</b>

Movements in the allowance for expected credit losses were as follows for the years ended 31 December:

In thousands of tenge	2019	2018
<b>Allowance for expected credit losses at the beginning of the year</b>	<b>(506,765)</b>	<b>(20,240)</b>
Charge for the year (Note 47)	(12,021)	(486,525)
Transfer to other current financial assets (Note 19)	499,454	-
<b>Allowance for expected credit losses at the end of the year</b>	<b>(19,332)</b>	<b>(506,765)</b>

## 23. EQUITY

### Authorised and issued shares

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

### Treasury shares

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

### Shares issued less reacquired shares

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

In the period from 13 December 2018 to 8 January 2019, the Group received applications from non-controlling shareholders demanding the Group to repurchase their shares in connection

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

### Preferred shares

Holders of preferred shares are entitled to receive annual cumulative dividends of 300 tenge per share, and not less than the amount of the dividends per share paid to holders of common shares. Payment of preferred shares dividends does not require a resolution of Kazakhtelecom JSC shareholders meeting. The discounted value of future cash flows of annual cumulative dividends is recorded as a financial liability as at 31 December 2019 in the amount of KZT 814,868 thousand (31 December 2018: KZT 874,244 thousand). This liability has been included in non-current liabilities as a debt component of preferred shares. As at 31 December 2019 the debt component of preferred shares decreased by

KZT 59,376 thousand as a result of repurchased 21,771 preferred shares during 2019. Preferred shareholders receive the right to vote if the general meeting of shareholders considers decisions restricting rights of preferred shareholders, decisions on reorganization or liquidation of the Company and if dividends on preferred shares are not paid within 3 (three) months after a specified payment date.

### Dividends

The preferred shares earn a non-discretionary dividend of 300 tenge per share in accordance with the Company's charter documents. Preferred shares are considered to be compound financial instruments, and accordingly the liability and equity components are presented separately in the consolidated statement of financial position. Dividends in the amount of KZT 89,635 thousand were accrued as at 31 December 2019 (at 31 December 2018: KZT 96,167 thousand) and are recorded as interest expenses in the consolidated statement of comprehensive income (Note 40).

On the basis of the decision made at the annual shareholders general meeting of Kazakhtelecom JSC on 30 April 2019, the Company declared dividends on preferred shares based on 2018 results in the amount of KZT 154,202 thousand and dividends on common shares in the amount of KZT 9,855,107 thousand (2018: KZT 415,373 thousand and KZT 17,086,639 thousand, respectively). The dividends accrued on common shares during 2019. Dividends per share (common and preferred) as at 31 December 2019 were equal to KZT 781.06 (as at 31 December 2018: KZT 1,595.79 per common share).

### Movements in dividends payable for the years ended 31 December were as follow:

In thousands of tenge	2019	2018
<b>Dividends payable at the beginning of the year</b>	<b>2,033,495</b>	1,628,625
Dividends declared on common shares to equity holders of the parent	<b>8,362,107</b>	17,086,639
Dividends declared on common shares to non-controlling interests	<b>1,493,000</b>	-
Dividends declared on preferred shares in excess of the obligatory amount	<b>154,202</b>	415,373
Interest on debt component of preferred shares (Note 40)	<b>89,635</b>	96,167
Dividends paid to equity holders of the parent	<b>(9,041,085)</b>	(17,193,309)
Dividends paid to non-controlling interests	<b>(1,493,000)</b>	-
<b>Dividends payable at the end of the year (Note 30)</b>	<b>1,598,354</b>	2,033,495

For the period ended 31 December 2019 the Group paid withholding tax on dividends in the amount of KZT 156,411 thousand (2018: KZT 197,074 thousand).

### Other reserves

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

### Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of financial statements of the subsidiaries, whose functional currency

is not tenge and whose financial statements are included in these consolidated financial statements in accordance with the accounting policy disclosed in Note 3.

### Earnings per share

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

Diluted earnings per share are equal to basic earnings per share, as the Group does not have any dilutive potential common shares.

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

In thousands of tenge	2019	2018
<b>Net profit</b>	<b>57,086,449</b>	43,067,365
Interest on preferred shares (Note 40)	<b>89,635</b>	96,167
<b>Net profit for calculating of basic and diluted earnings per share</b>	<b>57,176,084</b>	43,163,532
Weighted average number of common and preferred shares for calculation of basic and diluted earnings per share	<b>11,010,577</b>	11,027,879
<b>Basic and diluted earnings per share, tenge</b>	<b>5,192.83</b>	3,914.04

There have been no other transactions involving common shares or potential common shares between the reporting date and the date of preparation of these consolidated financial statements.

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

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

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

In thousands of tenge	2019	2018
Total assets	<b>1,079,050,050</b>	791,968,285
Less: intangible assets, including goodwill	<b>382,025,167</b>	179,762,993
Less: total liabilities	<b>616,184,122</b>	377,187,670
Less: preferred shares issued net of reacquired shares	<b>298,785</b>	320,556
<b>Net assets for calculation of cost of ordinary share in accordance with listing requirements of KASE</b>	<b>80,541,976</b>	234,697,066
Number of ordinary shares	<b>10,706,024</b>	10,707,323
<b>Cost of ordinary share, calculated in accordance with listing requirements of KASE (in tenge)</b>	<b>7,523</b>	21,919

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

## 24. BORROWINGS

As at 31 December 2019 and 2018, borrowings comprised:

In thousands of tenge	Weighted average interest rate	2019	Weighted average interest rate	2018
Bonds with a fixed interest rate of 7.78% to 12.18% per annum	<b>12.14%</b>	<b>206,857,207</b>	12.16%	106,661,234
Borrowings with a fixed interest rate of 7.25% to 12.86% per annum	<b>11.18%</b>	<b>160,758,517</b>	11.01%	86,791,306
<b>TOTAL</b>		<b>367,615,724</b>		<b>193,452,540</b>

On 6 November and 12 December 2018, the Group made a listing of coupon bonds on the stock exchange of the International Financial Center Astana (AIX) for amount of KZT 100,000,000 thousand at an effective interest rate of 12.18% and maturity in November 2024. The nominal value of one bond is one thousand tenge. Bonds on these issues were purchased by the Parent company.

In accordance with the terms of the bonds sale agreements concluded with the Parent, the Group is obliged to provide collateral represented by shares of Kcell JSC sufficient to cover the total amount of the agreements before 31 December 2019 or the primary/secondary public offering of shares of Kazakhtelecom JSC on the stock market, depending on what comes last.

The Board of Directors of Kazakhtelecom JSC resolved to pledge shares of Kcell JSC as collateral for these coupon bonds within the time limit specified above. On 31 December 2019, shares were not pledged.

On 21 February 2019, the Group undertook a bond placement at the Kazakhstan Stock Exchange, in which bonds to the value of KZT 17,024,648 thousand were placed with an effective interest rate of 11.84% and on 16 January 2018 a bond placement with the value of KZT 4,950,000 thousand.

This was the first placement in the 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.

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

On 19 June 2019, the Group placed bonds on the Kazakhstan Stock Exchange JSC for amount of KZT 80,000,000 thousand at an effective interest rate of 12.18% and maturity in June 2026. The nominal value of one bond is one thousand tenge.

On 18 October 2019, the Group and Development bank of Kazakhstan JSC entered into credit facility agreement with the credit line limit in the amount of KZT 26,666,667 thousand. The loan is secured by property – the right to claim future cash proceeds under a public-private partnership agreement on the project "Broadband Access to Rural Communities of the Republic of Kazakhstan by the Technology of Fiber Optic Communication Lines".

