



**MAINTAINING  
A LEADING  
POSITION**

Annual Report and Accounts 2018

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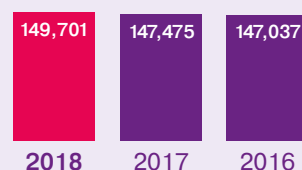
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# FINANCIAL HIGHLIGHTS

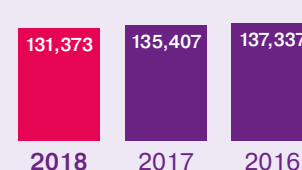
## Net revenues (KZT million)

+1.5%



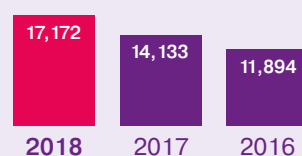
## Service revenues (KZT million)

-3.0%



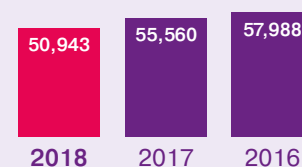
## B2B revenues (KZT million)

+21.5%



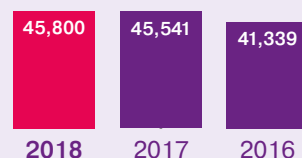
## EBITDA excluding non-recurring items (KZT million)

34.0% margin



## Data revenues (KZT million)

+0.6%



## Handset sales (KZT million)

+52.6%



# INTRODUCTION

Kcell is the foremost leader in Kazakhstan's fast-expanding telecoms market. Its 4G/LTE network enables innovative, value-added digital services and high-quality business solutions that are underpinned by a focus on customer value management.



**04** OFFERING UNRIVALLED CUSTOMER EXPERIENCE



**06** CREATING THE LARGEST DIGITAL ECOSYSTEM IN KAZAKHSTAN



**08** PROVIDING THE BEST BUSINESS SOLUTIONS

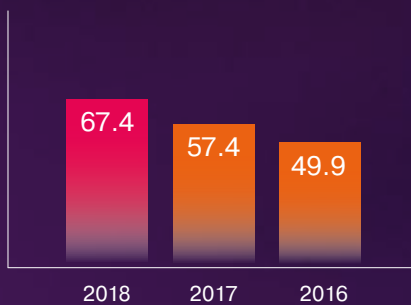


**12** CHAIRMAN'S STATEMENT

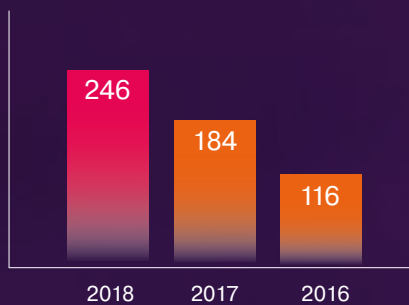
# TWO DECADES OF INNOVATION

Over the last 20 years, Kcell has developed its business as a mobile operator to become the market-leading telecommunications company in Kazakhstan. Here we share some of the highlights of the Company's transformation into a 21st century digital provider.

SMARTPHONE PENETRATION (%)



DATA TRAFFIC (PETABYTES)



**1998**

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

**2003**

In September 2003, Kcell launched its General Packet Service (GPRS) and Multimedia Messaging (MMS) technologies.

**1999**

After receiving the first GSM licence in Kazakhstan, the Company officially launched its mobile communications network in February 1999.



### KASE AWARD

In May 2016, the Company received an award for its high level of transparency and disclosure from the KASE: 'Striving Towards Greater Transparency'.



### WINTER UNIVERSIADE

Kcell was the official mobile operator of the 28th World Winter Universiade held in Almaty from 29 January to 8 February 2017. Over 2000 athletes from 58 countries took part in the Universiade.

### 2010

In December 2010, Kcell began operating dedicated 3G networks, improving the quality of data transfer services.

### 2014

In May 2014, Kcell became an official distributor of the iPhone in Kazakhstan and in September launched a rebranding for Activ.

### 2016

In January 2016, Kcell acquired additional spectrum rights within 700/800 MHz and 1800 MHz band, boosting connectivity for the launch of advanced 4G and LTE services.

### 2018

In December 2018, Telia Company and Fintur sold their 75 percent holding in Kcell JSC to Kazakhtelecom JSC.

### 2005

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

### 2012

On 2 February 2012, Kazakhtelecom sold its 49 percent to Sonera Holding B.V. (Telia), a subsidiary of TeliaSonera.

### 2015

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

### 2017

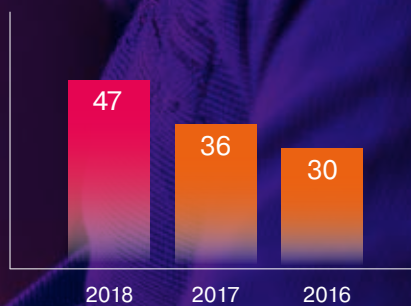
International ratings agency Fitch assigned Kcell a long-term issuer default rating of 'BB' with the outlook 'stable'.

# OFFERING UNRIVALLED CUSTOMER EXPERIENCE

Our customer-centric approach helps us retain our position in a highly competitive market.



### BUNDLE OFFERS USAGE (% OF TOTAL SUBSCRIPTIONS)



### FROM VOLUME TO VALUE

The main priority for our B2C business is to increase the quality of our active customer base, in line with our new strategy: 'From Volume to Value', moving from volume-driven SIM distribution to value-driven subscriber acquisition. We aim to achieve this by further expanding our bundles penetration with competitive and attractive offers for both new and existing customers.

# CREATING THE LARGEST DIGITAL ECOSYSTEM IN KAZAKHSTAN

With our high-quality 4G/LTE network and investment in innovative products and services, we already have a competitive edge and look forward to introducing the next generation, 5G.

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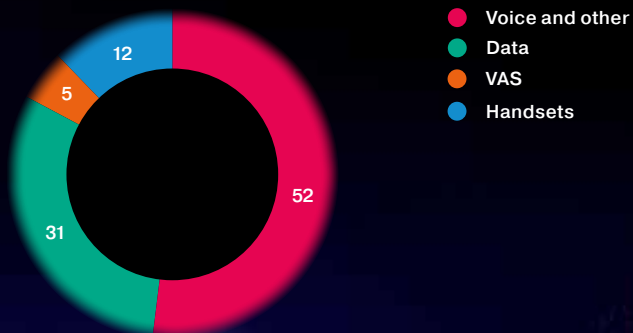
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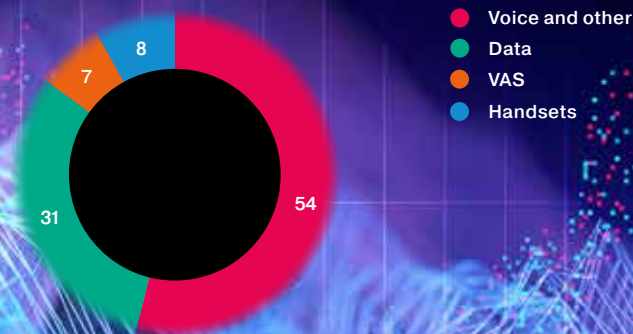
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### REVENUE SPLIT 2018 %



### REVENUE SPLIT 2017 %



# PROVIDING THE BEST BUSINESS SOLUTIONS

The development of unique business solutions for our corporate clients is helping to drive substantial growth and increase revenue in the B2B sector.

TOTAL B2B REVENUE

**+21.5%**

REVENUE FROM BUSINESS SOLUTIONS

**+57.0%**



### MEETING DEMANDS

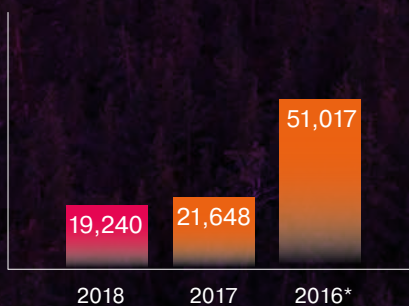
In 2018, we continued to diversify within this sector by launching Virtual PBX in response to demands from the market. This service increases efficiency for clients by ensuring that no incoming calls from customers are missed, as well as enabling them to monitor outgoing communications.



# ENHANCING OUR HIGH-QUALITY NETWORK

Kcell's 4G/LTE coverage now reaches 62 percent of the population and, at the same time, has significantly improved the quality of our services.

## INVESTMENTS (KZT MILLION)



\* In 2016, CAPEX included the acquisition of LTE frequencies for KZT 26 billion

## INCREASING DATA TRAFFIC

We continue to make progress with the rollout of our 4G/LTE network and can report that the plan for 2018 has been fulfilled. Continuing our work on network capacity improvements, we have added the third LTE layer in Aktau, Atyrau and Almaty, achieving a 34 percent increase in total data traffic, while in LTE data traffic grew by 114 percent.

# CHAIRMAN'S STATEMENT



**Despite service revenues being under pressure, there were signs of market stabilisation during 2018 and Kcell finished the year on a positive note with an increase in net sales of 1.5 percent.**

## Dear shareholders

I am proud to be writing to you for the first time as the Chairman and Independent Non-executive Director of the Kcell Board of Directors, following my election at the EGM in January of this year. On behalf of the Company, I would like to pass on our appreciation to the outgoing Chairman, Jan Rudberg, for all his leadership since taking on the role just before Kcell's successful IPO in 2012. We wish him and the previous members of the Board well in their future endeavours.

Despite service revenues being under pressure, there were signs of market stabilisation during 2018. There were some negative effects from the regulations introduced on PAYG charges, although there was some sign of the situation improving towards the end of the year. Additionally, the decrease in B2C service revenue was partially offset by growth of interconnect revenue and revenue from business solutions in the enterprise segment. Kcell finished the year on a positive note with an increase in net sales of 1.5 percent to KZT 149,701 million (2017: KZT 147,475 million).

I need to bring to your attention that, in the process of preparing the consolidated financial statements for the year ended 31 December 2018, the management of the Company identified significant irregularities in the accounting methodology applied in the previously issued financial statements for the years ended 31 December 2017 and 31 December 2016. We have restated the relevant numbers accordingly in the periods affected. However, I would like to reassure you that there are no cash implications related to either prior period and that the underlying performance of the Company remains broadly unchanged. The Company has now strengthened its internal systems and controls, and how they are being applied to our accounting methodology.

# ENCOMPASSING THE HIGHEST STANDARDS OF CORPORATE GOVERNANCE

## Changes and new opportunities

In the fourth quarter of 2018, Kazakhtelecom JSC became the majority shareholder in Kcell, after acquiring the 75 percent stake that had been held by Telia Company and Fintur B.V. since IPO in 2012. We are delighted to have Kazakhtelecom back again as our shareholder and excited about the valuable access to the technological resources and infrastructure of our new major shareholder.

In January 2019, at the Kcell EGM, a new Board of Directors was elected with three Directors representing our shareholders (Kazakhtelecom JSC and Freedom Finance JSC), along with four Independent Non-executive Directors. The members of the new Board have extensive experience in the telecommunications and financial sectors, and will be instrumental in providing guidance for Kcell as it starts this new phase in its development. I am also an Independent Director on the Kazakhtelecom JSC Board of Directors, which I am sure can only help to facilitate a harmonious working relationship with our majority shareholder.

We will continue to observe the highest standards of corporate governance, which were put in place at the time of our IPO. At the same time, we aim to further strengthen the effective corporate culture that we have built, based on European principles of business ethics and compliance, as well as introducing the best practices as implemented by Kazakhtelecom.

As one of the leading businesses in Kazakhstan, Kcell strives to encompass a responsible approach and the highest standards of ethical conduct in our interactions with all our stakeholders. We believe that our efforts strengthen not only our business, but also the communities in which we operate, creating long-term shared value for society and our shareholders. Underpinned by an ethics and compliance framework, the Company focuses its responsible business efforts on the following areas: anti-bribery and corruption, responsible procurement, human rights, customer privacy, freedom of expression, environmental responsibility and occupational health and safety.

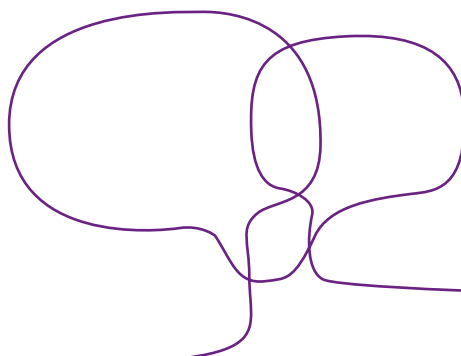
**Alexey Buyanov**  
Chairman, Board of Directors

## GOVERNANCE PRIORITIES FOR 2019

1. **Approval of the strategy and annual operating plan, including KPIs for top management**
2. **Preliminary review and recommendations to shareholders regarding the Company's new Charter, Corporate Governance Code, Dividend Policy and other Company's policies**
3. **Business development projects**
4. **Public affairs**
5. **Year-end matters, including the external audit report and annual report**



Find out more about our governance priorities on pages 48-51.



# AT A GLANCE

## What we do

Kcell provides mobile voice telecommunications services, messaging services, value-added services (such as multimedia and mobile content services) as well as data transmission services including internet access. It has two brands: the Kcell brand, which is targeted primarily at corporate subscribers (including government subscribers), and the Activ brand, which is targeted primarily at mass market subscribers. The Company offers its services through its extensive, high quality network, which covers substantially all of the populated territory of Kazakhstan.

## Our journey

In 1998, Kcell became the first company to receive a licence to provide cellular services on the GSM-900 standard in Kazakhstan. Since then, it has built one of the most modern, technologically advanced and extensive mobile telecommunication networks in the country. In December 2012, Kcell successfully completed its offering of GDRs on the London Stock Exchange and common shares on KASE.

On 21 December 2018, Kazakhtelecom JSC acquired the 75 percent stake in Kcell held by Telia Company and Fintur Holdings B.V. and is now the major shareholder. Kazakhtelecom is the largest telecommunications company in Kazakhstan. The clear synergies between the two companies will have a positive impact on the next stage of Kcell's development.

## Our future plans

Kcell plans to continue investing in the deployment of its 3G/4G network to expand coverage and to introduce high quality services. It aims to provide high quality services at competitive prices, expand its offering of products and services, while maintaining the high quality of its network and enhancing its brand value. The Company's strategy is to retain a leading position and to grow revenue while promoting best practice corporate governance.

## OUR RANGE OF PRODUCTS AND SERVICES

### Data-centric products and services



Kcell provides the full spectrum of mobile telecommunications services to both individuals and organisations. This is underpinned by a vast range of data-centric products and services that add high-end value for digital customers. These already include a range of OTT services through the Mobi brand (TV, Music, Kino, Press, Bookmate) as well as a unique mobile financial services ecosystem (Mobi money).

### Brands



The Company operates through two well-established brands in Kazakhstan. The Kcell brand is targeted at corporate subscribers (B2B), as well as high net-worth individuals and government departments. Activ is promoted to the consumer market (B2C) and aims to meet the mobile communication needs of individual customers, offering national and international tariffs, complemented by various bundles and OTT services.

### Network



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



# FROM MOBILE OPERATOR TO DIGITAL SERVICE PROVIDER

## Network

**60%** LTE traffic of total data traffic

## B2B

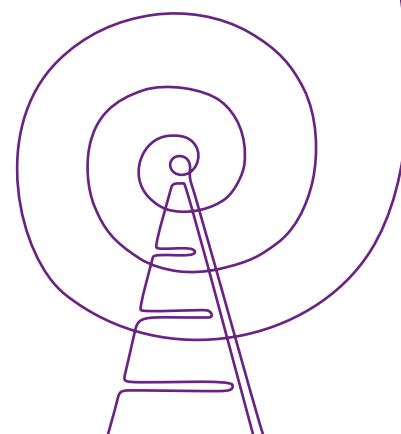
**61.2%** Revenue share from business solutions

## B2C

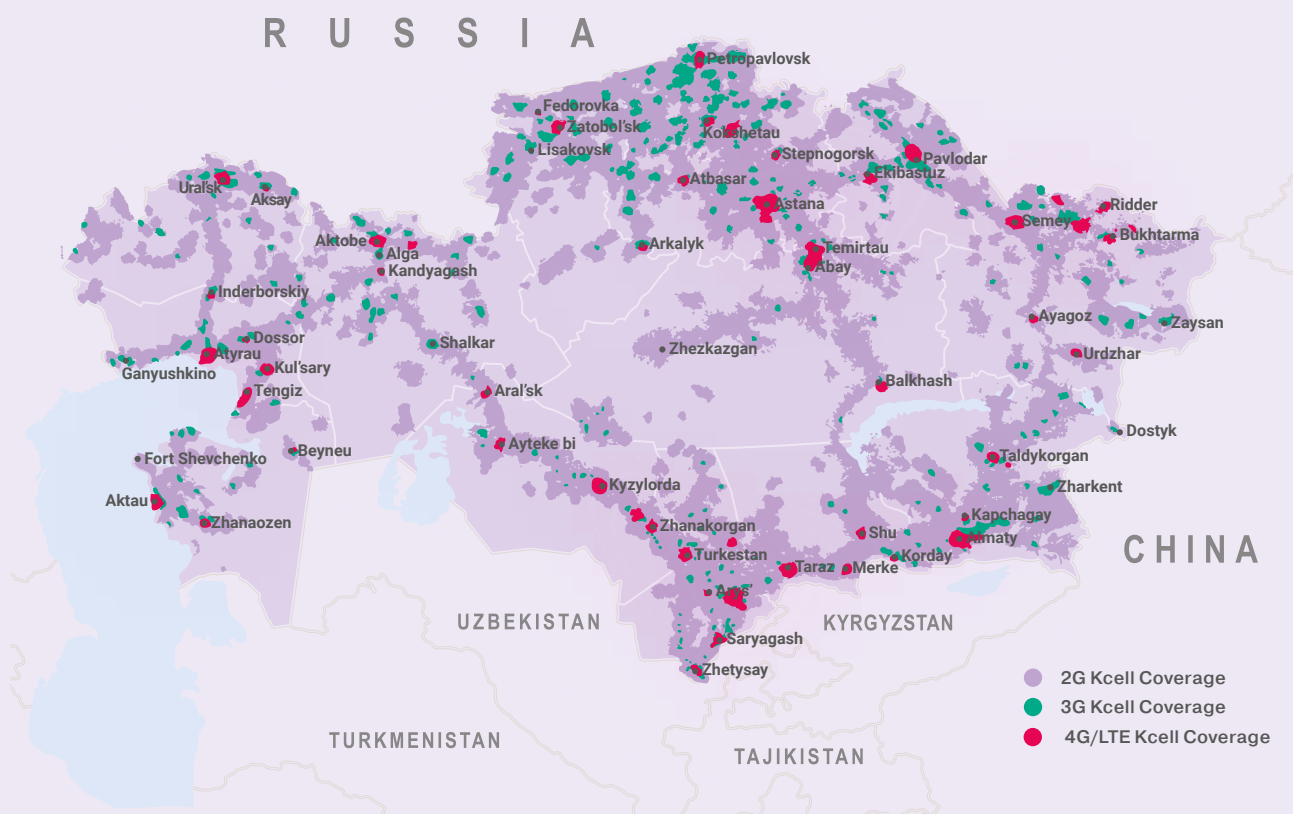
**67.4%** Smartphone penetration among Kcell customers

## Coverage

**62%** of the population have access to 4G/LTE



## OUR OPERATIONS



# 2018 HIGHLIGHTS



## JANUARY

Kcell placed its KZT 4.95 billion bonds on the Kazakhstan Stock Exchange (KASE) at a yield of 11.5 percent.