Borrowings are repayable as follows:

In thousands of tenge	2019	2018
<b>Current portion of borrowings</b>	<b>28,477,663</b>	57,614,129
Maturity between 1 and 2 years	<b>38,648,363</b>	7,392,518
Maturity between 2 and 5 years	<b>196,418,649</b>	23,780,192
Maturity over 5 years	<b>104,071,049</b>	104,665,701
<b>Total non-current portion of borrowings</b>	<b>339,138,061</b>	135,838,411
<b>TOTAL BORROWINGS</b>	<b>367,615,724</b>	<b>193,452,540</b>

As of 31 December 2019 and December 2018, debt securities issued and loans represented by the following:

	Maturity date	Currency	Effective interest rate	2019	2018
<b>BONDS</b>					
Local bonds of Kazakhtelecom JSC (KTCB.1024 and KTCB2.1024)	1 November 2024	Tenge	12.18%	<b>103,833,333</b>	101,461,458
Local bonds of Kazakhtelecom JSC (KZTKb3)	19 June 2026	Tenge	12.18%	<b>80,189,473</b>	-
Local bonds of Kcell JSC (KCELB1)	16 January 2021	Tenge	11.84%	<b>22,828,111</b>	5,193,713
Local bonds of Kazakhtelecom JSC (KZTKb3)	10 January 2020	Tenge	7.78%	<b>6,290</b>	6,063
				<b>206,857,207</b>	106,661,234
<b>BORROWINGS</b>					
Halyk Bank of Kazakhstan JSC	21 May 2027	Tenge	12.20%	<b>79,135,027</b>	-
Development Bank of Kazakhstan JSC	19 December 2024	Tenge	7.25%-9.41%	<b>29,226,311</b>	25,266,233
Eurasian Development Bank JSC	20 May 2024	Tenge	12.54%	<b>28,956,330</b>	29,749,590
Development Bank of Kazakhstan JSC	30 June 2032	Tenge	8.10%	<b>13,293,317</b>	-
VTB Bank JSC	1 February 2020	Tenge	11.90%	<b>5,087,740</b>	-
Bank of China Kazakhstan JSC	20 August 2022	Tenge	11.08%	<b>5,059,792</b>	-
Alfa Bank JSC	7 June 2019	Tenge	12.86%	-	10,086,666
Halyk Bank Kazakhstan JSC	16 July 2021	Tenge	11.62%	-	9,976,714
Halyk Bank Kazakhstan JSC	2 December 2019	Tenge	11.62%	-	7,818,525
Halyk Bank Kazakhstan JSC	20 September 2019	Tenge	11.62%	-	3,893,578
<b>TOTAL</b>				<b>160,758,517</b>	<b>86,791,306</b>

As at 31 December 2019, the Parent is a guarantor of the two out of three credit facilities received by the Group from Development Bank of Kazakhstan JSC in the amount of KZT 20,902,442 thousand (as at 31 December 2018: KZT 24,961,627 thousand).

### Covenants

The Group is required to ensure execution of the financial and non-financial covenants under the terms of the loan agreements. Failure to comply with financial covenants gives the lenders the right to demand early repayment of loans. As at 31 December 2019 and 2018, the Group complied with all financial and non-financial covenants.

## 25. EMPLOYEE BENEFIT OBLIGATIONS

### State contribution plan

The Group pays social tax according to the current statutory requirements of the Republic of Kazakhstan. The social tax and salary accruals are recorded in expenses as incurred.

In additions, the Group withholds 10% of the salary of employees paid as contributions of employees to the accumulating pension funds. These expenses are recorded in the period when they were incurred.

### Employee benefit obligations

As at 31 December 2019 and 2018, the total employee benefit obligations of the Group comprised the following:

In thousands of tenge	2019	2018
Present value of defined benefit pension plan obligation	16,823,296	15,225,384
Present value of obligations for other long-term payments	640,344	580,386
	17,463,640	15,805,770

A defined benefit pension plan provides for the fulfillment of obligations under the state pension provision in accordance with the Collective Agreement concluded between the Company and employees. Other long-term payments include anniversaries, funeral payments, and others.

The Group did not create a fund for such obligations.

A reconciliation of the present value of the defined benefit plan obligation with specified payments was as follows for the years ended 31 December 2019 and 2018:

In thousands of tenge	2019	2018
<b>Total liability at the beginning of the year</b>	15,225,384	12,474,055
Current service cost	431,740	366,783
Interest expenses	1,277,409	923,080
Benefits paid during the year	(1,502,655)	(1,285,569)
Actuarial losses recognized during the year within other comprehensive income	1,391,418	2,747,035
<b>Total liability at the end of the year</b>	16,823,296	15,225,384
Liability payable within one year	(1,061,940)	(1,255,222)
<b>Liability payable after one year</b>	15,761,356	13,970,162

A reconciliation of the present value of obligations for other long-term payments with specified payments was as follows for the years ended 31 December 2019 and 2018:

In thousands of tenge	2019	2018
<b>Total liability at the beginning of the year</b>	580,386	458,129
Current service cost	53,440	46,548
Past service cost	-	212,923
Interest expenses	48,695	33,902
Benefits paid during the year	(68,464)	(73,532)
Actuarial losses recognized during the period within expenses	26,287	(97,584)
<b>Total liability at the end of the year</b>	640,344	580,386
Liability payable within one year	(85,872)	(79,195)
<b>Liability payable after one year</b>	554,472	501,191

Actuarial losses recognised in 2019 have resulted primarily from changes in the assumptions relating to the discount rate and from historical adjustments.

Cost of current service, interest expenses and actuarial losses in the total amount of KZT 1,837,571 thousand were recorded in cost of sales and general and administrative expenses within personnel costs (2018: KZT 1,485,652 thousand) (Note 39).

Actuarial losses recognized in 2019 within other comprehensive income, net of income tax, were equal to KZT 1,156,810 thousand (2018: KZT 2,512,956 thousand).

There were no unrecognised actuarial losses or past service costs.

The estimates of the liability were made on the basis of the published statistical data regarding mortality of employees and actual Company's data concerning the number, age, gender and years of employee service. Other principal assumptions used in determining benefit obligations for the Company's plan were shown below:

	2019	2018
Discount rate	7.60%	8.39%
The expected rate of future annual minimum salary increases	8.00%	8.66%

A quantitative sensitivity analysis for significant assumptions as at 31 December 2019, was as follows:

Sensitivity level	Discount rate		The expected rate of future annual minimum salary increases	
	Growth by 0.5%	Reduction by 0.5%	Growth by 1%	Reduction by 1%
Impact on defined benefit plan obligations, in thousands tenge	(960,179)	1,342,120	1,380,472	(1,287,095)



A quantitative sensitivity analysis for significant assumptions as at 31 December 2018, was as follows:

Sensitivity level	Discount rate		The expected rate of future annual minimum salary increases	
	Growth by 0.5%	Reduction by 0.5%	Growth by 1%	Reduction by 1%
Impact on defined benefit plan obligations, in thousands tenge	(886,813)	1,175,846	1,218,675	(1,156,773)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analyses are based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

## 26. OTHER NON-CURRENT FINANCIAL LIABILITIES

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

In thousands of tenge	2019	2018
Non-current accounts payable	1,318	78,147
Guarantee issued	-	915,558
	<b>1,318</b>	<b>993,705</b>

### Guarantee issued

On 25 February 2016, the Group provided a guarantee to associate organization Khan Tengri Holding B.V. under the credit facility from Development Bank of Kazakhstan JSC with a credit limit of up to KZT 10,008,780 thousand for the period until 19 December 2024. As at 31 December 2018, guarantee issued represents an estimated reserve for expected credit losses on liabilities of Khan Tengri Holding B.V. As at 28 June 2019, guarantee issued in amount of KZT 937,145 thousand was included into the consideration of business combination due to the acquisition of residual shares in associate of Khan Tengri Holding B.V. (Note 5).