## APRIL

Kcell won the accolade of 'The best practice in customers' self-service' at the Crystal Headset awards, which rewards innovation and service at call centres throughout the region. The application of artificial intelligence and virtual voice robots Zhanna and Kamila clinched the victory for the Company.



## MAY

The AGM held on 30 May 2018, approved the proposal of the Kcell Board of Directors to distribute KZT 11,678 million, representing 87 percent of the net income for 2017, as an annual dividend. The total dividend payout amounted to a gross figure of KZT 58.39 per ordinary share (each GDR representing one ordinary share) and is in line with the dividend policy.



## JUNE

Kcell became a partner of the National Business portal's special project 'Is Kazakhstan ready for digitalisation?' The goal of the project is to align the digital transformation of domestic businesses with the Kazakh government's ambitions for transformation.

Kcell joined forces with Kaspersky Lab to make the internet safer for children. Kcell and Activ subscribers can activate the 'Parental control' service, which includes Kaspersky security products, making children's internet surfing safer and providing parents with peace of mind.

# IN 2018 WE EXPANDED OUR COVERAGE AND RANGE OF SERVICES, AND LED THE WAY WITH INNOVATIVE SOLUTIONS



## JULY

Payment from mobiles was made available to Kcell subscribers through the mobimoney.kz service, enabling them to pay for more than 150 different types of service on the go. Activ subscribers have had this service since 2016.



## AUGUST

Kcell won the court case about alleged infringement of copyrights. Further to the announcement on 12 June 2018, the Appellate Judicial Board of Almaty city court upheld Kcell's appeal. The previous decision for KZT 672 million of compensation to be awarded, made by the Court of First Instance, was therefore annulled and the provisions made for this amount were cancelled.



## OCTOBER

Kcell provided live broadcasting through 4G+ of the Tour of Almaty international cycling event for two TV channels, including Eurosport, reaching an audience of more than 60 million people. Upgrades to stations enabled the provision of maximum coverage of the 350 km, two-day event with data transmission speeds of up to 225 Mbit/sec.



## DECEMBER

On 12 December 2018, Telia Company and Fintur Holdings B.V. (Fintur), jointly owned by Telia Company and Turkcell, agreed to sell their 75 percent holding in Kcell JSC, to the telecom operator Kazakhtelecom JSC. On 21 December 2018, the Company announced the completion of the transaction.

## JANUARY 2019

On 25 January 2019, an Extraordinary General Meeting of shareholders elected the Company's new Board of Directors.

On 28 January 2019, the Board of Directors appointed Kaspars Kukelis as Chief Executive Officer of Kcell JSC, effective from 29 January 2019.



# CHIEF EXECUTIVE OFFICER'S REVIEW



**The digital transformation of our operations is progressing well, and will be further enhanced as we combine our strategic and operational expertise with that of Kazakhtelecom JSC.**

## Dear shareholders

In 2018, I am pleased to report that Kcell delivered further steady growth, with an increase of 1.5 percent in net sales to KZT 149,701 million (2017: KZT 147,475 million). This was largely driven by stronger B2B revenue from business solutions and handset sales.

Revenue from the B2B segment increased by 21.5 percent to KZT 17,172 million (2017: KZT 14,133 million). To a large extent, this can be attributed to our renewed customer-centric approach and the development and delivery of bespoke business solutions. We also continue to improve the levels of service we provide in order to engender customer loyalty and our Net Promoter Score for our B2B offering almost doubled in 2018.

Handset sales increased by 52.6 percent to KZT 18,432 million (2017: KZT 12,082 million). Our handset sales contribute to our contract phone business, where we sell approximately 90 percent of our phones with contract. Smartphone penetration in our network reached 67.4 percent and is also helping to drive data traffic.

We made a significant change in our strategic priority, which is now very much focused on customer value management. Our approach is to concentrate on acquiring quality customers while moving away from volume-driven subscriber acquisition. During the reporting year, our customer base decreased to 8,969 thousand (2017: 10,009 thousand). This was due to the higher churn of inactive promo SIM cards driven by our revised tactics.

## Expanding and improving services

The expansion of our 4G/LTE coverage has significantly improved the quality of our services. We have continued our work on network capacity improvements and, in 2018, added the third LTE layer in Aktau, Atyrau and Almaty, which helped us achieve a growth in LTE traffic of over 114 percent. We have also seen a huge growth spurt in 4G data users where there was an increase of 61.5 percent year-on-year. This means that Kcell's 4G/LTE services now cover 62 percent of the population.

Service revenue was down 3.0 percent to KZT 131,373 million (2017: KZT 135,407 million). This is primarily related to the regulatory changes introduced at the beginning of 2018 related to PAYG changes.

One of the important metrics for Kcell is how much revenue is coming from our bundle subscribers. The share of our bundled revenues continues to grow and reached 74 percent at the end of 2018, (2017: 69 percent). This was largely due to the fact that 47 percent of our customer base was using bundled offers, compared with 36 percent in 2017. The number of OTT subscribers grew by 31 percent year-on-year, whilst the number of subscribers using our mobile financial services more than doubled.

# OUR STRATEGIC PRIORITY IS TO DRIVE UP REVENUE THROUGH VALUE RATHER THAN VOLUME

## New opportunities in 2019

As announced at the end of 2018, Kazakhtelecom JSC has become Kcell's major shareholder. We are delighted to join the Kazakhtelecom Group and excited by the potential opportunities and economies of scale to be gained from this relationship. We look forward to combining our strategic and operational expertise with the largest Kazakh telecommunications operator in order to optimise the clear synergies between the two businesses. We are also committed to working with our newly elected Board of Directors to further strengthen the effective corporate culture and promote best practice corporate governance.

In 2019, we aim to optimise our current processes to further improve our bad debt level. In addition, we are reviewing our product line and expanding our sales channels. We also want to consolidate our position as the leader in revenue growth in B2B segments. Another priority is to build the quality of our subscriber base while strengthening the Company's leadership in terms of revenue; again focusing on value rather than on volume. We are already seeing a positive trend in our service revenue through our application of smart pricing methods and the use of well-thought-out promotional activities.

I am delighted to have taken on the role of CEO as Kcell enters this new phase of its development. The digital transformation of our operations is progressing well, bringing greater efficiencies and further improving the level of service we can offer. In the year ahead, we will remain focused maintaining our leading market position and delivering the highest levels of value to our shareholders and our customers.

**Kaspars Kukelis**  
Chief Executive Officer

## OUR STRATEGIC PRIORITIES

1. **Establishing a positive trend in service revenue**
2. **Strengthening the leadership position**
3. **Retaining a leading position and revenue growth in B2B segment**
4. **Further development of the contract phone business**
5. **Optimising clear synergies with our majority shareholder**



Find out more about our strategic priorities on page 24.

# BUSINESS MODEL

## OUR ASSETS

### PEOPLE

We aim to hire, develop and retain talented people and to be an employer of choice in Kazakhstan by creating a positive and motivating work environment, as well as improving the quality of life for employees and their families.

### NETWORK

We have built one of the most modern, technologically advanced and extensive mobile telecommunication networks in the country with licences to operate on 2G, 3G and 4G/LTE frequencies indefinitely.

### FINANCIAL POSITION

Kcell's higher share of revenues from data and handset sales, together with a consistent focus on optimising costs and a new strategic approach to building value-over-volume subscriptions is helping to establish a positive trend in revenue growth.

### TECHNOLOGY

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

### BRANDS

Our Kcell and Activ brands are well-established in the highly competitive B2B and B2C telecommunications markets and best known for the quality of the customer experience and value that we provide.

### NATURAL RESOURCES

We care about the environment in which we operate, contributing to local and global sustainability by developing, promoting and utilising resource-efficient and environmentally friendly services, and by seeking to reduce our environmental footprint.

## GOVERNANCE

By adhering to the highest standards of ethical conduct with all our stakeholders, we seek to contribute to and promote an enduring culture of responsible business.

 See Governance on page 48.

## OUR DIFFERENTIATION

### 1. NETWORK QUALITY

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

### 2. INNOVATION

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

### 3. EXPERTISE

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

### 4. CUSTOMER RELATIONSHIPS

Our focus is on customer value management through the application of smart pricing methods and the use of well-thought-out promotional activities.

### 5. BRAND REPUTATION

As one of Kazakhstan's leading companies, Kcell takes its responsibility to the communities in which it operates very seriously, supporting them through its people and its business.

## MARKET REVIEW

Kazakhstan's telecommunications markets continue to grow, with the ongoing roll-out of the nationwide 4G network and plans for 5G coverage in the future.

 See Market Review on page 22.

# OUR COMMITMENT TO INNOVATION AND VALUE ENABLES US TO DELIVER CUSTOMER-ORIENTED SOLUTIONS

## 21ST CENTURY SOLUTIONS



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

## VALUE CREATED FOR

### CUSTOMERS

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

### SHAREHOLDERS

Even during difficult macroeconomic conditions, Kcell has kept its pledge and paid out significant dividends to shareholders.

### EMPLOYEES

Kcell has 1,826 employees with remuneration packages, which reflect internal equity and external local market conditions, plus a comprehensive benefits package.

### COMMUNITY

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

### SUPPLIERS

As part of our responsible procurement process, our due diligence team carries out checks of all suppliers to ensure that they conform to the same ethical standards as Kcell.

## RISK MANAGEMENT

We have implemented a robust risk management system to identify and mitigate risks to our operations and ensure that our business functions without disruption.

 See Risk Management on page 44.

## STRATEGY

The Company's strategy is to retain a market-leading position and to grow revenue while promoting best practice corporate governance.

 See Strategy on page 24.

# MARKET REVIEW

**What started as a promising year for the telecommunications market actually fizzled out with overall growth of only 2.4 percent. This was doubly disappointing given that the general economic situation for the country produced a much healthier growth of 4.1 percent. However, data transmission and internet services both provided positive revenue streams and it is hoped that the Digital Kazakhstan programme will encourage increased use of digital technologies.**

### Overview

Kazakhstan has one of the most advanced telecoms sectors compared with other Central Asian countries in the region. The number of fixed telephone lines in Kazakhstan, is slowly declining as the mobile segment continues to expand. The country has a flourishing mobile broadband market with all major mobile operators now offering 4G/LTE services and 5G coverage on the horizon. International internet bandwidth capacity has increased dramatically over the past few years.

There are three mobile operators in the Kazakhstan market and Kcell is the market leader in terms of revenue. There is a general shift in market focus away from growth in subscribers to increasing value-added services. With only moderate growth predicted over the next five years, faster mobile broadband speeds and improving tariffs are likely to be the key drivers for operators in this highly competitive market.

In 2018, the Kazakh government launched the Digital Kazakhstan programme, which will run until 2022. It aims to strengthen the national digital infrastructure and drive economic growth and competitiveness, while also improving the standard of living of every Kazakh citizen through the use of digital technologies.

### 2018 SERVICE PENETRATION LEVELS

Fixed telephone lines

**3.35m**

Down 8 percent

Mobile subscribers

**26m**

Down 2.5 percent

Mobile subscribers with access to the internet

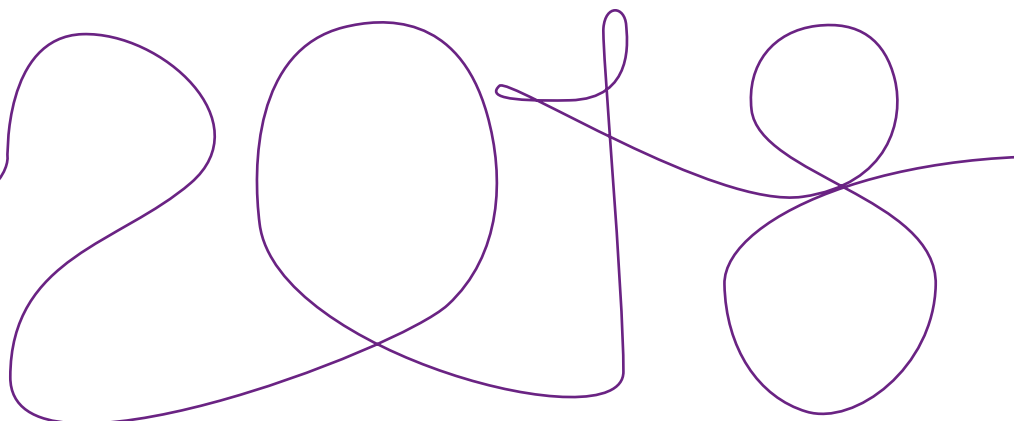
**14.43m**

Up 2.6 percent

Fixed internet subscribers

**2.47m**

Down 6 percent





# A FLOURISHING MOBILE BROADBAND MARKET OFFERS 4G/LTE SERVICES WITH 5G AWAITED

## 2018 trends

In 2018, the entire telecommunications market in Kazakhstan amounted to KZT 728.7 billion (US\$2.1 billion at a weighted average KZT rate of US\$ to 344.7) compared with KZT 711.7 billion during 2017, with operators earning an additional KZT 17 billion. Overall growth year-on-year amounted to only 2.4 percent. This is disappointing given that this had been 6 percent in the first half of the year and was looking very promising. It is also counter to the general economic situation in Kazakhstan, which produced a much healthier growth of 4.1 percent.

Looking more closely at the details, starting with local telephone services: there was a 4.4 percent decrease to KZT 39.5 billion. It is no secret that fixed telephony has been in a very difficult position for several years. This process is permanent, structural and the fate of the segment is probably predetermined. The 2018 market share in revenue was around 5.4 percent.

The situation was very similar for revenues from long-distance and international telephone services, which amounted to KZT 28.8 billion, a reduction of 4.1 percent compared with 2017. The segment is in absolute negative with the number of fixed telephony connections generally falling month on month. The 2018 market share in revenue was around 4 percent.

The picture was very different for that coming from data transmission services over telecommunications networks (wired and wireless), which recorded an increase of 25.7 percent to KZT 37.2 billion and market share of 5.1 percent.

The positive trend continued with a 10 percent increase in income from both the internet at KZT 244.6 billion and from services on programme distribution at KZT 35.5 billion. The share in market revenues was about 33.6 percent and 4.9 percent respectively.

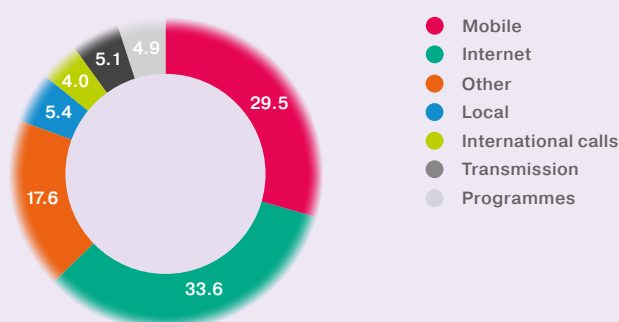
Revenue from mobile communication reduced by 4.4 percent to KZT 214.8 billion. However, this still accounts for 29.5 percent of total revenue. At the same time, monthly revenue is falling: having started the year at around KZT 18.4 billion per month this had decreased by 7.7 percent to KZT 17.1 billion by the close of 2018.

Once again, as has been the case since January 2017, internet services occupy first place with about 33.6 percent of market share from revenue of KZT 244.6 billion. It is worth noting that much of this income was realised during the last quarter of 2018, when the pace of growth exceeded all expectations.

Revenue from other telecommunication services accounts for 17.6 percent of the overall telecoms market and remained at the same level of KZT 128.3 billion. This, together with the revenues from mobile communication and internet services, totals KZT 587.7 billion, 80.7 percent of the revenue from the entire communications market.

By the end of 2018, the penetration rate of SIM-cards in Kazakhstan amounted to 141 percent (a slight decrease from 141.5 percent year-on-year).

TELECOM MARKET SHARE (BY REVENUE) IN KAZAKHSTAN (%)



# OUR STRATEGIC PRIORITIES

**Kcell's management team have prioritised the objectives and targets that will help drive the strategic direction of the business and the Company's relationship with its major shareholder, Kazakhtelecom JSC.**



# OUR ULTIMATE STRATEGIC GOAL IS TO STRENGTHEN CUSTOMER LOYALTY BY CREATING VALUE

## TARGETS

### 01

#### Establish a positive trend in service revenue

- Increase bundle penetration
- Optimisation of tariff mix (increase ARPU)
- Change of charging strategy in bundle environments
- Competitive offering
- Improvement of international interconnect balance following changes in MTR rates

### 02

#### Strengthening the leadership position

- Stabilise B2C subscriber base
- Define and manage a brand strategy
- Correct and manage price perception
- Increase NPS
- Implementation of the new acquisition strategy – 'From Volume to Value' – and cost optimisation of sales channels
- Further development and execution of customer value management (CVM) activities

### 03

#### Retaining a leading position and revenue growth in B2B segment

- Diversify product portfolio in business solutions and increase revenues from new products
- Stabilise core mobile revenues
- Focus on retention and development of Large and Strategic accounts
- Acquisition strategy in Small Businesses and Government accounts
- Gain synergies with Kazakhtelecom in B2B products and sales

### 04

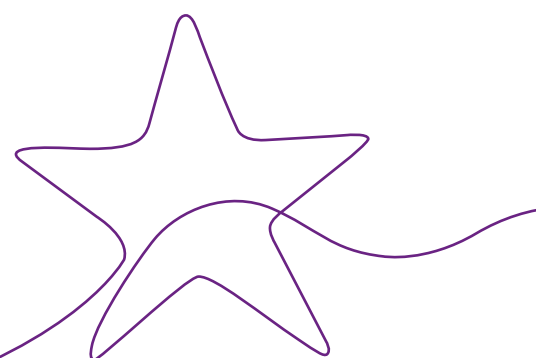
#### Further development of the contract phone business

- Finding an optimal balance to minimise risk related to bad debt
- Product portfolio optimisation
- Sales channels expansion
- Increase product attractiveness

### 05

#### Optimising clear synergies with Kazakhtelecom, our majority shareholder

- Gaining access to technological resources and infrastructure
- Network integration
- Potential CAPEX and OPEX savings



# KEY PERFORMANCE INDICATORS

**We delivered a steady growth with a 1.5 percent increase in our net sales, largely driven by stronger B2B revenue from business solutions and higher handset sales. We continue to improve the level of service we provide in order to promote customer loyalty.**

One of the most important highlights of 2018 was changing our priorities to focus on customer value management. As a result, our acquisition strategy is now firmly focused on attracting quality customers while moving away from volume-driven subscriptions. In addition, the expansion of our 4G/LTE coverage has significantly improved the quality of our service. Plus we now cover 62 percent of the population of Kazakhstan.