## 27. NON-CURRENT CONTRACT LIABILITIES

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

In thousands of tenge	2019	2018
Contract liabilities from operators	4,292,035	3,425,567
Contract liabilities for connection of subscribers	889,219	1,163,051
Other contract liabilities	1,697,055	1,110,683
	<b>6,878,309</b>	<b>5,699,301</b>

Movements in liabilities for the years ended 31 December were as follows:

In thousands of tenge	2019	2018
<b>Contract liabilities as at 1 January</b>	<b>14,841,621</b>	<b>9,456,950</b>
Deferred during the year	239,214,018	15,801,393
Recognised as revenue during the year	(228,205,396)	(10,966,307)
Amortization of discount	-	549,585
<b>TOTAL CONTRACT LIABILITIES AS AT 31 DECEMBER</b>	<b>25,850,243</b>	<b>14,841,621</b>
Current (Note 31)	18,971,934	9,142,320
<b>Non-current</b>	<b>6,878,309</b>	<b>5,699,301</b>

## 28. ASSET RETIREMENT OBLIGATIONS

### Asset retirement obligations

Provision for asset retirement obligations 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 asset retirement obligations.

Movements in provision for asset retirement obligations for the years ended 31 December were as follows:

In thousands of tenge	2019	2018
<b>Provision for asset retirement obligations as at 1 January</b>	<b>1,444,530</b>	<b>145,985</b>
Change in estimate (Note 9)	577,768	12,375
Amortization of discount (Note 40)	372,555	688
Acquisition of subsidiary (Note 5)	4,826,230	1,285,482
<b>Provision for asset retirement obligations as at 31 December</b>	<b>7,221,083</b>	<b>1,444,530</b>
Current (Note 32)	345,500	-
<b>Non-current</b>	<b>6,875,583</b>	<b>1,444,530</b>

## 29. TRADE PAYABLES

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

In thousands of tenge	2019	2018
Trade payables for supply of property and equipment	32,009,038	17,445,106
Trade payables for services rendered	25,952,370	23,512,079
Trade payables for inventory received	1,436,431	1,190,220
	<b>59,397,839</b>	42,147,405

As at 31 December 2019 and 2018, trade payables were interest-free.

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

In thousands of tenge	2019	2018
Tenge	50,257,574	30,835,928
US dollars	7,898,867	10,879,035
Euro	977,256	19,525
Russian roubles	256,091	410,722
Other	8,051	2,195
	<b>59,397,839</b>	42,147,405

## 30. OTHER CURRENT FINANCIAL LIABILITIES

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

In thousands of tenge	2019	2018
Payable to employees	16,111,648	11,100,616
Dividends payable (Note 23)	1,598,354	2,033,495
Payable to Khan Tengri Holding B.V.	-	4,842,282
Guarantees issued	-	43,174
Other	2,441,911	834,387
	<b>20,151,913</b>	18,853,954

### Payable to Khan Tengri Holding B.V.

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

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

## 31. CURRENT CONTRACT LIABILITIES

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

In thousands of tenge	2019	2018
Advances received	17,052,535	7,208,814
Contract liabilities from operators	1,338,555	902,722
Contract liabilities for connection of subscribers	409,310	471,924
Other contract liabilities	74,662	14,673
Other	96,872	544,187
	<b>18,971,934</b>	9,142,320

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

## 32. OTHER CURRENT NON-FINANCIAL LIABILITIES

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

In thousands of tenge	2019	2018
Taxes payable other than income tax	2,042,840	6,305,705
Payable to pension funds	558,931	561,920
Asset retirement obligations	345,500	-
Other	300,713	249,025
	<b>3,247,984</b>	7,116,650

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

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

However, in July 2019 after the negotiations with Telia Company and Fintur Holding B.V., the amount of indemnification assets was reconsidered from KZT 10,913,899 thousand to KZT 10,171,407 thousand. On 10 June 2019, the Group repaid the termination fine in full. On 25 July 2019, Telia Company and Fintur Holding B.V. repaid KZT 6,157,326 thousand and KZT 4,014,149 thousand, respectively, to Kazakhtelecom JSC and totally reimbursed 75% share of fine paid by Kcell JSC to Kar-Tel LLP for termination of the Network Sharing Agreement.

### 34. REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue from contracts with customer for the years ended 31 December comprised:

In thousands of tenge	For the year ended 31 December 2019			
	Fixed line	Mobile connection	Other	Total
Data transfer services	106,657,901	62,664,151	15,198	169,337,250
Rendering of fixed line and wireless phone services	39,830,602	116,592,951	-	156,423,553
Rent of channels	9,595,335	-	-	9,595,335
Interconnect	15,162,225	15,510,651	-	30,672,876
Sale of equipment and mobile devices	-	19,092,662	-	19,092,662
Other	32,981,489	2,116,753	439,978	35,538,220
	204,227,552	215,977,168	455,176	420,659,896
B2C*	105,585,105	174,184,160	-	279,769,265
B2B**	34,665,007	16,051,632	455,176	51,171,815
B2O***	28,030,146	25,437,915	-	53,468,061
B2G****	35,947,294	303,461	-	36,250,755
	204,227,552	215,977,168	455,176	420,659,896
In thousands of tenge	For the year ended 31 December 2018			
	Fixed line	Mobile connection	Other	Total
Data transfer services	111,745,082	1,554,392	-	113,299,474
Rendering of fixed line and wireless phone services	44,991,160	1,557,710	-	46,548,870
Rent of channels	18,542,643	-	-	18,542,643
Interconnect	14,353,098	595,431	-	14,948,529
Other	21,917,114	785,609	500,551	23,203,274
	211,549,097	4,493,142	500,551	216,542,790
B2C*	104,849,713	3,132,867	-	107,982,580
B2B**	31,853,238	764,822	500,551	33,118,611
B2O***	42,539,481	595,431	-	43,134,912
B2G****	32,306,665	22	-	32,306,687
	211,549,097	4,493,142	500,551	216,542,790

\* B2C (Business-to-Consumer) – services rendered to private end consumers (individuals).  
 \*\* B2B (Business to Business) – services rendered to the corporate sector, including large enterprises and SMEs.  
 \*\*\* B2O (Business-to-Operator) – services rendered to communication operators.  
 \*\*\*\* B2G (Business-to-Government) – services rendered to the state sector.

### 35. COMPENSATION FOR PROVISION OF UNIVERSAL SERVICES IN RURAL AREAS

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

There are no unfulfilled conditions or contingencies attached to these subsidies. The compensation received for the year ended 31 December 2019 was equal to KZT 7,420,778 thousand (2018: KZT 6,183,581 thousand).

### 36. COST OF SALES

Cost of sales for the years ended 31 December comprised:

In thousands of tenge	2019	2018
Depreciation and amortization	90,479,527	38,587,880
Personnel costs (Note 39)	69,737,976	53,723,725
Interconnect	31,145,689	7,685,137
Repair and maintenance	17,330,758	7,532,292
Cost of SIM-card, scratch card and handsets	17,288,323	-
Rent of channels	13,375,816	9,346,137
Fees for radiofrequencies use	10,066,530	1,269,941
Electricity	7,534,144	2,901,765
Inventories	7,094,023	6,213,926
Fee to provide telecom services	4,968,143	2,940,937
Content	4,809,281	5,379,248
Security and safety	2,822,916	2,190,836
Fees for usage of GSM radiofrequencies of Mobile Telecom Services LLP	2,667,239	5,263,310
Utilities	2,040,847	1,881,526
Short-term lease expenses	1,708,320	-
Business trip expenses	1,115,966	780,069
Insurance	671,954	397,980
Fees for usage of billing system of Mobile Telecom Services LLP	111,135	219,305
Rent of transponders related to satellite communications	-	765,528
Rental of property and equipment	-	1,754,904
Other	7,511,077	5,181,166
	292,479,664	154,015,612

### 37. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended 31 December comprised:

In thousands of tenge	2019	2018
Personnel costs (Note 39)	17,904,255	13,075,235
Depreciation and amortization	4,472,369	287,951
Taxes other than corporate income tax	4,070,810	3,104,911
Consulting services	3,528,329	3,138,478
Social activities	885,195	715,633
Repair and maintenance expenses	716,424	216,900
Business trips	647,782	589,980
Collectors services	609,581	-
Inventories	435,828	234,471
Insurance	208,651	162,063
Trainings	170,128	223,382
Bank fees	142,734	54,262
Security and safety	115,561	94,278
Short-term lease expenses	111,427	-
Write-down of inventories to net realizable value (Note 16)	57,343	30,673
Rental of equipment	-	162,519
Other	3,835,266	1,220,930
	<b>37,911,683</b>	<b>23,311,666</b>

### 38. SELLING EXPENSES

Selling expenses for the years ended 31 December comprised:

In thousands of tenge	2019	2018
Marketing and advertising	6,796,043	2,499,979
Amortization of cost to obtain a contract	5,155,168	1,511,909
Other	819,377	375,633
	<b>12,770,588</b>	<b>4,387,521</b>

### 39. PERSONNEL EXPENSES

Personnel expenses for the years ended 31 December comprised:

In thousands of tenge	2019	2018
Payroll	78,538,576	59,778,384
Payroll related taxes	7,266,084	5,534,924
Employee benefits (Note 25)	1,837,571	1,485,652
	<b>87,642,231</b>	<b>66,798,960</b>

Personnel expenses for the years ended 31 December were allocated as follows:

In thousands of tenge	2019	2018
Cost of sales (Note 36)	69,737,976	53,723,725
General and administrative expenses (Note 37)	17,904,255	13,075,235
	<b>87,642,231</b>	<b>66,798,960</b>

### 40. (FINANCE COSTS) / FINANCE INCOME

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

In thousands of tenge	2019	2018
<b>FINANCE COSTS</b>		
Interest expense on loans (Note 47)	(32,246,010)	(4,016,403)
Interest expense on lease liabilities (Note 3)	(8,006,074)	-
Discounting of long-term loans to employees	(1,072,221)	(1,054,793)
Unwinding of discount on long-term accounts payable	(619,362)	(549,789)
Unwinding of discount (provision for asset retirement obligations) (Note 28)	(372,555)	(688)
Interest on debt component of preferred shares (Note 23)	(89,635)	(96,167)
Discounting of other non-current financial assets	(11,808)	(66,310)
Interest expense under finance leases (Note 47)	-	(1,565,491)
Other costs	(66,631)	-
	<b>(42,484,296)</b>	<b>(7,349,641)</b>

In thousands of tenge	2019	2018
<b>FINANCE INCOME</b>		
Interest income on loans issued	1,007,975	-
Discounting long-term borrowings	977,095	-
Unwinding of discount on long-term loans to employees	872,308	981,797
Interest income on cash balances	842,788	994,635
Interest income on deposits	293,104	653,487
Unwinding of discount on long-term accounts receivable	200,873	337,264
Interest income on guarantees issued	21,586	82,148
Other income	89,779	17,698
	<b>4,305,508</b>	<b>3,067,029</b>

#### 41. NET FOREIGN EXCHANGE (LOSS)/GAIN

On 20 August 2015, the National Bank and the Government of the Republic of Kazakhstan announced the transition to “free floating exchange rate of tenge” and cancelation of the currency corridor. As a result, Kazakhstani tenge significantly devalued against US dollar and other major currencies approximately by 90%. Subsequently, the exchange rate of tenge to US dollar significantly fluctuated in accordance with the market conditions. Net foreign exchange loss for the year ended 31 December 2019 was KZT 1,269,021 thousand (net foreign exchange gain for the year ended 31 December 2018 was KZT 10,591,474 thousand).

#### 42. OTHER INCOME/(EXPENSES)

Other income and expenses for the years ended 31 December comprised:

In thousands of tenge	2019	2018
<b>OTHER INCOME</b>		
Rental income	1,953,194	3,229,876
Non-core operations	251,998	421,558
Other	1,237,739	707,290
	<b>3,442,931</b>	<b>4,358,724</b>
<b>OTHER EXPENSES</b>		
Non-core operations	(248,153)	(396,991)
Rental expenses	(14,167)	(14,292)
Other	(47,978)	(381,899)
	<b>(310,298)</b>	<b>(793,182)</b>

Rental income mainly represents rent of spaces used for the installation of technological equipment by third parties.

#### 43. INCOME TAX EXPENSES

Income tax expenses for the years ended 31 December comprised:

In thousands of tenge	2019	2018
Current corporate income tax expenses	18,300,742	11,736,193
Adjustments in respect of income tax of previous year	(75,644)	-
Deferred income tax benefit	(8,795,946)	(628,613)
	<b>9,429,152</b>	<b>11,107,580</b>

The Group and its subsidiaries except for KT-IX LLC are subject to taxation in the Republic of Kazakhstan. KT-IX LLC is subject to taxation in the Russian Federation.

Tax rate for the Group and subsidiaries except for subsidiaries stated above 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 out below:

In thousands of tenge	2019	2018
<b>Profit before taxation</b>	<b>69,774,450</b>	<b>53,990,896</b>
<b>Income tax at statutory income tax rate of 20%</b>	<b>13,954,890</b>	<b>10,798,179</b>
Derecognition of deferred tax assets of expected credit losses	520,178	-
Non-deductible expenses related to employee benefits obligations	367,514	210,031
Inventories write-offs	6,594	22,358
Changes in unrecognised deferred tax assets	-	7,777
Impairment losses on financial assets	-	778,198
Adjustments in respect of income tax of previous year	(75,644)	-
Share in profit of associates	(1,205,439)	(1,572,017)
Recognition of tax loss carry forward	(1,377,725)	-
Gain from re-measurement of previously held interest in the associate	(3,462,023)	-
Non-deductible expenses	700,807	863,054
<b>TOTAL INCOME TAX EXPENSES</b>	<b>9,429,152</b>	<b>11,107,580</b>