## FINANCIAL INDICATORS

### Net sales (KZT million)

**149,701**

2018	149,701
2017	147,475
2016	147,037

Net sales were up year-on-year in 2018, which was mainly supported by higher handset sales and positive sales dynamics in the B2B segment.

### Service revenues (KZT million)

**131,373**

2018	131,373
2017	135,407
2016	137,337

The decrease of 3.0 percent relates primarily to regulatory changes in PAYG charges. Revenues remained under pressure, improving slightly from September 2018 due to tariff portfolio developments.

### B2B revenues (KZT million)

**17,172**

2018	17,172
2017	14,133
2016	11,894

Retaining the lead position in B2B revenue growth is key. The share from non-core business solutions increased to over 60 percent, largely due to growth from our principal B2B offerings.

### EBITDA excluding non-recurring items (KZT million)

**50,943**

2018	50,943
2017	55,560
2016	57,988

The major negative impacts on the EBITDA came from lower billed revenue largely due to the regulatory change to PAYG tariffs introduced in March 2018.

### Data revenues (KZT million)

**45,800**

2018	45,800
2017	45,541
2016	41,339

Data revenue increased mainly due to the increase in data usage. Growth in data traffic was partially offset by packages with lower tariffs per MB.

### Handset sales (KZT million)

**18,432**

2018	18,432
2017	12,082
2016	9,713

Our handset sales contribute a great deal to our contract phone business where we sell approximately 90 percent of our phones with a contract.

# FOCUS ON CUSTOMER VALUE MANAGEMENT

## OPERATIONAL INDICATORS

### Total subscribers ('000)

# 8,969

2018	8,969
2017	10,009
2016	9,986

In 2018, our key priority was to shift from 'volume to value', focusing on attracting quality customers while moving away from volume-driven distribution. As a result, our registered subscriber base declined to 8,969 thousand.

### Prepaid subscribers ('000)

# 8,062

2018	8,062
2017	9,100
2016	9,049

Our acquisition strategy is now focused on attracting quality customers while moving away from volume-driven subscriber acquisition.

### Average revenue per user (ARPU in KZT)

# 1,154

2018	1,154
2017	1,146
2016	1,155

Blended ARPU remains relatively stable.

### Minutes of usage (MOU)

# 218

2018	218
2017	225
2016	228

Minutes of usage remains relatively stable.

### Churn (%)

# 55.5

2018	55.5
2017	56.1
2016	49.3

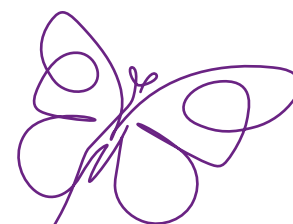
The increase in churn rate is explained by the double/triple sim-card usage and high penetration rate.

### Share of data revenue (%)

# 31

2018	31
2017	31
2016	28

4G device penetration continued to grow with the same growth trend observed in 4G data users. Growth in data traffic was partially offset by offering packages with lower tariffs per MB, which led to a decrease in average revenue per MB.



# B2B



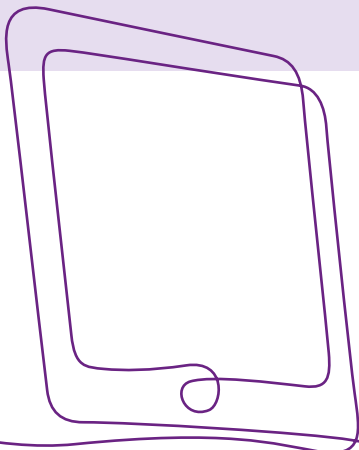
### Diversity of product portfolio and sales channels

The share of revenue from non-core business solutions increased to 61.2 percent in 2018 and this was largely due to growth from our principal B2B offering, which covers Bulk SMS, Free Phone, fixed internet and other services. Although customer communication services (B2B2C), such as Bulk SMS and Free Phone, are the key drivers for us in this sector, we are also gaining momentum through advertising and communications services like Direct Marketing.

In 2018, we continued to diversify within this sector by launching Virtual PBX in response to demands from the market. This service increases efficiency for clients by ensuring that no incoming calls from customers are missed, as well as enabling them to monitor outgoing communications.

During the year, Kcell started to explore different sales channels for its lead generation. This resulted in a substantive contribution from new SME acquisitions. We plan to exploit this channel further and increase revenue in 2019.

Our relationship NPS score improved significantly in 2018. The rate of customer complaints about network quality and tariffs has decreased year-on-year from 14 percent and 29 percent to 8 percent and 25 percent respectively. We have also had less frequent negative feedback about the quality of our services.



# BUSINESS SOLUTIONS TAKE THE LEAD

## Communication solutions

Since competition for this business stream mostly comes from digital channels, rather than other industry players, Kcell is considering the possible opportunities to be gained from digitalising the service. The challenge we have is how to balance these new communication channels with the more-traditional, highly efficient services based on SMS and voice calls.

## Operational solutions

Total revenue from operational solutions for corporate clients achieved double digit year-on-year growth in 2018. While this mainly came from the provision of business telephony services and fixed internet, it also included a decisive contribution from Virtual PBX. This was only launched in June 2018 and is already showing a strong growth trend – both with clients and in revenue.

The revenue that Kcell earned from software reselling and providing IT-solutions, such as DDOS security services and IT security, made a positive contribution to overall growth.

## New Business Development

In July 2018 Kcell set up a New Business Development unit with the remit to promote and increase business from big data, digital content (Mobi), MFS/Fintech, IoT and digital channels (mobile applications, web-sites, cabinets, online-shop). The unit works both on B2B (mostly B2B2C) and B2C. It has already accomplished a significant increase in the opt-in base, updated self-learning models to attain 90 percent accuracy, launched audio books within the Bookmate service, achieved 3.5 times year-on-year growth in mobile financial services by adding more than 100 new services and piloted several IoT-projects.



## B2C

**The main priority for our B2C business is to increase the quality of our active customer base, in line with our new strategy: 'From Volume to Value', moving from volume-driven SIM distribution to value-driven subscriber acquisition. We aim to achieve this by further expanding our bundles penetration, creating value for both new and existing customers through competitive and attractive offers.**

As part of this, we have also started the process of 'base cleaning' as well as analysis and optimisation of our sales channels and are looking to revise the conditions under which we interact with partners. The initiative is supported by the continuing rise in smartphone penetration that reached 67.4 percent in 2018, of which 50.9 percent are 4G smartphones. These also accounted for 47 percent of the total share of subscriber bundles. The expansion of our 4G/LTE coverage has significantly improved the quality of our services. To complement this, we are developing and promoting the range of OTT services within the Mobi family (TV, music, kino, press, bookmate) as well financial services MFS (Mobi money), all of which allow customers to take full advantage of their 4G connectivity. The number of our MFS users, for example, more than doubled during the year.

There were some negative effects from the regulations on PAYG charges, which were implemented early in 2018. These were introduced to reduce the impact of unexpectedly high bills on consumers and necessitated blocking PAYG charging on packages tariffs where the limits of bonus balances had been exceeded or in the case of unpaid fees. However, there has been some improvement since September when we renewed PAYG charging on bundles in the case of unpaid subscription fees.

In March 2018, we launched a new package tariff line for our Activ brand to retain our positioning in today's highly competitive market. In June 2018, we also added a special free service, which gives customers unlimited access to social media apps such as YouTube, Instagram and WhatsApp. At the same time, we also made changes to some conditions in legacy bundles.

Aligned to our customer-centric approach, we are focusing on customer value management (CVM) campaigns with the aim of retaining our current base and reducing multisimers share. We are incorporating both cross- and up-selling in our CVM campaign, with attractive discount offers.

Our revised pricing model with better competitive pricing and a wider range of products has increased contract phone sales. In addition, we have focused on improving the quality of sales and control of our bad debt rate.

In October 2018, Kcell launched new MTR 25 KZT/min for international traffic, which in turn has driven an increase in international interconnect revenue. The separation of tariffs on A2P SMS with a two-tier pricing (international 20 KZT/SMS; local 5 KZT/SMS) has also led to an increase in the revenue from international A2P SMS.

Towards the end of the year, we also resumed television advertising for the first time in four years with a new positioning for the Activ brand. We want our subscribers to move away from comparisons of status, income level and other attributes and instead to focus on real lives, real emotions, real situations, real ups and downs. With the slogan 'Always with you', we use storytelling to convey the key message that you can be close to those who mean a lot to you, while Activ is always in the background supporting you. The first television commercial in the new positioning campaign features a real family living in Aktau. The mother, an engineer-geologist, her daughter and her school friends became Activ heroes after starring in the video.

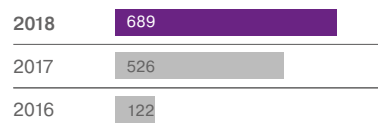




# WE ARE FOCUSING ON CUSTOMER VALUE MANAGEMENT PROGRAMMES

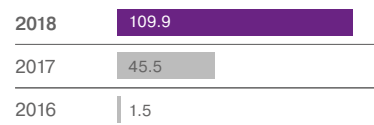
## OTT users ('000)

# 689



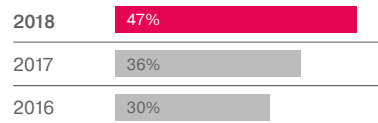
## MFS users (units '000)

# 109.9



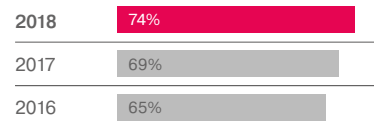
## Bundled customers as share of total subscribers

# 47%



## Bundle subscribers' share of revenue

# 74%



# FINANCIAL REVIEW

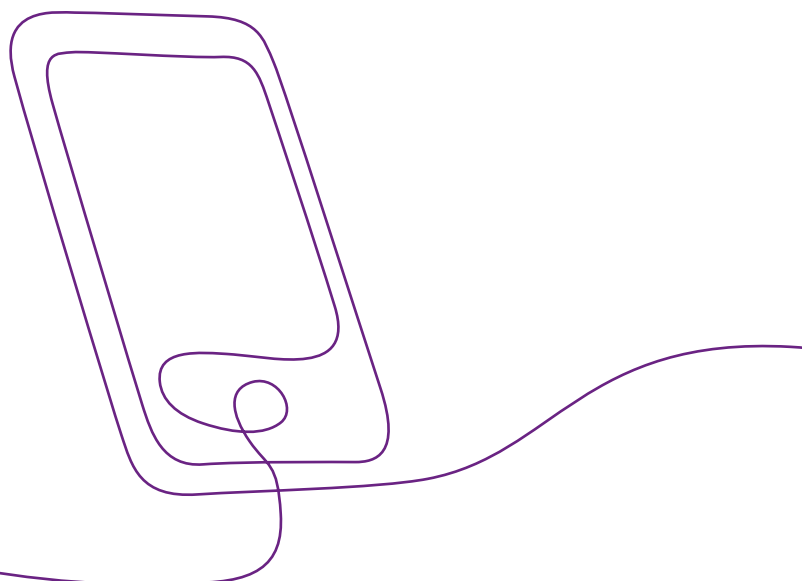
**While net sales increased year-on-year, service revenue remained under pressure, largely due to a change in legislation relating to PAYG charges and revised strategic priorities.**

## Financial highlights

- Net sales increased by 1.5 percent to KZT 149,701 million (2017: KZT 147,475 million). Service revenue down 3.0 percent to KZT 131,373 million (2017: KZT 135,407 million).
- EBITDA, excluding non-recurring items, decreased by 8.3 percent to KZT 50,943 million (2017: KZT 55,560 million) with the EBITDA margin of 34.0 percent (2017: 37.7 percent).
- Operating income, excluding non-recurring items, down 25.0 percent to KZT 24,311 million (2017: KZT 32,414 million).
- Net finance cost decreased by 6.7 percent to KZT 8,792 million (2017: KZT 9,419 million).
- Net income decreased by 27.1 percent to KZT 8,531 million (2017: KZT 11,699 million).
- Free cash flow decreased to KZT 8,319 million (2017: KZT 10,899 million).
- During the reporting year, the customer base decreased to 8,969 thousand (2017: 10,009 thousand). This was due to higher churn of inactive promo SIM cards as a result of the revised strategic priorities – moving from quantity-driven distribution to value-driven acquisition.

KZT in millions, except key ratios, per share data and changes

	2018	2017	Chg (%)
Revenue	149,701	147,475	1.5
<i>of which service revenue</i>	131,373	135,407	(3.0)
EBITDA excl. non-recurring items	50,943	55,560	(8.3)
<i>Margin (%)</i>	34.0	37.7	
Operating income	21,055	29,741	(29.2)
Operating income excl. non-recurring items	24,311	32,414	(25.0)
Net income attributable to owners of the parent company	8,531	11,699	(27.1)
Earnings per share (KZT)	42.7	58.5	(27.1)
CAPEX-to-sales (%)	12.9	14.7	
Free cash flow	8,319	10,899	(23.7)



### Breakdown of revenues

KZT in millions, except percentages	2018	% of total	2017	% of total
Voice and other services	77,515	51.8	80,050	54.3
Data services	45,800	30.6	45,541	30.9
Value added services	7,954	5.3	9,802	6.6
Handset sales	18,432	12.3	12,082	8.2
<b>Total revenues</b>	<b>149,701</b>	<b>100.0</b>	147,475	100.0

### Net sales

Net sales increased by 1.5 percent to KZT 149,701 million (147,475 million). Service revenue was down 3.0 percent to KZT 131,373 million (135,407 million).

### Voice and other services

Revenue from voice and other services decreased by 3.2 percent to KZT 77,515 million (80,050 million). Voice traffic decreased by 7.7 percent to 20,934 million minutes (22,678 million); ARMU remained at KZT 2.1 (2.1).

Interconnect revenue remained stable at KZT 21,593 million (21,549 million).

### Data services

Data revenue increased by 0.6 percent to KZT 45,800 million (45,541 million). Data traffic increased by 34.0 percent to 258,198,182 GB (192,691,522 GB). Growth in data traffic was partially offset by packages with lower tariffs per MB, which resulted in a decrease in average revenue per MB (ARMB) to KZT 0.18 (0.23).

### Value-added services

Revenue from value-added services decreased by 18.9 percent to KZT 7,954 million (9,802 million).

### Handset sales

Handset sales increased by 52.6 percent to KZT 18,432 million (12,082 million).

### Expenses

#### Cost of sales

Cost of sales increased by 7.9 percent to KZT 99,431 million (92,194 million), primarily due to recognised expenses related to interconnection charges and higher handset sales.

#### Selling and marketing expenses

Selling and marketing expenses decreased by 5.6 percent to KZT 9,805 million (10,388 million), reflecting the improved distribution process.

#### General and administrative expenses

General and administrative expenses increased by 23.6 percent to KZT 19,227 million (15,561 million), primarily due to additionally accrued taxes and penalties, as well as higher consulting expenses and staff cost.

#### Earnings, financial position and cash flow

**EBITDA**, excluding non-recurring items, decreased by 8.3 percent to KZT 50,943 million (55,560 million), with the EBITDA margin of 34.0 percent (37.7 percent).

**Net finance cost** fell to KZT 8,792 million (9,419 million).

**Income tax expense** decreased by 56.7 percent to KZT 3,732 million (8,622 million).

**Net income attributable to owners of the parent company** decreased by 27.1 percent to KZT 8,531 million (11,699 million), while earnings per share were down to KZT 42.7 (58.5).

**CAPEX** amounted to KZT 19,240 million (21,648 million) and CAPEX-to-sales ratio decreased to 12.9 percent (14.7 percent).

**Free cash flow** decreased to KZT 8,319 million (10,899 million).

#### Key financial ratios

	31 Dec 2018	31 Dec 2017
Return on equity (% , rolling 12 months)	12.5	16.6
Return on capital employed (% , rolling 12 months)	14.3	22.9
Equity/assets ratio (%)	40.7	39.4
Net debt/equity ratio (%)	89.2	81.9
Net debt/EBITDA rate (rolling 12 months)	1.27	1.09
Owners' equity per share (KZT)	340.4	352.7

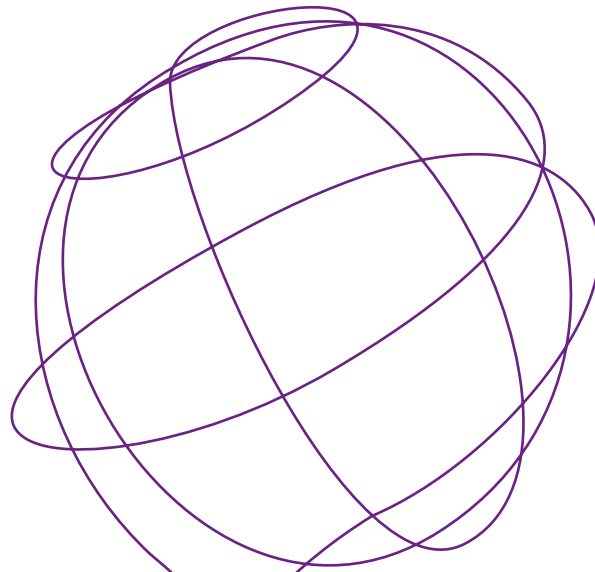
# SUSTAINABILITY

**By taking the long view of our effect on society and the environment, we are able to promote sustainable behaviour and practices that strengthen not only our business but also the communities in which we operate. This, in turn, creates lasting value for society and our shareholders.**

## Setting an example

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

December 2018 marked the completion of Telia's strategic decision to exit from Eurasian markets, when Kazakhtelecom JSC acquired its shareholding and became the major shareholder in Kcell JSC. As part of a planned and responsible withdrawal, Telia's Ethics & Compliance (E&C) Officer gave a presentation to members of the Kcell Board of Directors and executive management outlining the Telia Ethics and Compliance programme, followed by discussions on how this and best practices already adopted by Kcell could be successfully continued throughout the Company.