In thousands of tenge	Consolidated statement of financial position		Consolidated statement of comprehensive income		The effect of the application of new standards		Acquisition of a subsidiary (Note 5)		As part of other comprehensive loss	
	31 December 2019	31 December 2018	2019	2018	2019	2018	2019	2018	2019	2018
<b>DEFERRED TAX ASSETS</b>										
Property and equipment	11,813,629	-	943,787	-	-	-	10,869,842	-	-	-
Tax loss carry forward	1,377,725	1,377,725	-	-	-	-	-	1,377,725	-	-
Asset retirement obligations	1,444,217	288,906	190,065	31,810	-	-	965,246	257,096	-	-
Employee benefit obligations	1,258,300	1,104,258	(80,566)	(65,204)	-	-	-	-	234,608	234,079
Discount on non-current assets	665,484	917,356	(251,872)	(19,407)	-	-	-	-	-	-
Deferred income	650,877	28,610	622,267	(6,614)	-	-	-	-	-	-
Lease liabilities	606,701	-	452,364	-	154,337	-	-	-	-	-
Accrued provisions for unused vacations	601,040	338,438	262,602	81,370	-	-	-	-	-	-
Accrued provisions for expected credit loss	547,369	806,268	(384,698)	(39,222)	-	204,630	125,799	185,875	-	-
Intangible assets	136,254	210,672	(74,418)	45,322	-	-	-	-	-	-
Interest payable on borrowings	788	468,247	(467,459)	-	-	-	-	468,247	-	-
Obligation to pay a fine for termination of the contract	-	2,910,373	(2,910,373)	-	-	-	-	2,910,373	-	-
Other	5,688,819	1,550,424	1,154,010	252,171	-	-	2,984,385	363,660	-	-
Less: unrecognised tax assets	-	(1,377,725)	1,377,725	92,891	-	-	-	(1,377,725)	-	-
Less: deferred tax assets less deferred tax liabilities	(23,025,076)	(8,376,668)	296,684	(464,926)	-	(204,630)	(14,945,272)	(4,185,251)	-	-
<b>Deferred tax assets</b>	<b>1,766,127</b>	<b>246,884</b>	<b>1,130,298</b>	<b>(91,809)</b>	<b>154,337</b>	-	-	-	<b>234,608</b>	<b>234,079</b>
<b>DEFERRED TAX LIABILITIES</b>										
Property and equipment	32,267,812	32,864,233	(3,630,084)	(13,458)	-	-	3,033,663	10,554,444	-	-
Intangible assets	33,256,731	14,001,200	(1,714,177)	(239,464)	-	-	20,969,708	14,001,200	-	-

In thousands of tenge	Consolidated statement of financial position		Consolidated statement of comprehensive income		The effect of the application of new standards		Acquisition of a subsidiary (Note 5)		As part of other comprehensive loss	
	31 December 2019	31 December 2018	2019	2018	2019	2018	2019	2018	2019	2018
Indemnification assets	-	2,182,780	(2,182,780)	-	-	-	-	2,182,780	-	-
Other	(50,611)	384,860	(435,471)	(2,574)	-	261,096	-	126,338	-	-
Less: deferred tax assets less deferred tax liabilities	(23,025,076)	(8,376,668)	296,684	(464,926)	-	(204,630)	(14,945,272)	(4,185,251)	-	-
<b>Deferred tax liabilities</b>	<b>42,448,856</b>	<b>41,056,405</b>	<b>(7,665,648)</b>	<b>(720,422)</b>	-	<b>56,466</b>	<b>9,058,099</b>	<b>22,679,511</b>	-	-
<b>The effect of the application of new standards</b>	-	-	-	-	<b>154,337</b>	<b>(56,466)</b>	-	-	-	-
<b>Acquisition of a subsidiary (Note 5)</b>	-	-	-	-	-	-	<b>9,058,099</b>	<b>22,679,511</b>	-	-
<b>Deferred income tax (expense)/benefit</b>	<b>-</b>	<b>-</b>	<b>8,795,946</b>	<b>628,613</b>	-	-	-	-	<b>234,608</b>	<b>234,079</b>
<b>Deferred income tax (expense)/benefit</b>	<b>-</b>	<b>-</b>	<b>8,795,946</b>	<b>628,613</b>	-	-	-	-	<b>234,608</b>	<b>234,079</b>

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

In thousands of tenge	2019	2018
Deferred tax assets	1,766,127	246,884
Deferred tax liabilities	(42,448,856)	(41,056,405)
<b>Net deferred tax liabilities</b>	<b>(40,682,729)</b>	<b>(40,809,521)</b>
<b>Reconciliation of deferred tax liabilities, net</b>		
<b>Balance at 1 January</b>	<b>(40,809,521)</b>	<b>(18,936,236)</b>
Income tax benefit for the reporting period – origination and recovery of temporary differences	8,795,946	628,613
Less: deferred tax recognised within other comprehensive loss	234,608	234,079
The effect of the application of new standards	154,337	(56,466)
Deferred taxes acquired in business combinations (Note 5)	(9,058,099)	(22,679,511)
<b>Balance at 31 December</b>	<b>(40,682,729)</b>	<b>(40,809,521)</b>



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 and will expire in 2019. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

As at 31 December 2019, the Group has not recognised deferred tax assets in relation to the temporary difference in the amount of KZT 30,844,785 thousand (as at 31 December 2018: KZT 13,908,799 thousand) 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.

#### 44. DISPOSAL GROUP

##### KT Cloud Lab LLP

On 17 June 2019, the Group announced the decision of its Board of Directors to sell 100% share in the charter capital of KT Cloud Lab LLP through the open two-step tender.

On 13 November 2019, the results of the tender for realization of 100% share in the charter capital of KT Cloud Lab LLP were announced with the selling price of KZT 1,435,000 thousand. The tender winner was Soft Art LLP. In accordance

with the tender terms, the conclusion of sale and purchase agreement can only be made after the approval of Samruk-Kazyna, the Parent of the Group. The Group assesses the approval as highly probable and expects to receive it from Samruk-Kazyna in April 2020.

The sale of KT Cloud Lab LLP is expected to be completed within a year from the reporting date. At 31 December 2019, KT Cloud Lab LLP was classified as a disposal group held for sale.

The major classes of assets and liabilities of KT Cloud Lab LLP classified as held for sale as at 31 December are, as follows:

In thousands of tenge	31 December 2019
<b>ASSETS</b>	
Property and equipment	520,803
Intangible assets	483,934
Other non-current financial assets	83,841
Inventories	9,631
Trade receivables	266,252
Other current non-financial assets	37,923
Other current financial assets	129,380
Advanced paid	30,713
Cash and cash equivalents	315,556
<b>Assets held for sale</b>	<b>1,878,033</b>
<b>LIABILITIES</b>	
Deferred tax liabilities	17,450
Trade payables	79,144
Other current financial liabilities	179,651
Contract liabilities	126
Other current non-financial liabilities	166,662
<b>Liabilities directly associated with assets held for sale</b>	<b>443,033</b>
<b>Net assets directly associated with disposal group</b>	<b>1,435,000</b>

##### Impairment of property and equipment

Immediately before the classification of KT Cloud Lab LLP as a disposal group held for sale, the recoverable amount was estimated for certain items of property and equipment. Impairment

loss was recognized in the consolidated statement of comprehensive income as part of impairment losses on non-financial assets for KZT 292,843 thousand to reduce the carrying amount of the assets in the disposal group to their fair value less costs to sell.

#### 45. NON-CASH TRANSACTIONS

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

In 2019, the Group paid an amount of KZT 17,425,331 thousand for property and equipment purchased in prior year (2018: KZT 4,635,188 thousand). Property and equipment in the amount of KZT 32,009,038 thousand was purchased in 2019 but not paid as at 31 December 2019 (2018: KZT 17,445,106 thousand).

On 20 May 2019, Khan Tengri Holding B.V., Kazakhtelecom JSC and Tele2 Sverige AB had concluded mutual settlement agreement. In accordance with the agreement, payables to Khan Tengri Holding B.V. were netted against trade receivables from Mobile Telecom Service LLP in the amount of KZT 4,842,282 thousand (Note 30).

In 2019 in accordance with the lease agreements, the Group received telecommunication equipment amounting to KZT 680,885 thousand (2018: KZT 14,871,625 thousand).

In 2019, the Group withhold from the salary of employees the amount of previously issued loans for KZT 2,210,760 thousand.

#### 46. RELATED PARTY TRANSACTIONS

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

Sales and purchases with related parties during the years ended 31 December 2019 and 2018 and the balances with related parties at 31 December 2019 and 2018 were as follows:

In thousands of tenge	2019	2018
<b>SALES OF GOODS AND SERVICES</b>		
Parent	190,428	359,794
Parent-controlled entities	2,758,492	2,519,743
Associate (Khan Tengri Holding B.V.) [1]	18,516,552	23,907,818
Associate (Qaz Cloud LLP)	695,499	913,141
Government-related entities	36,252,401	32,306,666
<b>PURCHASES OF GOODS AND SERVICES</b>		
Parent	(559)	779
Parent-controlled entities	2,582,219	3,267,303
Associate (Khan Tengri Holding B.V.) [1]	10,185,382	11,042,238
Associate (Qaz Cloud LLP)	313,338	279,525
Government-related entities	109,485	9,328
<b>INTEREST ACCRUED ON BORROWINGS</b>		
Entities under state control		
(Development Bank of Kazakhstan JSC)	2,233,153	2,035,544
Average interest rate on borrowings	8.24%	8.00%
Parent	11,500,000	1,461,458
Average interest rate on borrowings	11.50%	11.50%

The category of government-related entities includes different government agencies and ministries.

the parties, which do not necessarily represent market terms and maybe not accessible to third parties. Outstanding balances at the end of the year are not secured, are short-term, and settlements are made in cash, except as described below.

Related party transactions (including transactions with Khan Tengri Holdings B.V. and its subsidiary Mobile Telecom Service LLP before 28 June 2019) were made on terms, agreed to between

At 31 December 2019, the Group recognized a provision for expected credit loss in the amount of KZT 67,633 thousand in respect of receivables from related parties.

In thousands of tenge	2019	2018
<b>CASH AND CASH EQUIVALENTS</b>		
Entities under state control (Development Bank of Kazakhstan JSC)	64	103
<b>BORROWINGS</b>		
Entities under state control - (Development Bank of Kazakhstan JSC)	42,519,628	25,266,233
Parent	103,833,333	101,461,458
<b>TRADE AND OTHER ACCOUNTS RECEIVABLE</b>		
Parent	17,425	130,725
Parent-controlled entities	678,645	613,921
Associate (Khan Tengri Holding B.V.)	-	16,248,774
Associate (Qaz Cloud LLP)	98,055	105,827
Government-related entities	7,030,150	11,431,512
<b>ACCOUNTS PAYABLE</b>		
Parent	73	39
Parent-controlled entities	352,044	469,260
Associate (Khan Tengri Holding B.V.)	-	11,014,949
Associate (Qaz Cloud LLP)	75,991	-
Government-related entities	991,114	735,815
<b>OTHER NON-CURRENT ASSETS</b>		
Long-term loans to key management personnel	28,707	35,914

In 2019 and 2018, the Group provided communication services for the entities controlled by the Parent, and purchased goods and services to support operating activities related to provision of telecommunication services from such entities.

1. As stated in Note 5, the Group has acquired control over Khan Tengri Holding B.V. and since the date of control Khan Tengri Holding B.V. is consolidated as a subsidiary. The Group's interest in Khan Tengri Holding B.V. was accounted in the consolidated financial statements using the equity method till the date of control acquisition. The Group has significant volumes of transactions with Mobile Telecom Services LLP ("MTS"), subsidiary of Khan Tengri B.V., including revenue from data transmission, access to internet, rental of lines, interconnect and other revenue that in total comprise 4% from total consolidated revenue of the Group for 2019. In addition, the Group purchased from MTS services related to the usage of GSM radiofrequencies, interconnect, mobile traffic for converged services and other services that in total comprise 3% from total consolidated cost of sales of the Group for 2019.

Sales and purchases with MTS during the years ended 31 December 2019 and 2018 were as follows:

In thousands of tenge	From 1 January 2019 till 28 June 2019	2018
<b>SALES</b>		
Data transmission <sup>1</sup>	7,566,176	13,911,058
Interconnect <sup>2</sup>	5,646,243	1,590,226
Rent of channels <sup>3</sup>	2,778,374	5,482,615
Rent of sites for base stations	342,678	624,182
Base cell stations maintenance <sup>4</sup>	338,132	659,989
Other	1,844,949	1,639,748
	18,516,552	23,907,818
<b>PURCHASES</b>		
Interconnect <sup>5</sup>	4,473,217	845,920
Fee for usage of GSM radiofrequencies <sup>6</sup>	2,667,239	5,263,310
Mobile traffic at wholesale tariffs <sup>7</sup>	2,551,672	3,621,460
Fee for usage of billing system <sup>8</sup>	111,135	219,305
Other	382,119	1,092,243
	10,185,382	11,042,238

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

1. Data transmission represented revenue from provision of fixed and wireless communication channels, and access to the internet. It is calculated on the basis of provided communication channels capacity (Mb/s), as well as the number of communication channels provided.  
2. Revenue from interconnect is calculated based on the actual volumes of minutes of the connection.  
3. Rent of channels represents revenue from the provision to the temporary use of channels with the specified technical characteristics, organized based on LTE base cell stations (i.e. 4G license radiofrequencies). It is calculated based on the actual number of rented channels. In February 2016, the Group concluded an agreement with MTS for renting out 4G license radiofrequencies. Rental fees are payable on a monthly basis. Simultaneously upon concluding the agreement for renting out 4G license radiofrequencies the Group and MTS agreed to increase fees for use of GSM radiofrequencies and fee for usage of the billing system payable by the Group as described below. For the year ended 31 December 2019 revenue from rent of channels amounted to KZT 2,778,374 thousands (for the year ended 31 December 2018: KZT 5,482,615 thousand).  
4. Revenue from base cell stations maintenance represents revenue from the provision of various services to ensure the stable and uninterrupted operation of radio access networks, and is calculated based on the actual number of base stations served.  
5. Expenses on interconnect are calculated based on the actual volume of minutes of the connections.  
6. Fee for usage of GSM radiofrequencies is fixed monthly payment for the usage of the GSM radiofrequencies owned by MTS. For the year ended 31 December 2019 fee for usage of GSM radiofrequencies amounted to KZT 2,667,239 thousands (for the year ended 31 December 2018: KZT 5,263,310 thousand).  
7. Cost of mobile traffic at wholesale tariffs is the actual traffic used by Kazakhtelekom JSC customers in the mobile operator's network and is calculated based on the actual number of outgoing minutes, short messages (SMS), and megabytes of mobile traffic.  
8. Fee for usage of billing system is fixed monthly payment for the usage of the MTS billing system. For the year ended 31 December 2019 fee for usage of billing system amounted to KZT 111,135 thousands (for the year ended 31 December 2018: KZT 219,305 thousand).



### 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 KZT 1,040,277 thousand and KZT 637,785 thousand, 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.

As disclosed in Note 35, the Government of the Republic of Kazakhstan provides the Group with certain compensation for the provision of universal services in rural areas.

As disclosed in Note 24, as at 31 December 2019, the Group had a loan in the amount of KZT 20,902,442 thousand, under which the Parent acted as guarantor (as at 31 December 2018: KZT 24,961,627 thousand).

## 47. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES

### 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 KZT 2,569,696 thousand (Note 17), other current financial assets in amount of KZT 108,003 thousand (Note 19), other non-current financial assets in amount of KZT (135) thousand (Note 14), cash and cash equivalents in amount of KZT 12,021 thousand (Note 22) (2018: trade receivables in amount of KZT 622,360 thousand, other current financial assets in amount of KZT 2,860,001 thousand, other non-current financial assets in amount of KZT 135 thousand, cash and cash equivalents in amount of KZT 486,525 thousand).