# SETTING THE BEST EXAMPLE FOR ALL OUR STAKEHOLDERS

## Achieving a sustainable business

For Kcell sustainability encompasses every aspect of how we account for our long-term effect on society and the environment. Our responsibility extends throughout the entire value chain. We believe that our efforts strengthen not only our business, but also the communities in which we operate, creating long-term shared value for society and our shareholders. Sustainability is a vital part of our business model, strategy and philosophy: through it, we mitigate negative impact and create a positive effect on society.

Kcell channels its responsible business efforts into the following focus areas:



Anti-bribery and corruption



Speak-Up line and disciplinary action



Responsible procurement



Human rights



Customer privacy



Freedom of expression



Environmental responsibility



Occupational health and safety



Employees



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

In 2018, the Company appointed business consultancy Ernst & Young (EY) to advise on improving third-party management procedures, including the due diligence process, escalation of red-flagged suppliers and risk-reporting structures. An EY consultant, together with the Kcell Ethics & Compliance Officer (E&C), conducted anti-bribery and corruption (ABC) risk assessment interviews with various target groups, including sales, procurement, government relations and technology departments. The resulting ABC risk assessment report fed into the ABC Action Plan for 2018, which also incorporated outstanding points from the previous ABC Programme Audit Correction Plan. The new ABC Action Plan was successfully implemented by the end of 2018.

Kcell is committed to ensuring that the E&C unit is staffed with professionals. All five of the current E&C staff now have TRACE anti-bribery specialist accreditation (TASA), a recognised international certification programme for compliance professionals. The due diligence team

allows us to perform our own due diligence checks, for both new vendors and existing suppliers. This significant investment in the compliance function reaffirms our commitment to responsible business.

The compliance framework was further strengthened by the introduction and revision of internal guidelines. The Third-Party Due Care Guidelines were adopted by the Company and, alongside this, training on how to apply them for employees in procurement, sales and technology. In addition, training sessions were held on the Ethical Compass – a matrix document – explaining what the incompliance in due diligence reports mean, how they are scored and recommended mitigation actions.

In 2018, Kcell held four governance, risk, ethics and compliance (GREC) meetings with the purpose of both integrating risk areas and further embedding risk management into the decision-making process. Held quarterly and attended by executive management, heads of departments and other key employees, these meetings help to co-ordinate GREC efforts across the organisation. In the third quarter, a new risk-reporting format was introduced that will improve the tracing of risks trends and the effectiveness of follow-up measures.

# SUSTAINABILITY CONTINUED

 **Anti-bribery and corruption**

Kcell takes a ‘zero-tolerance’ approach to corruption: it is committed to implementing effective measures to prevent, monitor and eliminate questionable business practices in any form. To this end, our efforts to root out corruption from every aspect of our activities are ongoing. In 2017, the internal audit function, an independent body that reports to the Board of Directors, conducted an audit of the anti-bribery and corruption programme. While it found some room for improvement, there was only one area that required major actions: conducting a check of existing dealers. This was carried out in 2018 with all existing dealers checked, findings analysed and mitigation actions fulfilled.

In 2018, Kcell placed a major emphasis on further developing its face-to-face anti-bribery and corruption (ABC) and third-party due care training programmes.

ABC training is now mandatory for all new recruits. During the reporting period, 513 new hires attended ABC training, conducted on a bi-weekly basis to ensure that all new employees are familiar with the Company’s ABC principles and regulating documents. Over 135 employees also underwent advanced third-party due care training, which explained the risks related to interacting with third parties, principles of risk identification and classification, and mitigation actions recommended by the E&C guidelines. For certain target groups the training also focused on the work of the Ethics and Compliance Committee and the escalation process for red- and orange-flagged suppliers.

Kcell E&C team continued to provide ‘Ethical Compass’ training, aimed at employees in sourcing and technology departments. This equips them with guidance understanding and report findings as well as identifying risk and implementing mitigation actions.

In 2018, the Kcell E&C team undertook face-to-face ABC training sessions with 41 employees Kcell Solutions LLP (a subsidiary of Kcell) and also with 26 top managers from high-risk vendors.

 **Speak-Up line and disciplinary action**

Alongside anti-bribery and corruption training and implementation, Kcell’s ‘Speak-Up’ line is a major compliance feature. This is a secure channel through which all stakeholders can report potential unethical business practices or misconduct. An independent third-party manages the system to ensure the utmost impartiality and confidentiality. The portal is available on the intranet for employees and on an external website for third parties. Through online messaging, the platform provides a user-friendly and easy-to-understand interface.

To ensure accessibility and effectiveness, the ‘Speak-Up’ service is offered in different languages, including Kazakh, Russian and English. There is also a direct link in the ‘Responsible business’ section on Kcell’s external website. A high-visibility employee communications campaign in our offices helps to promote the ‘Speak-Up’ line as widely as possible. We also have a separate internal reporting line for managers wishing to raise concerns about conduct.

In 2018, we received a total of 32 whistleblowing reports via the ‘Speak-Up’ services, which were either from or about Kcell; of these, 53 percent were filed anonymously and 47 percent specified the whistleblower’s name. The types of issues raised in the reports were leadership, violation of policy, conflict of interest, fraud and improper giving or receiving gifts.

Kcell places great value on the feedback that it receives via whistleblowing reports. This is seen as a positive indication that employees and managers are engaged with and support our ethics and compliance approach, and also that they have the confidence to speak up without fear of reprisals.





### Responsible procurement

Kcell now has a new internal due diligence team in place and was able to fulfil due diligence checks locally on all suppliers. In 2018, the team reviewed more than 700 new procurement cases. The due diligence process was previously conducted on the platform owned by Telia but Kcell has now initiated the purchase of its own due diligence platform.



### Human rights

An independent, human rights impact assessment, using a methodology based on the UN Guiding Principles on Business and Human Rights, was carried out for Kcell in 2016. The resulting report identified a significant number of proactive measures already undertaken by the Company to respect human rights and a strong commitment to international standards of business conduct. Recommendations were made for improving customer privacy, freedom of expression, anti-discrimination and vulnerable groups, and labour rights, which were developed into an action plan. The implementation of this action plan is ongoing and reviewed at each GREC meeting.



### Customer privacy

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

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

Kcell pursues its customer privacy objectives in accordance with a dedicated road map.

# SUSTAINABILITY CONTINUED

## Freedom of expression

Kcell believes that its services contribute to social development by enabling information and ideas to be shared openly. To this end, we have a dedicated policy on freedom of expression in telecommunications. Its primary purposes are to reduce human rights risks relating to government surveillance of communications and to give customers confidence that we will, wherever possible, respect and safeguard their freedom of expression.

The policy's principles apply to requests, demands and legislative initiatives by governments or national authorities relating to the surveillance of communications. This includes restrictions on access to networks and internet websites, and signals intelligence.

## Environmental responsibility

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

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

## Occupational health and safety

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

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

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







## Employees

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

Kcell supports the international human rights and dignity of all employees as outlined by the UN Declaration and core International Labour Organisation's conventions.

All employees have a remuneration package that reflects internal equity and external local market conditions. We work with two different international HR consultants to monitor salaries in the local market. Based on the results of their research, we make suggestions to executive management about variable pay bands. We also conduct an annual review of employees' fixed pay, based on individual overall performance and differentiated within acceptable salary ranges.

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

As of 31 December 2018, Kcell had 1,826 employees, down 1.5 percent year-on-year. We support equality and diversity in the workforce. At the year-end, the Company employed 785 male and 1,041 female employees representing more than 30 nationalities.



# SUSTAINABILITY CONTINUED

**Providing support for people and investing in a brighter tomorrow are particularly important during challenging times. Every business has a symbiotic relationship with the society in which it operates: their success is interdependent.**

Over the last decade, alongside its pursuit of market leadership, Kcell has demonstrated its commitment to the highest principles of corporate social responsibility (CSR). In 2007, it was the first telecommunications company in Kazakhstan to sign up to the United Nations Global Compact, which seeks to create a sustainable and inclusive global economy by encouraging businesses to follow key principles in relation to human rights, labour, environment and anti-corruption.

Since the very outset, Kcell has been actively involved in dozens of initiatives that aim, wherever possible, to improve the lives of people. By focusing on three key areas – education, sport and healthy lifestyle, and society – the Company is able to both maximise the benefits and ensure that the support is effective.

When evaluating potential projects, Kcell seeks to engage with established partners committed to making a difference over the long term and for as many individuals as possible. The Company is particularly interested in initiatives that strengthen community cohesion, by contributing to sustainable development, helping those less fortunate and creating equal opportunities for self-improvement, as well as those that drive progress through innovation, integrity and inspiration.

In 2018, Kcell invested in 18 CSR projects and has supported some of these for a number of years. The Company would like to thank all of its partners for their collaboration.

## Education

In 2018, Kcell received guidance from the Board of Directors to maintain the primary focus of its CSR efforts on its 'Education for All' strategy. As education is one of the main drivers of personal, social and national development, making learning accessible to as many people as possible is an overriding priority. The Company provides ongoing support both to individuals dedicated to self-improvement through education and to the organisations established to help them.

## Situational Kazakh

Situational Kazakh is a mobile application that enables the user to study the Kazakh language. As part of its education-oriented strategy, the Company supported the development of this application, an official electronic version of the first volume of the eponymous book written by Kanat Tassibekov. In 2018, we added a vocabulary section with an easy-to-use search function as well as an audio function for listening to pronunciations.

The application supports smartphones using both the iOS and Android mobile platforms, has a user-friendly interface and, most importantly, is always to hand. Situational Kazakh provides details of the correct situational and contextual application of idioms, set expressions and word forms in the Kazakh language. The application content is also enriched with illustrations and audio.

## Digital Life

Kcell has been a major supporter of the Kazakh government's Digital Life education programme over the last three years. The purpose of the programme was to raise awareness among the population of Kazakhstan about the opportunities and advantages that smartphones and mobile applications offer for everyday living. Schoolchildren and their parents, students, representatives of small and medium businesses, journalists, bloggers and even pensioners took part in the programme. From 2015-2018, some 8,000 people from 17 cities across Kazakhstan participated in 298 free master-classes. Of these, the most popular themes were: mobile media, mobile security, mobile education, mobile government, mobile business, SMM for business, Grannies and smartphones.

## Grannies and smartphones

Following an initial announcement, the 'Grannies and smartphones' course quickly became very popular. Aimed at those aged over 50 (the oldest participant was actually 83 years old), the course set out to help them break the 'digital barrier'. During the three-year project, 500 pensioners from 14 cities in Kazakhstan engaged with 'Grannies and smartphones' and, for the first time, learned to download applications for smartphones and tablets, create groups in Messenger and, of course, to communicate digitally.

# CONTRIBUTING TO SUSTAINABLE DEVELOPMENT

## Mobile education

Mobile technologies provide unique opportunities for learning and self-development. Hundreds of students, schoolchildren and teachers from 16 cities in Kazakhstan learned how to find courses of specific interest to them through mobile applications on smartphones and which are the best applications for learning foreign languages.

## Mobile security

This mobile security master-class provided information about safeguarding children from external and virtual threats as well as using mobile technologies to help yourself in dangerous situations. At the master-class, trainers taught parents about tracking systems and also how to use Kcell's parental control service and block children's access to inappropriate content online.

## SMM for business

The 'SMM for business' master-class was open to anyone interested in learning how to use social networks and the internet to advertise and promote their goods. Participants received tuition in writing commercial texts and market analysis using mobile applications. They also familiarised themselves with social networks and project management systems. Trainers explained how to sell and buy goods through the internet, how to order air tickets quickly, how to plan tasks and reserve accommodation and how to increase personal effectiveness.

## School for Digital Volunteers

Although the three-year project has now concluded, Kcell believes that it is important to continue to spread knowledge about the effective use of smart phones and mobile applications. The Company has trained 82 volunteers, so that they are able to conduct courses and master-classes, transferring their knowledge to those who want to be a part of the digital world. Graduates of the School for Digital Volunteers from Astana and Pavlodar have already organised mobile security, Grannies and smartphone courses in their cities.

## Annual Open Republic Championship

Kcell was again the main sponsor of the Annual Open Republic Championship for Robotics and Innovative Technology among schoolchildren and students, which was held in April 2018 in Almaty. Some 315 teams from all over Kazakhstan took part in the championship, with competitors ranging from the youngest at only 6 years old to the eldest of 21.

As in the previous year, the Championship sections included 'Engineering projects', 'Program projects', 'Fighting robots' and also the regional selection stage for the World Robot Olympiad in Thailand. A robot-hand that can communicate in sign language, a smart-yurt, which optimises space, and a machine for controlling fire extinguishers in hard-to-reach places were just a few of the innovative projects put forward at the Championships.

The jury selected the best participants in each category over the two days of competition, awarding certificates and prizes donated by sponsors and partners. The main prize – the Mayor's Cup of Almaty – was awarded to Nazarbayev Intellectual School of Chemical and Biological Direction of Almaty for their ecological project 'Green wheel', a device for easily accessing city street maps on a smartphone.

## Purple Breakthrough

The sixteenth 'Purple Breakthrough' student PR conference, supported by Kcell, was held in Almaty in April 2018 and attended by students from nine universities. Under the overarching theme, 'PR 360. Integrated Communications', participants presented their ideas under three headings: Country PR, PR in Business and Social responsibility in PR. The last of these attracted the most projects with students demonstrating their interest in the issues of supporting people with special needs. The University of International Business's team took first place for its promotion of the Nuralau brand, which produces clothes for people with disabilities. The team of Al-Farabi KazNU created Telegram-bot, which identifies types of plants from photos, giving a full description of origin and properties. This project won in the Country PR section.

## Kazakhstan students study in UK with Kcell's support

In September 2018, two students from Ust Kamenogorsk and Karaganda universities in Kazakhstan took up their free places on the Master's degree programme at Kingston University in London, UK. This is the result of an educational project, 'Master's degree for the talented', jointly organised by Kcell and Taiburyl Public Association for students from families with low income. As winners of the competition, Darkhan Ashimov and Adilkhan Kussainov had all their tuition fees and living expenses paid by Kcell. Taiburyl Public Association has been implementing a support programme for orphans and students from low-income families in Kazakhstan for many years.

Students from four Kazakhstan universities in Kyzylorda, Karaganda, Ust Kamenogorsk and Pavlodar cities took part in the contest to win a free place on the Master's programme at Kingston University, studying disciplines that ranged from radio engineering, electronics and telecommunications, IT systems, computer engineering and software to automation and control. All of the applicants for the grant needed a good knowledge of oral and written English as well as a high academic standard in their chosen subject. Darkhan and Adilkhan both met these criteria, were very involved in social and education projects at their respective universities and have participated in regional and international Olympiads.



# SUSTAINABILITY CONTINUED

## Sport and healthy lifestyle

### Camp Shriver

For the seventh time, Kcell sponsored the Camp Shriver children's camp in 2018. The annual Camp Shriver sports and health camp is for children with intellectual disabilities and the event is held under the auspices of the Special Olympics Kazakhstan Public Association.

The main aim of the Camp Shriver is to help people with intellectual disabilities gain positivity through different sporting events. This event was attended by 80 children – along with their parents, 20 student volunteers and 10 coaches – who all had the chance to acquire basic skills in futsal, badminton, basketball, bocce and floorball. In addition to a young athletes programme, the focus was on the importance of physical exercise for children with intellectual disabilities and engaging with them as early as possible. As part of a healthy athlete programme, doctors and medical students were also on hand to undertake general health screenings of the children.

### Look how you can hear project

In a ground-breaking project, Kcell joined forces with MEGOGO video service to enable children with hearing disabilities from two remedial boarding schools in Almaty city to watch cartoons with sign language for the first time at special showings at cinemas.

The project ran from September to December 2018. During this time about 200 pupils in boarding schools for children with hearing disabilities were able to watch 10 full-length cartoons with sign language, provided by the MEGOGO Company, at the cinema. (More than 100 films and cartoons with sign language are available on the MobiKino service provided by Kcell in partnership with the MEGOGO.)

## Short charity numbers

Kcell also puts its technology to good use as part of its charitable fundraising and awareness initiatives to promote a healthy lifestyle. This can be seen in the Company's use of designated short charity numbers as a way to help improve the outreach and fundraising for its own charitable efforts, as well as those of its customers and partners. In 2018, Kcell helped to support the following charitable campaigns using short numbers:

- Number 6486 – the 'We Will Overcome Autism' campaign aims to raise the awareness of autism among Kazakhstan's society and to help children with this diagnosis.
- Number 9099 – the 'Make a Gift of Life' campaign's purpose is to collect money for children's medical treatment that is not provided in Kazakhstan.
- Number 9962 – the 'Breathe Life' campaign seeks to provide medical equipment for rehabilitation rooms in children's hospitals to decrease fatality rates among children.
- Number 9191 – the 'Helping Hand' campaign collects money for Shugyla Foundation's social projects, which are targeted at low-income families.
- Number 9777 – the 'Humanitarian Help' campaign, in co-operation with Red Crescent International, is a fundraising project for humanitarian aid that provides food and basic necessities at different emergency sites.

## SOS Children's Villages

Kcell also launched a new charity number 3838 for the collection of SMS donations to provide support for orphaned children and children left without parental care. The cost of one SMS is KZT 280 and the money raised is used to help the Corporate Fund – SOS Children's Villages of Kazakhstan.

Girls and boys of different ages live together like brothers and sisters in one SOS family. These children build family bonds with their SOS mother, who continues to support them throughout their whole life. Children grow up and study together, sharing duties as well as the troubles and joys of every day. SOS families live together, creating a supportive atmosphere in which children are able to enjoy a happy childhood. Families share their experience and help each other. In their family, in the village and local community, each child learns to participate actively in the life of the society.

The Corporate Fund – SOS Children's Villages of Kazakhstan was established in 1993. The mission of the fund is ensuring the rights of children to live and be raised in a caring family environment. The first SOS Children's Village was established by Hermann Gmeiner in 1949 in Austria. He devoted his life to children in need – children who had become homeless or lost their sense of security or their parents during the Second World War. Since then the organisation has expanded worldwide into 135 countries.



## Society

As the leading provider of telecommunications in Kazakhstan, Kcell is at the heart of daily life and strives to use this position to support social development wherever possible. Some of the key social events that the Company supported in 2018 included the PR Days in Kazakhstan, the Media Kuryltai Summit and TEDx Almaty.

### Media Kuryltai

For the past four years, Kcell has supported the Media Kuryltai conference, a unique forum that furthers the development of Kazakhstan's media market by fostering the exchange of opinions between representatives of the media, government and business. In total, some 200 delegates from all over Kazakhstan took part in the 2018 conference. Part of what makes the forum unique is that it attempts to represent the whole spectrum of Kazakhstan's media, bringing together heads of state and private publishing houses, national and regional media, and highly placed public servants. This year, the conference's main theme was 'Media market: systemic changes and search for new meanings'. Attendees discussed the media's influence on the country's general economic and political system, and trends in the media market's development, as well as rising media costs, the involvement of investors and the role of education in the media industry. As part of the conference, participants were able to attend master classes on explanatory journalism, how to make news successfully and journalistic standards in the 'fake news' era.

### PR Days in Kazakhstan

From 31 May – 1 June 2018, over 250 industry specialists from all over Kazakhstan and abroad attended the annual international PR Forum in Almaty. Kcell was once again an official partner of this event for leading PR specialists, opinion leaders, top managers of state and business institutions along with chief editors and journalists from prominent publications.

This year, the organisers chose 'NEO PR Communication 360°' as the theme and a hot topic with more and more new channels of interaction with society and customers available to PR professionals, including digital tools. Discussions on the first day of the forum ranged across: The Top-10 PR events of 2017; Communications in the Kazakh language; Sustainable business development: risk management and work with the state authorities; CEO and reputation management; Socially sensitive communications; Communication 360°: digital marketing and PR; and How to achieve synergy?

The second day of the forum was devoted to exploring different aspects of Kazakhstan, the brand. High profile speakers included representatives from the Kazak Tourism, Tourist Information Centre – Visit ALMATY, Astana Convention Bureau, Alma Museum as well as Mikhael Brodskiy, Israeli Extraordinary Ambassador to Kazakhstan and Kyrgyzstan.

### TEDx Almaty

Kcell has supported the TEDx Almaty conference for past eight years. During that time more than 3,500 people, who are open to new ideas and possibilities have taken part in the conference with online video presentations watched over 500,000 times.

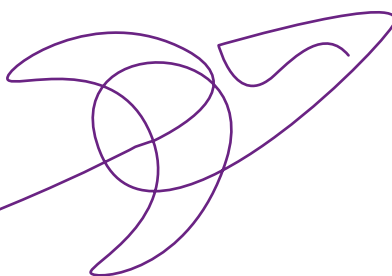
The idea of TEDx Almaty: Fast Forward Future was to look to the future together with speakers for making this journey. The conference tried to find the answers to a number of questions. How we feel about future? What we think about this? How it looks like for us and for our business? What's our ideas for the next ten years, and where would we invest them? Over the last decade the world has changed dramatically. Ten years ago there were no cars with autopilot or with parts created with 3D printers. The power of our imagination can change the course of human development. And the skill of telling stories is one of the most powerful methods to control reality and the future.

More than 500 people took part in the 2018 conference. Speakers from across a number of different disciplines spoke about their visions for technological progress, the future of humanity in space, future diseases, future art, cyber security issues and even immortality.

### Social hotlines

Another aspect of Kcell's charity numbers initiative is providing Kcell and Activ subscribers with free access to social hotlines, including one for the protection of children's rights, a reinforcing our focus on human rights protection. The short number hotlines introduced in 2018 include:

- Number 150 – the 'Psychological Helpline for Children and Teens' is a new joint project with Crisis Union centres that provide an easy number for children, teenagers, parents and friends to call for psychological consultations on protection from violence.
- Number 1422 – the 'Mothers' House' adoption support hotline.



# RISK MANAGEMENT

**From strategic decision-making through to day-to-day operational activities, all businesses face elements of risk – some potential and some actual – and Kcell is no different in this respect. However, the Company has established a robust risk management system to enable early identification and reduced exposure to risk, safeguarding its business and ensuring that it is able to operate without service disruption. Kcell is committed to accomplishing this by continuously improving its risk management methods and processes.**

## Responsibility

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

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

- identifying, assessing, managing and mitigating risks;
- making relevant and reasonable efforts to safeguard business continuity;
- reporting risks in a timely and clear manner;
- recruiting staff to oversee effective risk evaluation, mitigation and reporting processes;
- maintaining and promoting overall risk awareness within their area of responsibility;
- ensuring that each department's risk management activities are adequately documented.

## Framework

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

## Process

The main principles of the risk management process are:

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

## Principal risks

Using the risk management framework to identify the principal risks to the business, Kcell is able to classify the level of exposure in any given area. This requires drawing on an in-depth knowledge of the Company as well as a thorough understanding of the external market and the legal, social, political and cultural environment in which it operates. It also involves simultaneously reviewing the Company's strategic and operational objectives, including factors critical to its success such as related threats and opportunities.

Kcell has identified a number of principal risks and uncertainties that are key to its day-to-day operations: strategic, operational, financial, legal and natural disaster/catastrophe.

## Strategic risk

Strategic risk is categorised as the potential for losses due to changes or errors in defining and implementing the business strategy and the Company's development, changes in the political or regional environment, and fluctuations in the market or customer behaviour. Most of these are considered high-risk, requiring the attention of management.

This could include increased price competition caused by the activities of other mobile operators or new legislation. Kcell seeks to mitigate these risks by protecting its leadership in 'strong' regions and by launching competitive tariffs and products to increase its market share.

# MANAGING RISK AT A STRATEGIC AND OPERATIONAL LEVEL

## Operational risk

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

Protecting customer privacy and data management are vital parts of the service we offer. Any data breaches could have a detrimental impact on the business in both the short and long term. Our networks are supported by the latest information security systems with measures and processes in place to mitigate the threat of cyber attacks.

## Financial risk

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

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

## Credit risk

Kcell's Credit Risk Policy ensures that products and services are only sold to customers and distributors with an appropriate credit history. Where corporate customers have independent credit ratings, these are applied. Otherwise, a risk control assessment is undertaken of a potential customer's credit worthiness based on current financial position, credit history and other factors. Outstanding trade receivables and overdue balances are analysed and followed up by the Company's management with mobile services disconnected if customers fail to settle their liabilities.

With a highly diversified customer portfolio, which includes a large number of both individuals and companies, Kcell has no significant concentration of credit risk. While income could be affected by economic factors, the management sees no significant risk of loss.

Kcell has established relationships with several banks, which are considered to have minimal risk of default.

Kazakhstan itself is identified as an emerging market, and carries certain inherent risks that apply equally to the banks that hold the Company's cash, cash equivalents and term deposits.

## Foreign exchange risk

The majority of Kcell's purchases of property, plant and equipment and inventories, as well as certain services such as roaming, are denominated in US Dollars. Hence, most of the Company's foreign exchange risk relates to the movement of the Tenge against the US Dollar, although profits are less susceptible to this. Given the undeveloped market for financial instruments in Kazakhstan, the Company does not hedge its foreign exchange risk.

## Interest rate risk

For the most, Kcell's income and operating cash flow are not dependent upon changes in market interest rates. As of 31 December 2018, the Company had no assets or liabilities with floating interest rates.

## Legal risk

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

## Natural disaster/catastrophe risk

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

# BOARD OF DIRECTORS



**Alexey Buyanov**  
Chairman

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

**Dinara Inkarbekova**  
Chairperson of the Internal Audit Committee

**Vladimir Popov**  
Chairman of the Sustainability Committee

**Date of appointment**

Independent Non-executive Director on 25 January 2019.

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Independent Non-executive Director on 25 January 2019.

**Date of appointment**

Independent Non-executive Director on 25 January 2019.

**Date of appointment**

Independent Non-executive Director on 25 January 2019.

**Citizenship**

Russian Federation

**Citizenship**

Republic of Kazakhstan

**Citizenship**

Republic of Kazakhstan

**Citizenship**

Republic of Kazakhstan

**Education**

Moscow Institute of Physics and Technology (Russian Federation), Department of Applied Physics and Mathematics; Oxford Fintech Programme at Said Business School, University of Oxford.

**Education**

Kokshetau State University (Kazakhstan), Economist; Moscow State University of International Relations under the Ministry of Foreign Affairs of Russian Federation, Department of International Economic Relations.

**Education**

Turan University (Kazakhstan), Bachelor, Jurisprudence; Narxoz University (Kazakhstan), Bachelor, Finance; Kazakhstan Institute of Management, Economics and Strategic Research, Master of Business Administration.

**Education**

Kazakh State Law University, Kazakhstan, Department of Jurisprudence.

**Previous experience**

2002 to 2014 Senior Vice President/CFO of Sistema Group (equity fund, publicly traded at LSE), member of the Management Board; 2014 to 2016 Managing Director of Redline Capital Management SA, Head of the Investment Committee.

**Previous experience**

2013 to 2016 Tartyp JSC (Kazakhstan), Member of the Board of Directors, Independent Director; 2014 to 2015 Kazakhstan Engineering JSC (Kazakhstan), Member of the Board of Directors, Independent Director; 2016 to 2017 Kazkommertsbank JSC (Kazakhstan), Member of the Board of Directors, Independent Director.

**Previous experience**

2010 to 2014 General Manager at AKSAI – BMC LLP, Georgia; 2015 to 2016 Senior Advisor at Deloitte TCF LLP, Kazakhstan; 2016 to 2017 Chief Financial Officer at Estate Management Company JSC, Kazakhstan.

**Previous experience**

2010 to 2016 Chief Legal Officer at International private investment fund AMUN Capital Advisors KZ LLP, Kazakhstan.

**Current external appointments**

Director at Bengala Investments SA investment company; Independent Director in Kazakhtelecom JSC Board of Directors.



**Current external appointments**

PRIMA Investment Company (Kazakhstan), owner; Mining and Metallurgical Company Kazakhaltyn JSC, Member of the Board of Directors, Independent Director.



**Current external appointments**

General Manager at Sigma Advisors LLP, Kazakhstan.




**Current external appointments**

Managing Partner at PRO VIDENS LLP, Kazakhstan; Independent legal advisor on privatisation and M&A projects for Kazakhtelecom JSC, Kazakhstan (working under a service contract).






 Committee Chair

 Internal Audit Committee

 Personnel and Remuneration Committee

 Sustainability Committee

 Strategic Planning Committee



**Kuanyshbek Yessekeyev**  
Representative of shareholder Kazakhtelecom JSC

#### Date of appointment

25 January 2019

#### Citizenship

Republic of Kazakhstan

#### Education

Kazakh State University named after Al-Farabi (Kazakhstan), Department of Applied Mathematics, Degree in Mathematical Science; Kazakh State Academy of Management (Kazakhstan), specialisation in Management; Hult International Business School (UK), Executive MBA.

#### Previous experience

2010 to present Chairman of the Board of Kazakhtelecom JSC, Kazakhstan, member of the Board of Directors of Kazakhtelecom JSC.

#### Current external appointments

Chairman of the Board of Kazakhtelecom JSC, Kazakhstan, member of the Board of Directors of Kazakhtelecom JSC; member of the Board of Directors of Khan Tengri Holding BV; member of the Supervisory Board of Mobile Telecom – Service LLC.



**Yerulan Kussainov**  
Representative of shareholder Kazakhtelecom JSC

#### Date of appointment

25 January 2019

#### Citizenship

Republic of Kazakhstan

#### Education

College of Kazakh National Academy, Karaganda, Kazakhstan, specialisation in Banking; Baytursynov University, Zhezkazgan, Kazakhstan, Bachelor of Finance and Banking; Jan Amos Komenský University Prague, Czech Republic, MBA.

#### Previous experience

2011 to 2013 Deputy Chairman, Member of the Management Board at Temirbank JSC, Kazakhstan; 2014 Deputy General Director at Samruk Kazyna Invest LLP, Kazakhstan; 2016 Executive Director at JSC Kazkommertsbank, Almaty; 2016 to 2017 member of the Management Board and Managing Director at Kazkommertsbank JSC, Kazakhstan; 2018 Advisor to the Chairman of the Board of Kazakhtelecom JSC, Kazakhstan.

#### Current external appointments

General Director at Educational Centre Damina LLP, Kazakhstan; member of the Board of Directors of Kazakhtelecom JSC, Kazakhstan.



**Timur Turlov**  
Representative of shareholder Freedom Finance JSC

#### Date of appointment

25 January 2019

#### Citizenship

Russian Federation

#### Education

Russian State Technological University named after K.E. Tsiolkovsky (Russian Federation), Degree of Economist-Manager in Economics and Management with Business Enterprise.

#### Previous experience

2013-2017 Advisor to the Chairman of the Board at «Фридом Финанс» JSC (Freedom Finance JSC), Kazakhstan.

#### Current external appointments

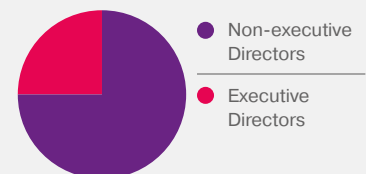
General Director at IC Freedom Finance LLC, Russian Federation; Advisor to the Chairman of the Board at Freedom Finance JSC, Kazakhstan; Director at FFI Brokerage Service, Belize; Independent Director of the Board of Directors at FFINEU Investments LTD, Cyprus; Chairman of the Supervisory Board at FFIN Bank LLC, Russian Federation; Chairman of the Board of Directors at Freedom Finance JSC, Kazakhstan; Chairman of the Board of Directors at Freedom Finance Life JSC, Kazakhstan; Chairman of the Board of Directors at Freedom Finance Insurance JSC, Kazakhstan.

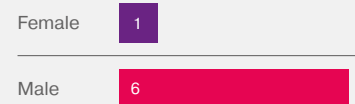


## Board diversity

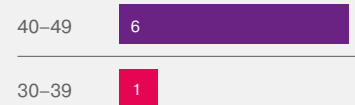
### Composition



### Gender



### Age



# CORPORATE GOVERNANCE

**Kcell is committed to international best practice in corporate governance, as demonstrated by its listing on the London Stock Exchange. The Company has established a rigorous corporate governance system, underpinned by strong foundations, to ensure accountability, transparency and responsibility throughout every area of the business.**

The Kcell Corporate Governance Code has been adopted by the General Meeting of Shareholders. It is based on the Kazakhstani Model Code and the UK Corporate Governance Code, and complies with the regulations of the Kazakhstan Stock Exchange in relation to joint stock companies and securities. Corporate governance at Kcell centres on the principles of fairness, honesty, responsibility, transparency, professionalism and expertise. The Company's system of corporate governance requires respect and protection for the rights and interests of all stakeholders; increases Kcell's efficiency and market value; and promotes financial stability and profitability.

## Kazakhstan Model Code

Corporate governance guidelines for Kazakhstani companies are set out in the Kazakhstani Model Code, which is based on international best practice in corporate governance. The Model Code contains a number of general rules and recommendations about corporate governance that may be applied on a voluntary basis.

## UK Corporate Governance Code

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

## Corporate governance principles

<b>Protecting the rights and interests of shareholders</b>	The Company guarantees fair and equitable treatment of all shareholders, assists shareholders in participating effectively in key decisions and provides detailed information relevant to their interests.
<b>Effective management of the Company by the Board of Directors and Chief Executive Officer (CEO)</b>	The Board of Directors aims to increase the Company's market value and provide shareholders with a balanced and accurate assessment of progress and prospects. The CEO manages the Company's daily operations in accordance with the established business plan and development strategy.
<b>Transparency and objectivity in disclosure of information on the Company operations</b>	The Company aims to ensure maximum transparency through the timely and accurate disclosure of information.
<b>Legality and ethics</b>	The Company operates in strict accordance with the law, its Corporate Governance Code and generally accepted standards of business ethics.
<b>Effective dividend policies</b>	The Company pays dividends in accordance with the dividend policy, the law, the Charter and the relevant resolutions of the General Meeting of Shareholders. Net income is distributed in accordance with the decision of the General Meeting of Shareholders on payment of dividends, taking into account the Company's development goals and net debt to EBITDA ratio.
<b>Effective human resources policies</b>	The Company guarantees its employees' rights under the law and the Kcell Code of Ethics and Conduct. The Company develops partnership relations with staff to address social issues and the regulation of working conditions.
<b>Environmental protection</b>	The Company considers the need for environmental preservation in conducting its operations and complies with environmental safety standards established by the law and its Code of Ethics and Conduct.
<b>Settlement of corporate disputes</b>	In the event of a corporate dispute, participants can seek resolution through negotiation, in order to effectively protect the rights of all shareholders and the Company's reputation.

# COMMITTED TO FAIRNESS, HONESTY, RESPONSIBILITY, TRANSPARENCY AND PROFESSIONALISM

## Corporate governance policies

Kcell has adopted a range of policies in support of its commitment to establishing a strong corporate governance framework. They include the following:

- Corporate Governance Code
- CEO's instructions
- Procurement Policy
- Financial Management Policy (2nd version)
- Insurance Policy
- Risk Management Policy
- Communication Policy
- Recruitment Policy
- Remuneration Policy
- Insider Information Policy
- Insider Trading Policy
- Security Policy (2nd version)
- Code of Ethics and Conduct
- Anti-Corruption Policy
- Privacy Policy
- Freedom of Expression in Telecommunications Policy
- Occupational Health and Safety Policy
- Supplier Code of Conduct
- People Policy
- Sponsoring and Donations Policy
- Environmental Policy
- Competition Policy
- Policy on Enterprise Risk Management
- Policy on Electromagnetic Fields

## Board of Directors

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

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

## Membership of the Board of Directors in 2018

Members of the Board of Directors are elected at the GM, where their terms of office are also decided. The 2018 members of the Board of Directors were elected for an undefined term, until a decision at the GM re the appointment of new Board members. This decision was again adopted on 25 January 2019, when the EGM elected the 2019 Board members.