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

### 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.

As a result of available significant loans and borrowings, accounts payable, cash and cash equivalents and accounts receivable denominated in the 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 changes 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.

In thousands of tenge	2019		2018	
	Increase/ (decrease) in exchange rate	Effect on profit before tax	Increase/ (decrease) in exchange rate	Effect on profit before tax
US dollars	12%	5,232,568	14%	3,141,003
	-9%	(3,924,426)	-10%	(2,243,573)

### Credit risk

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

### Trade receivables and contract assets

Financial instruments in which the Group's credit risk is concentrated are primarily trade and other 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 one year 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 14, 17, 19 and 20.

### 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		Balance on deposit accounts	
			2019	2018	2019	2018
Halyk Bank Kazakhstan JSC	<b>BB/stable/B, kzA+</b>	BB/stable/B, kzA+	<b>49,982,338</b>	34,424,030	-	-
ATF Bank JSC	<b>B-/stable/B, kzBB</b>	B/negative/B, kzBB+	<b>11,794,238</b>	5,761,522	-	98,648
Altyn Bank JSC (SB Halyk Bank Kazakhstan JSC)	<b>BBB-/stable</b>	Ba2/stable/NP	<b>4,979,430</b>	3,293,559	-	-
Citibank Kazakhstan JSC	<b>A+/stable</b>	A+/stable	<b>3,258,408</b>	764,800	-	-
Kaspi Bank JSC	<b>BB-/stable/B, kzA</b>	BB-/stable/B, kzA	<b>515,813</b>	700,494	-	-
Credit Suisse (Schweiz) AG	<b>A+/stable</b>	A/stable	<b>465,918</b>	-	-	-
Sberbank PAO	<b>Baa3</b>	Ba2	<b>169,278</b>	123,935	-	-
Sberbank JSC	<b>BBB-/stable</b>	BB+/positive	<b>97,142</b>	45,695	-	-
Forte Bank JSC	<b>B+/stable/B, kzBBB</b>	B/positive/B, kzBBB-	<b>21,989</b>	170,705	-	-
AO «Halyk Finance»	<b>BB/stable/B, kzA+</b>	BB/stable/B, kzA+	<b>1,232</b>	-	-	-
Bank of China in Kazakhstan JSC	<b>A/stable</b>	A/stable	<b>430</b>	-	-	-
Eurasian Bank JSC	<b>Baa1/stable</b>	B/negative/B, kzBB+	<b>359</b>	36,930	-	-
Bank CenterCredit JSC	<b>B/negative/B, kzBB+</b>	B/stable/B, kzBBB-	<b>264</b>	4,621	-	76,329
Development Bank of Kazakhstan JSC	<b>BB+/stable/B, kzAA+</b>	BB+/stable/B, kzAA+	<b>64</b>	103	-	-
First Heartland Jysan Bank JSC	<b>B-/positive/B, kzBB</b>	B-/negative/B, kzBB-	<b>31</b>	2,846	-	-
Alfa Bank JSC	<b>BB-/positive/B, kzA</b>	BB-/stable/B, kzA	<b>31</b>	103	-	-
VTB Bank (Kazakhstan)	<b>BB+/stable/B, kzAA</b>	BB+/stable/B, kzAA	<b>27</b>	-	-	-
Committee of the Treasury of the Ministry of the RK	-	-	-	128	-	-
<b>TOTAL</b>			<b>71,286,992</b>	<b>45,329,471</b>	<b>-</b>	<b>174,977</b>

### 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 Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and leases. The Group's policy is that not more than 30% of loans and borrowings should mature in the next 12 month period. Approximately 10% of the Group's debt will mature in less than one year at 31 December 2019 (31 December 2018: 30%) based on the carrying amount of borrowings reflected in the consolidated financial statements.

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
<b>AT 31 DECEMBER 2019</b>						
Borrowings	-	20,017,580	40,613,328	367,228,861	135,536,632	563,396,401
Lease liabilities	-	5,429,949	15,950,465	58,938,794	18,911,841	99,231,049
Trade payables	45,282,413	5,882,208	8,233,218	-	-	59,397,839
Other financial liabilities	-	20,151,913	-	1,318	-	20,153,231
	45,282,413	51,481,650	64,797,011	426,168,973	154,448,473	742,178,520
<b>AT 31 DECEMBER 2018</b>						
Borrowings	768,936	9,264,447	63,780,975	83,391,057	118,387,210	275,592,625
Finance lease liabilities	179,634	2,319,854	6,937,923	18,889,078	-	28,326,489
Trade payables	32,134,910	4,170,384	5,842,111	-	-	42,147,405
Financial guarantees issued <sup>1</sup>	-	1,130,379	1,098,286	7,630,950	2,322,269	12,181,884
Other financial liabilities	-	18,810,780	-	78,147	-	18,888,927
	33,083,480	35,695,844	77,659,295	109,989,232	120,709,479	377,137,330

<sup>1</sup> Based on the maximum amount that can be called for under the financial guarantees contracts (Notes 26, 30).

### 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.

The Group monitors capital using a debt-to-equity ratio, which is net debt divided by total equity. The Group's policy is to keep the ratio not greater than 1.0. The Group includes within net debt interest bearing loans and borrowings and lease liabilities. Equity includes equity attributable to the equity holders of the Group.

The Group's debt-to-equity ratio at the period end was as follows:

In thousands of tenge	31 December 2019	31 December 2018
Interest-bearing loans and borrowings	367,615,724	193,452,540
Lease liabilities	70,527,520	22,729,325
<b>Net debt</b>	<b>438,143,244</b>	216,181,865
Total equity, including non-controlling interests	462,865,928	414,780,615
<b>Debt-equity ratio</b>	<b>0.95</b>	0.52

### Fair value

For the purpose of disclosing the fair value, the Group determined classes of assets and liabilities based on characteristics and risks of assets or liabilities and fair value hierarchy level as described above.

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 follows:

In thousands of tenge	Date of valuation	Fair value measurement using			Total
		Price quotations on active markets (Level 1)	Significant observable in-puts (Level 2)	Significant unobservable in-puts (Level 3)	
<b>ASSETS FOR WHICH FAIR VALUES ARE DISCLOSED</b>					
Other non-current financial assets	31 December 2019	-	-	4,198,588	4,198,588
Other current financial assets	31 December 2019	-	-	5,227,326	5,227,326
Financial assets at fair value through other comprehensive income	31 December 2019	4,964,633	-	-	4,964,633
Trade receivables	31 December 2019	-	-	37,255,772	37,255,772
<b>LIABILITIES FOR WHICH FAIR VALUES ARE DISCLOSED</b>					
Borrowings	31 December 2019	-	-	367,110,944	367,110,944
Other non-current financial liabilities	31 December 2019	-	-	1,318	1,318
Other current financial liabilities	31 December 2019	-	-	20,151,913	20,151,913
Trade payables	31 December 2019	-	-	59,397,839	59,397,839

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 follows:

In thousands of tenge	Date of valuation	Fair value measurement using			Total
		Price quotations on active markets (Level 1)	Significant observable in-puts (Level 2)	Significant unobservable in-puts (Level 3)	
<b>ASSETS FOR WHICH FAIR VALUES ARE DISCLOSED</b>					
Other non-current financial assets	31 December 2018	-	-	7,040,366	7,040,366
Other current financial assets	31 December 2018	-	-	4,685,111	4,685,111
Indemnification assets	31 December 2018	-	-	10,171,407	10,171,407
Trade receivables	31 December 2018	-	-	52,173,348	52,173,348
<b>LIABILITIES FOR WHICH FAIR VALUES ARE DISCLOSED</b>					
Borrowings	31 December 2018	-	-	194,104,469	194,104,469
Finance lease liabilities	31 December 2018	-	-	22,729,325	22,729,325
Other non-current financial liabilities	31 December 2018	-	-	144,085	144,085
Other current financial liabilities	31 December 2018	-	-	18,878,261	18,878,261
Obligation to pay a fine for termination of the contract	31 December 2018	-	-	14,551,865	14,551,865
Trade payables	31 December 2018	-	-	42,147,405	42,147,405