In 2018 the Board was chaired by Jan Rudberg\*. The other members of the Board were:

- William H R Aylward\*
- Vladimir Smirnov\*
- Douglas Lubbe
- Emil Nilsson
- Peter Lav
- Fredrik Nissen

\* The Company Charter and the law require that at least 30 percent of the members of the Board be independent directors. UK legal advice has confirmed that Mr Rudberg, Mr Aylward and Mr Smirnov are independent in accordance with the UK Corporate Governance Code (section B.1.1).

In 2018, no members of the Board of Directors held shares in Kcell.

## Membership of the new Board of Directors

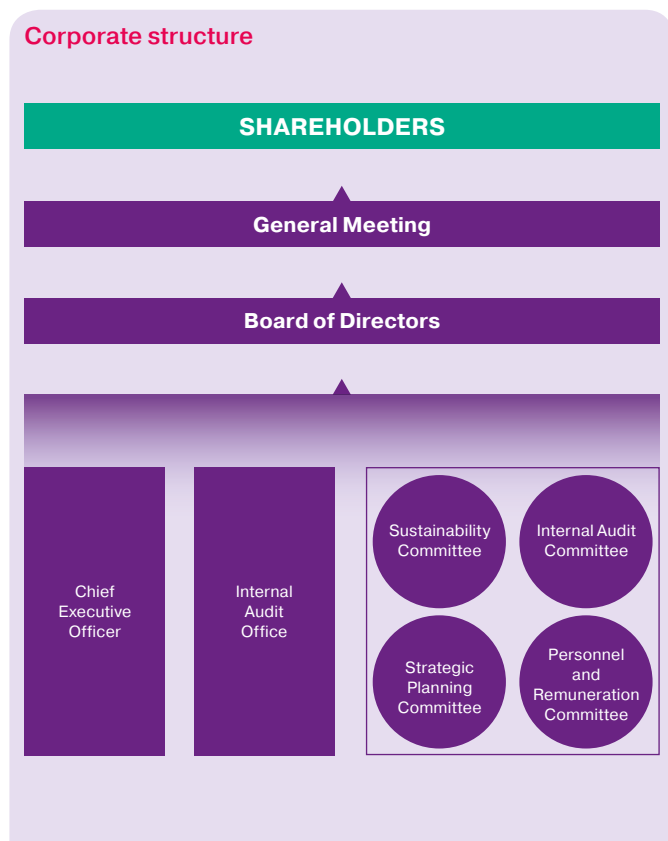
On 21 December 2018, Kazakhtelecom JSC completed the acquisition of the 75 percent stake in Kcell held by Telia Company and Fintur Holdings B.V. Following the change in shareholding, an EGM was held on 25 January 2019 and a new Board of Directors was elected. Four of the seven members of the new Board are Independent Directors. Of the remaining three Directors, two are representatives of the shareholder, Kazakhtelecom JSC, and one a representative of the shareholder, Freedom Finance JSC. The composition of the new Board is presented below:

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

The biographies of the new Board of Directors are on pages 46 to 47.

It should also be noted that during the year, the role of CEO was held by: Arti Ots until 13 August 2018; Mansurdzhon (Mansur) Khamidov from 13 August to 21 December 2018; Damir Zhanbakiev from 21 December 2018 to 28 January 2019.

# CORPORATE GOVERNANCE CONTINUED



### Committees of the Board of Directors

In line with the legislation on joint stock companies in Kazakhstan, Kcell has established the following committees to consider important issues and prepare recommendations for the Board of Directors: Strategic Planning Committee, Personnel and Remuneration Committee, Internal Audit Committee and Sustainability Committee (previously the Social Matters Committee, it was renamed in 2014 as part of the Company's increasing focus on sustainability).

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

### Board activities

Kcell uses specialist software that is designed to improve Board communications and effectiveness. This provides end-to-end security for its governance and workflow management. The Board of Directors held a total of nine meetings during 2018: six were conducted in person, three via conference calls and more than 19 decisions were adopted by voting in absentia.

The Board's activities during 2018 included:

- updates on business, commercial, operational and legal matters, and approvals arising from these;
- approval of major contracts, agreements and purchases;

Committee name	Role	Chairman and members
<b>Strategic Planning Committee</b>	Makes recommendations to the Board of Directors on the Company's strategic development.  One meeting is held each year.	William H R Aylward (Chairman) Jan Rudberg Vladimir Smirnov Douglas Lubbe Peter Lav Emil Nilsson Fredrik Nissen
<b>Personnel and Remuneration Committee</b>	Makes recommendations to the Company's Board of Directors on qualification requirements for employees, appointment and dismissal of certain employees, bonuses and salary for management bodies, and internal documents evaluating staff fitness, training and motivation of employees.  Three meetings held in 2018.	William H R Aylward (Chairman) Emil Nilsson Fredrik Nissen
<b>Internal Audit Committee</b>	Makes recommendations to the Company's Board of Directors on financial statements, internal controls and risk management, and internal and external audits.  Five meetings held in 2018.	Jan Rudberg (Chairman) Douglas Lubbe Fredrik Nissen
<b>Sustainability Committee</b>	Makes recommendations to the Company's Board of Directors on internal documents related to social accountability and sustainable development; improvement of the sustainability strategy; development and implementation of the Company's policies and procedures relating to environmental and social sustainability, including but not limited to, respecting human rights, environmental safety, social responsibility, compliance with business ethics requirements in accordance with the Company's internal documents and applicable legislation.  Three meetings held in 2018.	Vladimir Smirnov (Chairman) Jan Rudberg Peter Lav

- approval of the appointment and terms of employment of the CEO and members of the senior management and executive bodies of Kcell subsidiaries;
- preliminary approval of the 2017 annual financial report and approval of quarterly financial reports;
- convocation of the 2018 AGM, including dividend proposals;
- approval of interested-party transactions;
- approval of the auditor's fee for 2018 audit services;
- approval of revisions to policies, including the updated Policy on Enterprise Risk Management and Policy on Electromagnetic Fields;
- approval of changes to the terms and conditions of loan agreements;
- convocation of the EGM on appointment of the new Board of Directors.

The Board's agenda for 2019 is as follows:

There are five Board meetings scheduled for 2019. As well as regular items covering financial results, risks reviews and reports from the CEO and Board committees, the Board's schedule includes approval of the strategy and annual operating plan, including KPIs for the top management; preliminary review and recommendations to the shareholders regarding the Company's new Charter, Corporate Governance Code, Dividend Policy and other Company's policies; business development projects; public affairs; year-end matters, including the external audit report and annual report. In addition, ad hoc meetings or conference calls will be held as and when required for approvals when there is no scheduled meeting planned.

### Accountability and viability

The Board of Directors is responsible for preparing the Annual Report and Accounts. They consider that the 2018 Annual Report and Accounts, taken as a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy. A description of the basis on which Kcell generates value over the longer term: its business model, and the strategy for delivering the objectives of the Company are explained in the Strategic Report on pages 20 and 21, and 24 and 25, respectively.

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

The Board has carried out a robust assessment of the principal risks facing the Company, including those that would threaten Kcell's business model, future performance, solvency or liquidity. These risks and an explanation of how they are being managed or mitigated are described in the Risk Management section on pages 44 and 45. The Board monitors the Company's risk management and internal control systems, and has reviewed their effectiveness during the year. This review has covered all material controls, including financial, operational and compliance controls.

### Internal Audit Committee

The Internal Audit Committee met five times during 2018. It considered significant issues in relation to financial statements and the findings of an internal audit.

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

The Committee also has primary responsibility for making recommendations on the appointment, re-appointment and removal of the external auditor to the General Meeting of Shareholders. Deloitte has been the Company's auditor since 2014. To protect its independence, Kcell does not engage Deloitte for any non-audit services for Kcell.

### Remuneration of the Board of Directors

In accordance with Kcell's regulations on the amount and terms of remuneration and compensation of expenses paid to members of the Board of Directors for the fulfilment of their duties, remuneration is paid to Independent Directors and to Directors who are not employed at Telia. The amount of remuneration paid to the Board of Directors consists of two parts: a fixed annual remuneration, which depends on Board members' attendance at meetings and an auxiliary annual remuneration for participation in Board committees. The regulation also provides for the compensation of expenses that the Board members incur when fulfilling their duties.

The General Meeting of Shareholders held in 2012 approved the following pre-tax annual remuneration for those Independent directors and Directors who are not employed at TeliaSonera: fixed annual remuneration of US \$75,000; auxiliary annual remuneration for chairing the Board of Directors of US \$25,000; US\$15,000 for participating in the Internal Audit Committee; and US\$6,000 for participating in any other Board Committee. These payments remained unchanged in 2017 and 2018.

According to the payment terms, 50 percent of the fixed annual remuneration fee and annual additional remuneration for Committee membership is paid six months after a Director takes office; and the remaining 50 percent and additional annual remuneration for Committee membership is paid one year after a Director takes office.

The total remuneration paid to the Board of Directors in 2018 was US\$270,900 (after tax).

During the 2019 AGM, the shareholders will be asked to review the proposal regarding remuneration for the newly appointed Board.

### Relations with shareholders

The Board is in regular dialogue with Kcell's major shareholders through the Board representatives, two from Kazakhtelecom JSC and one from Freedom Finance JSC.

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## STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Kcell JSC ("the Company") and its subsidiaries (together referred to as "the Group") as at 31 December 2018, the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

In preparing the consolidated financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with the legislation of Kazakhstan and accounting standards;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2018 were approved by management on 28 February 2019.

**Approved for issue and signed on behalf of the Management on 28 February 2019.**

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**Kaspars Kukelis**  
Chief Executive Officer

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**Andis Locmelis**  
Chief Financial Officer

# INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF KCELL JSC

## Opinion

We have audited the consolidated financial statements of Kcell JSC (“the Company”) and its subsidiaries (“the Group”), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”).

## Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (“ISAs”). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ *Code of Ethics for Professional Accountants* (the “IESBA Code”) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Emphasis of Matter

We draw attention to Note 5 to the consolidated financial statements which describes the restatement of corresponding figures for the year ended 31 December 2017. Our opinion is not modified in respect of this matter.

## Key Audit Matters

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

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit and the outcome of the procedures
<p><b>Capital expenditure (Assets under construction)</b></p> <p>As discussed in Note 10 to the consolidated financial statements, as of the reporting date there is a material amount of assets in the course of construction and advances given pertaining to such assets, which are transferred to other groups of property, plant and equipment once such assets are completed and put into operations.</p> <p>There is a number of areas where management judgements impact the carrying value of Assets under construction. These include:</p> <ul style="list-style-type: none"> <li>identifying whether costs qualify for recognition as an asset; and</li> <li>the timeliness of transfer from assets in the course of construction to the appropriate classes of property.</li> </ul>	<p>We tested the operating effectiveness of controls in place over recognition of capital expenditures (assets under construction), evaluated the appropriateness of the Group’s capitalisation policies, performed tests of details on costs capitalised during the reporting year, and assessed the nature of capitalised costs and whether the expenditure met the capitalisation criteria.</p> <p>On a sample basis, we tested the transfer of assets under construction to the appropriate property class by reviewing supporting documentation detailing the type of asset being constructed and the related asset class in which it had been transferred to on completion, along with the timeliness of the transfer.</p> <p>No significant issues were noted from our testing.</p>



## Revenue recognition

There is an inherent risk around the accuracy and cut-off of revenue recorded given the complexity of systems and the impact of multiple-element arrangements on revenue recognition (tariff structures, the appropriateness of the allocation of the transaction price between multiple performance obligations in a bundled transaction, etc.).

Due to the complexity of judgements and estimates related to revenues and the risks associated with the adoption of IFRS 15 “Revenue from contracts with customers” (“IFRS 15”), we identified revenue recognition and related disclosure as a key audit matter.

We involved our IT specialists to test the operating effectiveness of controls over the customer billing systems. Our tests assessed the controls in place to ensure all services supplied to customers are input appropriately and processed through the billing systems, allowing us to rely on the controls in place within the billing system.

We applied a combination of substantive analytical procedures and tests of detail to obtain assurance over the validity and completeness of the reported output of these systems.

We tested the basis of allocation of total transaction value between multiple elements in bundled transactions.

We analysed the requirements of IFRS 15 and challenged the policies and methods applied by the Group in respect of revenue recognition against the new requirements. We ensured that the Group appropriately restated its comparatives to account for the effects of transition to IFRS 15. We made sure that the disclosures included in these consolidated financial statements were appropriate under IFRS 15.

We considered the application of the Group’s accounting policies to amounts billed and the accounting implications of allocation of the total transaction value between multiple performance obligations in a bundled transaction to ensure that the Group accounting policies were determined appropriately and applied consistently.

Based on our work, we noted no significant issues related to the accuracy and cut-off of revenue recorded in the year.

## Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor’s report thereon. The annual report is expected to be made available to us after the date of this auditor’s report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

## Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group’s financial reporting process.

# INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF KCELL JSC  
CONTINUED

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, which constitute the key audit matters included herein.

### Mark Smith

Engagement Partner  
Chartered Accountant

Institute of Chartered Accountant of Scotland License N° M21857  
Glasgow, Scotland

### Ivan Mudrichenko

Auditor-performer  
Qualification certificate

N° MF-0000415  
dated 13 January 2017

### Nurlan Bekenov

General Director  
Deloitte LLP

State license for audit activities in the Republic of Kazakhstan N° 0000015,  
type MFU-2, issued by the Ministry of Finance of the Republic of Kazakhstan  
dated 13 September 2006

28 February 2019

Almaty, the Republic of Kazakhstan

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(IN THOUSANDS OF KAZAKHSTANI TENGE)

	Note	31 December 2018	31 December 2017 (restated)*	1 January 2017 (restated)*
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	10	88,675,636	93,680,082	95,321,606
Intangible assets	11	40,605,754	43,060,675	42,842,480
Long-term trade receivables	12	3,009,995	1,617,206	1,162,961
Restricted cash		36,533	38,733	86,419
Cost to obtain contract		388,802	221,089	103,541
<b>Total non-current assets</b>		<b>132,716,720</b>	<b>138,617,785</b>	<b>139,517,007</b>
<b>CURRENT ASSETS</b>				
Inventories		4,728,092	3,424,664	3,587,082
Trade and other receivables	12	22,580,797	20,316,900	18,854,596
Prepaid current income tax		–	3,148,134	8,659,979
Due from related parties	9	1,018,003	810,492	738,983
Cash and cash equivalents		6,029,042	12,659,844	8,476,653
<b>Total current assets</b>		<b>34,355,934</b>	<b>40,360,034</b>	<b>40,317,293</b>
<b>TOTAL ASSETS</b>		<b>167,072,654</b>	<b>178,977,819</b>	<b>179,834,300</b>
<b>EQUITY</b>				
Share capital	13	33,800,000	33,800,000	33,800,000
Retained earnings		34,275,289	36,739,391	36,718,134
<b>TOTAL EQUITY</b>		<b>68,075,289</b>	<b>70,539,391</b>	<b>70,518,134</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Deferred income tax liability	19	1,503,915	4,667,305	5,887,620
Other non-current liabilities		1,362,042	1,354,594	1,285,482
Borrowings	15	14,935,969	12,000,000	8,000,000
<b>Total non-current liabilities</b>		<b>17,801,926</b>	<b>18,021,899</b>	<b>15,173,102</b>
<b>Current liabilities</b>				
Borrowings	15	51,782,817	58,417,722	57,414,639
Trade and other payables	14	18,000,475	24,404,683	28,042,710
Due to related parties	9	674,718	1,177,333	1,525,559
Deferred revenue	16	7,297,746	6,007,580	6,759,535
Income tax payable		1,853,827	–	–
Taxes payable		1,585,856	409,211	400,621
<b>Total current liabilities</b>		<b>81,195,439</b>	<b>90,416,529</b>	<b>94,143,064</b>
<b>TOTAL LIABILITIES</b>		<b>98,997,365</b>	<b>108,438,428</b>	<b>109,316,166</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>167,072,654</b>	<b>178,977,819</b>	<b>179,834,300</b>

\*The retrospective restatement of the consolidated financial statements is disclosed in Note 5.

**Approved for issue and signed on behalf of the Management on 28 February 2019.**

**Kaspars Kukelis**  
Chief Executive Officer

**Andis Locmelis**  
Chief Financial Officer

The accompanying notes on pages 62 to 97 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(IN THOUSANDS OF KAZAKHSTANI TENGE, UNLESS OTHERWISE STATED)

	Note	2018	2017 (restated)*
Revenues	16	149,700,750	147,474,558
Cost of sales	17	(99,431,482)	(92,193,763)
<b>Gross profit</b>		<b>50,269,268</b>	<b>55,280,795</b>
Selling and marketing expenses	17	(9,805,296)	(10,388,284)
General and administrative expenses	17	(19,226,774)	(15,561,277)
Other operating income		1,009,590	1,027,660
Other operating expenses	17	(1,191,787)	(618,051)
<b>Operating profit</b>		<b>21,055,001</b>	<b>29,740,843</b>
Finance income	18	1,102,558	957,314
Finance costs	18	(9,894,089)	(10,376,680)
<b>Profit before income tax</b>		<b>12,263,470</b>	<b>20,321,477</b>
Income tax expense	19	(3,732,438)	(8,622,220)
<b>Profit and total comprehensive income for the year</b>		<b>8,531,032</b>	<b>11,699,257</b>
<b>Earnings per share (Kazakhstani Tenge), basic and diluted</b>	13	<b>42.66</b>	<b>58.50</b>

\*The retrospective restatement of the consolidated financial statements is disclosed in Note 5.

Profit and total comprehensive income for both periods are fully attributable to the Group's shareholders.