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

In thousands of tenge	Carrying amount 2019	Fair value 2019	Unrecognised gain/(loss) 2019	Carrying amount 2018	Fair value 2018	Unrecognised gain/(loss) 2018
<b>FINANCIAL ASSETS</b>						
Cash and cash equivalents	71,321,822	71,321,822	-	45,350,092	45,350,092	-
Other non-current financial assets	4,170,159	4,198,588	28,429	9,649,734	7,040,366	(2,609,368)
Other current financial assets	5,227,326	5,227,326	-	4,685,111	4,685,111	-
Financial assets at fair value through other comprehensive income	4,964,633	4,964,633	-	-	-	-
Indemnification assets	-	-	-	10,171,407	10,171,407	-
Trade receivables	37,255,772	37,255,772	-	52,173,348	52,173,348	-
<b>FINANCIAL LIABILITIES</b>						
Borrowings	367,615,724	367,110,944	504,780	193,452,540	194,104,469	(651,929)
Lease liabilities	70,527,520	70,527,520	-	22,729,325	22,729,325	-
Other non-current financial liabilities	1,318	1,318	-	993,705	144,085	849,620
Other current financial liabilities	20,151,913	20,151,913	-	18,853,954	18,878,261	(24,307)
Obligation to pay a fine for termination of the contract	-	-	-	14,551,865	14,551,865	-
Trade payables	59,397,839	59,397,839	-	42,147,405	42,147,405	-
<b>TOTAL UNRECOGNISED CHANGE IN UNREALISED FAIR VALUE</b>			<b>533,209</b>			<b>(2,435,984)</b>

### 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.

### Changes in liabilities arising from financial activities

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

In thousand tenge	1 January 2019	Effect of new standard	Acquisition of subsidiary (Note 5)	Principal obtained	New agreements	Reclassification	Repayment of principal	Interest expense (Note 40)	Interest paid	Discount	Commission recognized	31 December 2019
Borrowings: long term	135,838,411	-	7,091,161	93,089,611	-	103,393,147	-	-	-	(34,403)	(239,866)	339,138,061
Borrowings: short term	57,614,129	-	1,708,387	121,113,026	-	(103,393,147)	(53,118,449)	32,246,010	(27,684,186)	(421,124)	413,017	28,477,663
Lease liabilities: long term	15,975,306	27,303,654	18,911,643	-	4,779,931	(11,734,280)	-	-	-	-	-	55,236,254
Lease liabilities: short term	6,754,019	3,168,590	4,966,921	-	-	11,734,280	(11,332,544)	8,006,074	(8,006,074)	-	-	15,291,266
<b>TOTAL</b>	<b>216,181,865</b>	<b>30,472,244</b>	<b>32,678,112</b>	<b>214,202,637</b>	<b>4,779,931</b>	<b>-</b>	<b>(64,450,993)</b>	<b>40,252,084</b>	<b>(35,690,260)</b>	<b>(455,527)</b>	<b>173,151</b>	<b>438,143,244</b>

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

In thousand tenge	1 January 2018	Principal obtained	New lease agreements	Business combination	Reclassified to current	Repayment of principal in cash	Interest paid	Interest expense	31 December 2018
Borrowings: non-current portion	24,967,690	100,000,000	-	14,935,969	(4,065,248)	-	-	-	135,838,411
Borrowings: current portion	2,357,864	-	-	51,380,150	4,065,248	(2,029,593)	(2,175,943)	4,016,403	57,614,129
Non-current portion of finance lease liabilities	7,681,118	-	14,871,661	-	(6,577,473)	-	-	-	15,975,306
Current portion of finance lease liabilities	3,920,719	-	-	-	6,577,473	(3,697,239)	(1,612,425)	1,565,491	6,754,019
<b>TOTAL</b>	<b>38,927,391</b>	<b>100,000,000</b>	<b>14,871,661</b>	<b>66,316,119</b>	<b>-</b>	<b>(5,726,832)</b>	<b>(3,788,368)</b>	<b>5,581,894</b>	<b>216,181,865</b>

## 48. COMMITMENTS AND CONTINGENCIES

### Operating environment

In Kazakhstan, economic reforms and the development of the legal, tax and administrative infrastructure that meets the developed markets are still in process. The future stability of the Kazakhstan economy will largely depend on these reforms, as well as on the effectiveness of the Government's actions in the area of economy, financial and monetary policy.

### Capital commitments

The Group generally enters into contracts for the completion of construction projects and purchase of telecommunication equipment. As at 31 December 2019, the Group had contractual obligations in the total amount of KZT 38,186,280 thousand, excluding VAT (31 December 2018: KZT 6,238,697 thousand, excluding VAT) mainly related to purchase of telecommunication equipment and construction of telecommunication network.

### License commitments

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

### Taxation

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

Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 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 of Kcell JSC 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. Kcell JSC did not agree with some results of tax audit and filed an appeal.

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

to the cassation instance of the Supreme Court of the Republic of Kazakhstan. On 5 December 2018, the petition was dismissed by the Supreme Court of the Republic of Kazakhstan.

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

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

The Group recognized income from reversal of the tax and related fines and penalties provision in the total amount of KZT 5,816,045 thousand 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 KZT 2,196,555 thousand and additional VAT and withholding tax for services charge in the amount of

KZT 779,916 thousand, the Group recognised these prepaid taxes and expects to offset against future taxes accrual. Fines and penalties in the amount of KZT 2,839,574 thousand was not paid as of 31 December 2019, and the Group had recognized provision on the full amount of the fines and penalties in previous year. Thus, the Group recognized the reversal of the provision on fines and penalties for the total amount of KZT 2,839,574 thousand. As at 31 December 2019, the Group had remaining liability for fine and penalty in the amount of KZT 187,793 thousand (as at 31 December 2018: KZT 2,910,727 thousand).

### New Technical Regulations

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

### Cases related to the abuse of dominant position

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

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

The Kcell JSC did not agree with the order issued by the Committee. On 3 July 2019, the Kcell JSC appealed to the Court. The management of the Kcell 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 Kcell 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, Kcell JSC 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 Company should bring its existing and legacy cell 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 Kcell JSC 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. Kcell JSC 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 of 31 December 2019, no response from MNE was received. The management of the Kcell 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.

### 5G services

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

## 49. SUBSEQUENT EVENTS

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

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

On 6 February 2020, the Kcell JSC’s common shares and global depositary receipts (GDRs) were included in official list of the Astana International Exchange (“AIX”). Bidding started on 7 February.

On 3 March 2020, the Group paid coupon interest to bondholders in the amount of KZT 5,570,000 thousand.

On 13 March 2020, the Group has obtained tranche in the amount of KZT 5,538,233 thousand within the credit line agreement concluded with Bank of Development of Kazakhstan JSC.

The outbreak of novel coronavirus continues to spread throughout China and to countries across the world. The Group will closely monitor the evolving coronavirus situation, yet an estimate of its financial effect cannot be made at this stage.

On 9 March 2019 global crude oil prices fell almost 30 per cent with Brent crude prices falling to 32 US dollar a barrel.

At the date these financial statements have been authorized for issue, the official exchange rate of tenge to US dollar as set by the National Bank of Kazakhstan comprised 405.46 tenge.