**Approved for issue and signed on behalf of the Management on 28 February 2019.**

**Kaspars Kukelis**  
Chief Executive Officer

**Andis Locmelis**  
Chief Financial Officer

The accompanying notes on pages 62 to 97 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(IN THOUSANDS OF KAZAKHSTANI TENGE)

	Share capital	Retained earnings	Total equity
Balance at 1 January 2017 (as previously reported)	33,800,000	38,880,286	72,680,286
Impact of adopting IFRS 15 (Note 5)	–	843,811	843,811
Corrections of errors (Note 5)	–	(3,005,963)	(3,005,963)
<b>Balance at 1 January 2017 (restated)*</b>	<b>33,800,000</b>	<b>36,718,134</b>	<b>70,518,134</b>
Profit and total comprehensive income for the year (restated)*	–	11,699,257	11,699,257
Dividends declared (Note 13)	–	(11,678,000)	(11,678,000)
<b>Balance at 31 December 2017 (restated)*</b>	<b>33,800,000</b>	<b>36,739,391</b>	<b>70,539,391</b>
Impact of adopting IFRS 9 (Note 6)	–	682,866	682,866
<b>Restated opening balance under IFRS 9</b>	<b>33,800,000</b>	<b>37,422,257</b>	<b>71,222,257</b>
Profit and total comprehensive income for the year	–	8,531,032	8,531,032
Dividends declared (Note 13)	–	(11,678,000)	(11,678,000)
<b>Balance at 31 December 2018</b>	<b>33,800,000</b>	<b>34,275,289</b>	<b>68,075,289</b>

\*The retrospective restatement of the consolidated financial statements is disclosed in Note 5.

**Approved for issue and signed on behalf of the Management on 28 February 2019.**

**Kaspars Kukelis**  
Chief Executive Officer

**Andis Locmelis**  
Chief Financial Officer

The accompanying notes on pages 62 to 97 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

(IN THOUSANDS OF KAZAKHSTANI TENGE)

	Note	2018	2017 (restated)*
<b>Cash flows from operating activities</b>			
Profit for the year		8,531,032	11,699,257
Adjustments for:			
Depreciation of property, plant and equipment	10	18,873,906	17,384,246
Amortisation of intangible assets	11	7,758,259	5,762,324
Income tax		1,667,855	4,291,530
Net foreign exchange loss		420,199	108,305
Interest income		(781,039)	(722,764)
Interest expense		9,720,695	10,104,293
Impairment of trade receivables		1,981,368	966,405
<b>Operating cash flows before working capital changes</b>		<b>48,172,275</b>	<b>49,593,596</b>
Change in working capital and other balances:			
Trade and other receivables		(4,350,433)	(4,331,508)
Long-term trade receivables		(1,392,789)	(454,245)
Due from related parties		(207,511)	(71,509)
Inventories		(1,303,428)	162,418
Taxes payable		1,176,645	8,590
Trade and other payables		(6,886,386)	(507,577)
Due to related parties		(502,615)	(348,226)
Deferred revenue		1,290,166	(751,955)
Cost to obtain contract		(167,713)	(117,548)
Other		2,197	47,686
<b>Cash generated from operations</b>		<b>35,830,408</b>	<b>43,229,722</b>
Interest paid		(9,040,881)	(10,469,528)
Interest received		781,039	722,764
<b>Net cash generated from operating activities</b>		<b>27,570,566</b>	<b>33,482,958</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(12,460,152)	(18,951,198)
Purchase of intangible assets		(6,791,345)	(3,632,732)
<b>Net cash used in investing activities</b>		<b>(19,251,497)</b>	<b>(22,583,930)</b>

	Note	2018	2017 (restated)*
<b>Cash flows from financing activities</b>			
Proceeds from bank borrowings	15	26,840,000	48,000,000
Proceeds from bond issued	15	4,950,000	–
Repayment of borrowings	15	(35,210,000)	(43,000,000)
Dividends paid	13	(11,678,000)	(11,678,000)
<b>Net cash used in financing activities</b>		<b>(15,098,000)</b>	<b>(6,678,000)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(6,778,931)</b>	<b>4,221,028</b>
Effects of exchange rate changes on the balance of cash held in foreign currencies		148,129	(37,837)
Cash and cash equivalents at the beginning of the year		12,659,844	8,476,653
<b>Cash and cash equivalents at the end of the year</b>		<b>6,029,042</b>	<b>12,659,844</b>

\*The retrospective restatement of the consolidated financial statements is disclosed in Note 5.

**Approved for issue and signed on behalf of the Management on 28 February 2019.**

**Kaspars Kukelis**  
Chief Executive Officer

**Andis Locmelis**  
Chief Financial Officer

The accompanying notes on pages 62 to 97 are an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS OF KAZAKHSTANI TENGE, UNLESS OTHERWISE STATED)

## 1. The Group and its operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board for the year ended 31 December 2018 for Kcell JSC (“the Company”) and its subsidiaries (together referred to as “the Group”).

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

The Company began its commercial operations in 1999 through direct sales and a network of distributors. Prior to 2 February 2012, the Company was owned 51 percent by Fintur Holdings B.V. (“Fintur”) and 49 percent by Kazakhtelecom JSC (“Kazakhtelecom”). Fintur itself is owned jointly by Sonera Holding B.V. (“Sonera”) and Turkcell Iletisim Hizmetleri A.S., with holdings of 58.55 percent and 41.45 percent, respectively.

On 2 February 2012, the 49 percent stake in the Company owned by Kazakhtelecom was sold directly to Sonera, a subsidiary of Telia Company.

On 1 July 2012, the General Meeting of the participants of GSM Kazakhstan approved a conversion of the Company from Limited Liability Partnership to Joint Stock Company (“the Conversion”), with 200,000,000 common shares to be transferred to Fintur and Sonera in proportion to their ownership percentage. The General Meeting also approved the Company’s change of name to Kcell JSC.

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

On 13 December 2012, the Company successfully completed its offering of Global Depositary Receipts on the London Stock Exchange and common shares on the Kazakhstan Stock Exchange. The offering consisted of a sale by Sonera of 50 million shares, which represented 25 percent of the Company’s share capital (Note 13).

On 4 May 2016, the 24 percent stake in the Company owned by Sonera was sold directly to TeliaSonera Kazakhstan Holding B.V. (“TeliaSonera Kazakhstan”), a subsidiary of Telia Company.

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

The Company owns the following subsidiaries:

	Ownership interest		Voting power	
	2018	2017	2018	2017
KazNet Media LLP (Note 3)	100%	100%	100%	100%
KT-Telecom LLP	100%	100%	100%	100%
AR-Telecom LLP	–	100%	–	100%

On 27 September 2018, the Company liquidated AR-Telecom LLP.

### Operations

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



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

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

## 2. Basis of preparation and significant accounting policies

### Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB") on the historical cost basis.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the financial statements is determined on such a basis, except for leasing transactions that are within the scope of International Accounting Standard ("IAS") 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into levels based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

These consolidated financial statements have been prepared in accordance with IFRSs and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued and effective.

The preparation of consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4. Actual results could differ from those estimates.

### Foreign currency translation

#### i. Functional and presentation currency

All amounts in these consolidated financial statements are presented in thousands of Kazakhstani Tenge ("Tenge"), unless otherwise stated. The functional currency of the Group entities is also Tenge, the currency of the primary economic environment in which they operate.

#### ii. Transactions and balances

Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction established by the National Bank of the Republic of Kazakhstan. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the profit or loss for the year.

As at 31 December 2018, the principal rate of exchange used for translating foreign currency balances was 1 US Dollar ("USD") = 384.20 Tenge (31 December 2017: USD 1 = Tenge 332.33). Exchange restrictions and currency controls exist relating to converting Tenge into other currencies. At present, the Tenge is not a freely convertible currency in most countries outside of the Republic of Kazakhstan.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS OF KAZAKHSTANI TENGE, UNLESS OTHERWISE STATED)  
CONTINUED

## 2. Basis of preparation and significant accounting policies continued

### Consolidated financial statements

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses 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 listed above.

Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

### Property, plant and equipment

#### i. Recognition and subsequent measurement

Property, plant and equipment are stated at cost, less accumulated depreciation and provision for impairment. Cost comprises construction cost or purchase price, including import duties and non-refundable taxes, and any directly attributable costs of bringing the asset to working condition for its intended use. Any trade discounts and rebates are deducted in arriving at the construction cost or purchase price.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired. Construction in progress is carried at cost. Upon completion, assets are transferred to plant and machinery at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

Advances for property, plant and equipment are presented within property, plant and equipment financial statement line.

#### ii. Depreciation

Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Property	10 to 50
Plant and machinery	3 to 10
Equipment tools and installations	2 to 8

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset, less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in the profit or loss for the year when the asset is retired.

#### iii. Impairment

At each reporting date, management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount of the asset to determine the extent, if any, of the impairment loss. The recoverable amount is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

## Intangible assets

The Group's operating licenses (GSM-900, GSM-1800 and 3G), as disclosed in Notes 1 and 11, are recorded at cost and are amortised on a straight-line basis over the estimated economic useful life of the license/right. The economic useful life of the original GSM license and 3G license is estimated by management at 15 years based on their terms. The useful life of the initial license term is in line with management's assessment of the development of communication technology. The economic useful life of the right for the radiofrequencies (GSM-1800) was estimated by management to expire in line with the GSM-900 license. On 1 March 2016, the Group launched LTE in its network on the previously granted frequencies. The economic useful life of the 4G license is also estimated by management at 15 years based on its terms. The useful life of the initial license term is in line with management's assessment of the development of communication technology. The economic useful life of the right for the radiofrequencies (GSM-1700/1800) was estimated by management to expire in line with the GSM-700/800 license.

Other intangible assets are amortised over their estimated useful lives as follows:

	Useful lives in years
Computer software and software license rights	3 to 8
Other telecom licenses	10
Other	8 to 10

If impaired, the carrying amount of intangible assets is written down to the higher of value in use or fair value less costs to sell.

Advances for intangible assets are presented within intangible assets financial statement line.

## Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

## Inventories

Inventories primarily include handsets and other goods for resale. Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

## Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

An allowance for impairment of receivables is established based on an expected credit loss model. The Group accounts expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. The primary factors that the Group considers whether a receivable is impaired is its overdue status, collection history and forward looking macro-economic factors.

Prepaid taxes, deferred expenses and advances to suppliers are stated at actual amounts paid less allowance for impairment.

## Prepayments

Prepayments are carried at cost less any allowance for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS OF KAZAKHSTANI TENGE, UNLESS OTHERWISE STATED)  
CONTINUED

## 2. Basis of preparation and significant accounting policies continued

### Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held at call with banks with original maturities of three months or less and are subject to insignificant risk of change in value. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date are included in restricted cash.

### Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are expensed to the consolidated statement of comprehensive income. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

### Dividends

Dividends are recorded as a liability and deducted from equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the consolidated financial statements are authorised for issue are disclosed in the subsequent events note.

### Value added tax

Value added tax ("VAT") related to sales is payable to the government when goods are shipped or services are rendered. Input VAT is reclaimable against output VAT upon receipt of a tax invoice from a supplier. The tax legislation permits the settlement of VAT on a net basis. Accordingly, VAT related to sales and purchases unsettled at the reporting date is stated in the statements of financial position on a net basis.

### Trade and other payables

Trade and other payables are accrued when the counterparty performed its obligations under the contract. The Group recognises trade payables initially at fair value. Subsequently, trade payables are carried at amortised cost using the effective interest method.

### Provisions for liabilities and charges

Provisions for liabilities and charges are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. In such circumstances, a provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

### Revenue recognition

Revenue recognized when the goods or services are transferred to the customer, at the transaction price, being the sales value, net of discounts granted and VAT.

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

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

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

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

The Group may bundle services and products into one customer offering. Offerings may involve the delivery or performance of multiple products, services, or rights to use assets (multiple deliverables). In some cases, the arrangements include initial installation, initiation, or activation services and involve consideration in the form of a fixed fee or a fixed fee coupled with a continuing payment stream. Telecom equipment is accounted for separately from service where a market for each deliverable exist and if title to the equipment passes to the end-customer. Costs associated with the equipment are recognised at the time that revenue is recognised. The revenue is allocated to equipment and services on a relative stand-alone selling price basis.

The stand-alone selling prices are determined based on the list prices at which the Group sells the mobile devices and telecommunication services. Services invoiced based on usage are not included in the allocation. 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 good or service is provided to the customer, customer consideration is allocated between the goods and services using relative fair value principles. Determining the fair value of each deliverable can require complex estimates. The Group generally determines the fair value of individual elements based on prices at which the deliverable is regularly sold on a stand-alone basis after considering volume discounts where appropriate.

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

i. Call out revenue

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

ii. Interconnect revenues and costs

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

iii. Data revenue

The data service is recognised when a service is used by a subscriber based on actual data volume traffic or over the contract term, as applicable.

iv. Roaming revenues charged to the Group's subscribers

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

v. Roaming fees charged to other wireless operators

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

vi. Value added services

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

vii. Deferred revenue

Prepayments received for communication services are recorded as deferred revenue. The Group recognises revenue when the related service has been provided to the subscriber.

### 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 in order to determine the appropriate presentation of the amounts receivable from and payable to its roaming partners in its consolidated statements of financial position.

### Sales commission to dealers

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS OF KAZAKHSTANI TENGE, UNLESS OTHERWISE STATED)  
CONTINUED

## 2. Basis of preparation and significant accounting policies continued

### Payroll expenses and related contributions

Wages, salaries, contributions to pension funds, paid annual leave and sick leave, bonuses, and other benefits are accrued in the period in which the associated services are rendered by the employees of the Group.

### 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.

### Income taxes

Income taxes have been provided for in these consolidated financial statements in accordance with Kazakhstani legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the period.

Current tax is the amount expected to be paid to or recovered in respect of taxable profits or losses for the current and prior periods. Taxable income or losses are based on estimates where the consolidated financial statements are authorised prior to the filing of the relevant tax return. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences are recorded only to the extent that it is probable that future taxable profit, including deferred tax liabilities, will be available against which the deductions can be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

### Earnings per share

Earnings per share are determined by dividing the profit or loss attributable to owners of the Group by the weighted average number of participating shares outstanding during the reporting year. The Group has no dilutive or potentially dilutive securities outstanding.

### Segment reporting

Segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately. The chief operating decision-maker has been identified as the Group's Chief Executive Officer. The Group determined the Group's operations as a single reporting segment.

### Financial instruments

#### Financial assets

All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as fair value through profit or loss (FVTPL). Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognized immediately in profit or loss.

All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortized cost;
- Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income (FVTOCI);

All other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

#### *Debt instruments at amortized cost or at FVTOCI*

The Group assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Group's business model for managing the asset.

For an asset to be classified and measured at amortized cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

#### *Financial assets at FVTPL*

Financial assets at FVTPL are:

- Assets with contractual cash flows that are not SPPI; or/and
- Assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- Assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognized in profit or loss.

#### *Financial liabilities*

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

#### *Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire hybrid (combined) contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains/losses arising on remeasurement recognized in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'net income from other financial instruments at FVTPL' line item in the profit or loss account.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS OF KAZAKHSTANI TENGE, UNLESS OTHERWISE STATED)  
CONTINUED

## 2. Basis of preparation and significant accounting policies continued

### Financial liabilities continued

However, for non-derivative financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

For issued loan commitments and financial guarantee contracts that are designated as at FVTPL all gains and losses are recognized in profit or loss.

In making the determination of whether recognizing changes in the liability's credit risk in OCI will create or enlarge an accounting mismatch in profit or loss, the Group assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL. This determination is made at initial recognition.

### Other financial liabilities

Other financial liabilities, including payables and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period.

### Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

## 3. Business combination under common control

On 26 August 2012, Sonera and the Company entered into a memorandum of understanding ("the MoU"), under which the Company had the right to require Sonera to sell to it, and Sonera had the right to require the Company to acquire from it:

- all participatory interests owned by Sonera in KazNet Media LLP ("KazNet") together with all rights and obligations of Sonera under a framework agreement to buy all the participatory interests in the charter capital of KazNet; and
- and all the participatory interests owned by Sonera in Rodnik Inc LLP ("Rodnik") together with all rights and obligations of Sonera under the agreements to buy participatory interests in the charter capital of Rodnik (refer to "Investment in Rodnik by Sonera" in Note 20).

On 20 October 2015, the Company and KT-Telecom (100 percent subsidiary of the Company) signed an agreement ("the Agreement") for the purchase of 100 percent of the participatory interest in KazNet where Sonera is the seller. KazNet holds 100 percent of the participatory interest in Kcell Solutions (formerly Aksoran LLP) and 100 percent of the participatory interest in Instaphone – companies holding frequencies that are capable of being deployed for 4G/LTE. On 31 March 2017, Aksoran LLP was re-registered as Kcell Solutions LLP (further – "Kcell Solutions").

In accordance with the Agreement, the amount of the transaction is divided into two tranches. The first tranche comprises a nominal price of 5 million US Dollars; the second tranche is equal to the fair market value of the frequencies. If the parties of the Agreement cannot agree on the fair value of the frequencies, then the fair value shall be determined by independent appraiser appointed by the parties. The total amount of the transaction shall not exceed 70 million US Dollars.



In accordance with the Agreement, the second tranche shall be paid by the Company within 60 calendar days from the date at which the frequencies are permitted to be used by the Company for 4G/LTE services in Kazakhstan. The Company shall receive the relevant authorisation for the use of the frequencies by 31 December 2025. The second tranche shall not be due and payable if the Company is not authorised to provide 4G/LTE services in Kazakhstan by 31 December 2025. As at 31 December 2018, the Company did not apply for permission to use the frequencies.

In accordance with the Agreement, the completion of the deal is subject to the satisfaction of a list of conditions, including but not limited to, signing of waiver-letters and execution of an amendment to the MoU.

On 15 January 2016, all parties of the Agreement signed waiver-letters according to which all parties confirmed no need for execution of the amendment to the MoU and corresponding satisfaction of all the conditions precedent set forth in the Agreement.

On 4 May 2016, the Company and KT-Telecom signed an amendment to the Agreement for the purchase of a 100 percent participatory interest in KazNet from Telia Company for 1 US Dollar (the revised first tranche following the amendment). The parties agreed that the control over KazNet is transferred to the Group and thereafter the Group would consolidate KazNet, including its subsidiaries Kcell Solutions and Instaphone, starting from the month after Kcell Solutions repays the 5 million US Dollars of loan principal plus 369 thousand US Dollars of accrued interest on that loan to Sonera.

On 5 May 2016, KazNet repaid a loan due to Sonera in full, thus the Group obtained control over the activity of KazNet, including Kcell Solutions and Instaphone, and consolidated its financial information since June 2016. Since the transfer of ownership in KazNet represents a business combination under common control, the assets and liabilities of the transferred subsidiary were recognised at their historical carrying values per the predecessor owner's financial statements. The financial statements of these companies are not significant for understanding of the consolidated financial statements; as such, the Group consolidated them from the date of control transfer.

#### 4. Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial period. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in these consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial period include:

##### Useful lives of property, plant and equipment and intangible assets

Management determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and intangible assets. This estimate is based on projected period over which the Group expects to consume economic benefits from the asset. It could change significantly as a result of technical innovations and competitor actions in a high-tech and competitive mobile industry. The carrying amount of assets most affected by judgements (switches and transmission devices) amounted to 46,433,697 thousand Tenge (Note 10) as at 31 December 2018 (2017: 53,685,373 thousand Tenge). Management will increase the depreciation charge where useful lives are less than previously assessed estimated lives, or it will write down technically obsolete assets that have been abandoned.

Management assesses the useful life of telecommunication licenses based on technological development and the legal terms of the license agreements. The useful life of each of GSM, the 3G license and the 4G license is assessed as estimated by the management as 15 years. The useful lives are reviewed at least at each reporting date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS OF KAZAKHSTANI TENGE, UNLESS OTHERWISE STATED)  
CONTINUED

## 4. Critical accounting estimates and judgements in applying accounting policies continued

### Provisions and contingencies

For each event management makes separate assessment of probable outcome and its effect on the Group's operations. Provisions are recognised when negative outcome is anticipated to be probable. For those events, with possible negative outcome on the Group's operations related contingency is disclosed.

### Deferred tax assets and liabilities

As at each reporting date, management determines the amount of deferred income tax by comparing the carrying amounts of assets and liabilities and the corresponding tax bases. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the date of the corresponding consolidated statements of financial position. Management makes certain assumptions in determining future taxable income sufficient for compensation of deferred tax assets reflected in the consolidated statement of financial position. The carrying amount of net deferred tax liability as at 31 December 2018 amounted to 1,503,915 thousand Tenge (as at 31 December 2017: 4,667,305 thousand Tenge) (Note 19).

### Going concern

These consolidated financial statements have been prepared in accordance with IFRSs on a going concern basis, which assumes the realisation of assets and discharge of liabilities in the normal course of business within the foreseeable future.

As at 31 December 2018, the Group's net current liabilities are 46,839,505 thousand Tenge. On 14 December 2017, the Group announced a programme to place bonds in the amount of 30,000,000 thousand Tenge on the Kazakhstan Stock Exchange. In 2018, the Group undertook a bond placement on the Kazakhstan Stock Exchange, in which bonds to the value of 4.95 billion Tenge were placed. Management has considered the Group's future plans, and in light of these plans and the current and expected profitability of the Group, positive cash flows from operations, available financing, management believes that the Group will continue to operate as a going concern for the foreseeable future.

## 5. Restatement of prior period financial information due to application of IFRS 15 and correction of errors

### Impact of application of IFRS 15 Revenue from contracts with customers

The Group applied IFRS 15 in accordance with the full retrospective transitional approach by restating all comparative periods presented. The Group's accounting policies for its revenue streams are disclosed in detail in Note 2 above.

The most significant changes to the Group's accounting policies and the effect of transition to IFRS 15 for each financial statements line affected is illustrated below.

**Bundled offerings:** prior to transition to IFRS 15 the Group's accounting for and recognition of revenue for bundled offerings and allocation of the consideration between equipment and services did not contradict the principles outlined in IFRS 15, except for the basis of allocation of transaction price to performance obligations under the contracts, in particular to mobile devices and telecommunication services which previously was proportion of fair value of individual items. Following the adoption of IFRS 15, transaction prices were allocated based on standalone selling price basis. A detailed analysis of performance obligations and revenue recognition for each type of customer contract was performed and the model used in the previous financial year was revised for certain types of customer contracts, the effect was not material.

**Incremental costs for obtaining a contract:** Sales commissions and equipment subsidies granted to dealers for obtaining a specific contract are capitalised and deferred over the period over which the Group expects to provide services to the customer, according to IFRS 15 requirements. The Group did not capitalize such costs in the periods prior to IFRS 15 adoption. The main effect of transition to IFRS 15 for the Group relates to capitalisation of costs to obtain the contract and their subsequent amortization through the statement of comprehensive income.

## Correction of errors

In the process of preparing the consolidated financial statements for the year ended 31 December 2018 the management of the Group identified certain errors in the previously issued financial statements for the years ended 31 December 2017 and 31 December 2016.

The management of the Group identified certain errors related to the reconciliation of current income tax expense recognised in the consolidated financial statements for the years ended 31 December 2012, 2013, 2014 and 2015 with the Group's actual income tax returns for the years then ended. The Group recognised current income tax expense in the consolidated financial statements based on the estimates before tax returns were submitted to the tax authorities. The Group did not account for the differences between the current income tax expense previously recognized in the consolidated financial statements and actual amounts in the income tax returns. The effect of these corrections is included in the restated retained earnings and prepaid current income tax in the amount of 1,915,867 thousand Tenge as at 1 January 2017 (refer to (i) "correction of errors related to reconciliation of current income tax" in the table below).

In the previously issued consolidated financial statements for the years ended 31 December 2017 and 31 December 2016 the Group did not recognise expenses related to interconnect fees due to certain third party suppliers. The Group restated comparative information that resulted in increased interconnect fees and expenses in the amount of 2,086,368 thousand Tenge in the year ended 31 December 2017 and increased trade payables in the amount of 3,176,465 thousand Tenge and 1,090,096 thousand Tenge as at 31 December 2017 and 2016 (refer to (ii) "correction of errors related to interconnect fees and expenses" in the table below).

The effects of the corrections of errors and IFRS 15 adoption is presented below.

### Effect on the consolidated statement of financial position as at 1 January 2017

<i>In thousands of Tenge</i>	As previously reported	Impact of IFRS 15	Corrections of errors	As restated
<b>As at 1 January 2017</b>				
Cost to obtain contract	–	103,541	–	103,541
<b>Total non-current assets</b>	<b>139,413,466</b>	<b>103,541</b>	–	<b>139,517,007</b>
Trade and other receivables	18,238,920	615,676	–	18,854,596
Prepaid current income tax	10,575,846	–	(1,915,867) (i)	8,659,979
<b>Total current assets</b>	<b>41,617,484</b>	<b>615,676</b>	<b>(1,915,867)</b>	<b>40,317,293</b>
<b>TOTAL ASSETS</b>	<b>181,030,950</b>	<b>719,217</b>	<b>(1,915,867)</b>	<b>179,834,300</b>
Retained Earnings	38,880,286	843,811	(3,005,963) (i), (ii)	36,718,134
<b>TOTAL EQUITY</b>	<b>72,680,286</b>	<b>843,811</b>	<b>(3,005,963)</b>	<b>70,518,134</b>
Deferred income tax liability	6,012,214	(124,594)	–	5,887,620
<b>Total non-current liabilities</b>	<b>15,297,696</b>	<b>(124,594)</b>	–	<b>15,173,102</b>
Trade and other payables	26,952,614	–	1,090,096 (ii)	28,042,710
<b>Total current liabilities</b>	<b>93,052,968</b>	–	<b>1,090,096</b>	<b>94,143,064</b>
<b>TOTAL LIABILITIES</b>	<b>108,350,664</b>	<b>(124,594)</b>	<b>1,090,096</b>	<b>109,316,166</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>181,030,950</b>	<b>719,217</b>	<b>(1,915,867)</b>	<b>179,834,300</b>

i. Correction of errors related to reconciliation of current income tax.

ii. Correction of errors related to interconnect fees and expenses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS OF KAZAKHSTANI TENGE, UNLESS OTHERWISE STATED)  
CONTINUED

## 5. Restatement of prior period financial information due to application of IFRS 15 and correction of errors continued

### Correction of errors continued

Effect on the consolidated statement of comprehensive income for the year ended 31 December 2017

<i>In thousands of Tenge</i>	As previously reported	Impact of IFRS 15	Corrections of errors (i)	As restated
<b>For the year ended 31 December 2017</b>				
Revenue	147,228,988	245,570	–	147,474,558
Cost of sales	(90,107,393)	–	(2,086,370)	(92,193,763)
<b>Gross profit</b>	<b>57,121,595</b>	<b>245,570</b>	<b>(2,086,370)</b>	<b>55,280,795</b>
Selling and marketing expenses	(10,505,832)	117,548	–	(10,388,284)
General and administrative expenses	(15,523,936)	(37,341)	–	(15,561,277)
<b>Operating profit</b>	<b>31,501,436</b>	<b>325,777</b>	<b>(2,086,370)</b>	<b>29,740,843</b>
<b>Profit before income tax</b>	<b>22,082,070</b>	<b>325,777</b>	<b>(2,086,370)</b>	<b>20,321,477</b>
Income tax expense	(8,647,824)	25,604	–	(8,622,220)
<b>Profit and total comprehensive income for the period</b>	<b>13,434,246</b>	<b>351,381</b>	<b>(2,086,370)</b>	<b>11,699,257</b>
Earnings per share (Kazakhstani Tenge), basic and diluted	67.17	1.76	(10.43)	58.50

i. Correction of errors related to interconnect fees and expenses.

Effect on the consolidated statement of financial position as at 31 December 2017

<i>In thousands of Tenge</i>	As previously reported	Impact of IFRS 15	Corrections of errors	As restated
<b>As at 31 December 2017</b>				
Long-term trade receivables	1,437,480	179,726	–	1,617,206
Cost to obtain contract	–	221,089	–	221,089
<b>Total non-current assets</b>	<b>138,216,970</b>	<b>400,815</b>	<b>–</b>	<b>138,617,785</b>
Trade and other receivables	19,672,722	644,178	–	20,316,900
Prepaid current income tax	5,064,001	–	(1,915,867) (i)	3,148,134
<b>Total current assets</b>	<b>41,631,723</b>	<b>644,178</b>	<b>(1,915,867)</b>	<b>40,360,034</b>
<b>TOTAL ASSETS</b>	<b>179,848,693</b>	<b>1,044,993</b>	<b>(1,915,867)</b>	<b>178,977,819</b>
Retained Earnings	40,636,532	1,195,191	(5,092,332) (i), (ii)	36,739,391
<b>TOTAL EQUITY</b>	<b>74,436,532</b>	<b>1,195,191</b>	<b>(5,092,332)</b>	<b>70,539,391</b>
Deferred income tax liability	4,817,503	(150,198)	–	4,667,305
<b>Total non-current liabilities</b>	<b>18,172,097</b>	<b>(150,198)</b>	<b>–</b>	<b>18,021,899</b>
Trade and other payables	21,228,218	–	3,176,465 (ii)	24,404,683
<b>Total current liabilities</b>	<b>87,240,064</b>	<b>–</b>	<b>3,176,465</b>	<b>90,416,529</b>
<b>TOTAL LIABILITIES</b>	<b>105,412,161</b>	<b>(150,198)</b>	<b>3,176,465</b>	<b>108,438,428</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>179,848,693</b>	<b>1,044,993</b>	<b>(1,915,867)</b>	<b>178,977,819</b>

i. Correction of errors related to reconciliation of current income tax.

ii. Correction of errors related to interconnect fees and expenses.

*Effect on the consolidated statement of cash flows for the year ended 31 December 2017*

<i>In thousands of Tenge</i>	As previously reported	Impact of IFRS 15	Corrections of errors (i)	As restated
<b>For the year ended 31 December 2017</b>				
Profit for the period	13,434,246	351,381	(2,086,370)	11,699,257
Income tax	4,317,134	(25,604)	–	4,291,530
<b>Operating cash flows before working capital changes</b>	<b>51,354,189</b>	<b>325,777</b>	<b>(2,086,370)</b>	<b>49,593,596</b>
Changes in working capital and other balances:				
Trade and other receivables	(4,303,005)	(28,503)	–	(4,331,508)
Long-term trade receivables	(274,519)	(179,726)	–	(454,245)
Trade and other payables	(2,593,947)	–	2,086,370	(507,577)
Cost to obtain contract	–	(117,548)	–	(117,548)

i. Correction of errors related to interconnect fees and expenses.

## 6. Amendments to IFRS and the new interpretation that are mandatorily effective for the current year

In the current year, the following new and revised Standards and Interpretations have been adopted in these consolidated financial statements:

- IFRS 15 Revenue from Contracts with Customers;
- IFRS 9 Financial Instruments;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration;
- Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions;
- Amendments to IAS 40 – Transfers of Investment Property;
- Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts;
- Annual Improvements to IFRSs 2014-2016 Cycle.

The adoption of the above mentioned Standards and Interpretations has not led to any changes in the Group's accounting policies and did not materially affect the consolidated financial statements of the Group, with the exception of IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments as follows.

In the current year, the Group has applied IFRS 9 Financial Instruments that is mandatorily effective for an accounting period that begins on or after 1 January 2018. In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised. In the current year, the Group changed incurred credit loss model to expected credit loss model, although the effect was not material.

In relation to a modification of terms of a financial liability, the Group needs to consider whether that modification is substantial. The treatment of non-substantial modification is different under IAS 39 and IFRS 9. Under IAS 39, the Group did not recognize any gain or loss at the time of non-substantial modification. At the point of modification the carrying amount of the financial liability is revised for directly attributable transaction costs and any consideration paid to or received from the counterparty. The effective interest rate is then adjusted to amortise the difference between the revised carrying amount and the expected cash flows over the life of the modified instrument. Under IFRS 9, a gain or loss shall be recognized at the point of a non-substantial modification. The modification gain or loss is equal to the difference between the present value of the cash flows under the original and modified terms discounted at the original effective interest rate. At the point of modification the carrying amount of the financial liability is revised to reflect the new cash flows discounted by the original effective interest rate as well as directly attributable transaction costs and any cash paid to or received from the counterparty. The effective interest rate is then adjusted to amortise the difference between the revised carrying amount and the expected cash flows over the life of the modified instrument.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS OF KAZAKHSTANI TENGE, UNLESS OTHERWISE STATED)  
CONTINUED

## 6. Amendments to IFRS and the new interpretation that are mandatorily effective for the current year continued

Corresponding information was not restated for the effect of IFRS 9 adoption, as the modified retrospective approach was applied on transition, which allows recognition of differences in the opening retained earnings at the beginning of the period. The adjustment to the retained earnings as at 1 January 2018 was caused by the effect of change in accounting for the non-substantial loan modification in the amount of 682,866 thousand Tenge, net of income tax. Due to immaterial nature of the resulting adjustment, the notes to the consolidated financial statements do not contain separate disclosure of the impacts of IFRS 9 adoption on the consolidated statement of financial position, statement of comprehensive income and statement of cash flows.

The Group has applied IFRS 15 Revenue from Contracts with customers that is mandatorily effective for an accounting period that begins on or after 1 January 2018. The Group has amended accounting for bundled offerings and incremental costs for obtaining contract (Note 5).

## 7. New and revised IFRS in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

	Effective for annual periods beginning on or after
<i>IFRS 16 Leases</i>	1 January 2019*
<i>IFRS 17 Insurance Contracts</i>	1 January 2021*
<i>IFRIC 23 Uncertainty Over Income Tax Treatments</i>	1 January 2019*
<i>Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	a date to be determined*
<i>Amendments to IFRS 9 – Prepayment Features With Negative Compensation and modifications of financial liabilities</i>	1 January 2019*
<i>Amendments to IAS 28 – Long-Term Interests in Associates and Joint Ventures</i>	1 January 2019*
<i>Annual Improvements to IFRSs 2015-2017 Cycle</i>	1 January 2019*

\*With earlier application permitted.

## IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

The management of the Group anticipates that the application of this standard may have an impact on the Group's consolidated financial statements. The Group assessed an impact of the new standard on the financial results. The Group reviewed their agreements that may contain lease and evaluated the disclosure requirements of the new guidance, and will design and implement any identified necessary controls. The preliminary assessment indicates that the Group will recognise the right of use asset of 24,756,315 thousand Tenge and the corresponding lease liability of 25,594,676 thousand Tenge. The impact on profit or loss for the year ended 31 December 2018 is to decrease expenses by 5,834,772 thousand Tenge, to increase depreciation by 2,630,329 thousand Tenge and to increase interest expense by 2,320,888 thousand Tenge.

Management anticipates that the adoption of other standards will not have a material impact on the consolidated financial statements of the Group in the period of initial application.

## 8. Segment information

The Group's operations are a single reportable segment.

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

The chief operating decision-maker ("CODM") has been determined as the Group's Chief Executive Officer. The CODM reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined a single operating segment being mobile communication services based on these internal reports.

## 9. Balances and transactions with related parties

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. For the majority of the year Telia Company was the ultimate parent company of the Group. Telia Company group includes entities under common control and associates of Telia Company. On 21 December 2018, the 75 percent stake in the Company owned by Telia Company was sold directly to Kazakhtelecom JSC. Kazakhtelecom JSC is controlled by the Government of the Republic of Kazakhstan through Sovereign Wealth Fund "Samruk-Kazyna" JSC ("Samruk-Kazyna") which owns 51% of Kazakhtelecom's controlling shares (Note 1). Governmental entities include entities under common control and associates of the Government of the Republic of Kazakhstan.

The Group's primary transactions with related parties are consulting services, technical assistance and operational support, roaming and interconnect. The Group's transactions with its related parties during the years ended 31 December and related amounts due as of the year-end were as follows:

		2018	2017
Due from related parties	Entities of Telia Company group	358,090	810,492
Due to related parties	Entities of Telia Company group	71,963	135,926
Due to related parties	Fintur Holdings B.V.	474,596	1,041,407
Revenue	Entities of Telia Company group	538,393	897,529
Expense	Entities of Telia Company group	1,274,050	3,807,743
Expense	Fintur Holdings B.V.	474,735	103,977
		<b>2018</b>	2017
Due from related parties	Entities of NWF "Samruk-Kazyna" group	452,534	–
Due from related parties	Entities of Kazakhtelecom JSC group	199,106	–
Due from related parties	Governmental entities	8,273	–
Due to related parties	Entities of NWF "Samruk-Kazyna" group	14,823	–
Due to related parties	Entities of Kazakhtelecom JSC group	112,063	–
Due to related parties	Governmental entities	1,273	–
Revenue	Entities of NWF "Samruk-Kazyna" group	7,825	–
Revenue	Entities of Kazakhtelecom JSC group	62,203	–
Revenue	Governmental entities	8,115	–
Expense	Entities of NWF "Samruk-Kazyna" group	44,949	–
Expense	Entities of Kazakhtelecom JSC group	12,303	–
Expense	Governmental entities	2,982	–

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS OF KAZAKHSTANI TENGE, UNLESS OTHERWISE STATED)  
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## 9. Balances and transactions with related parties continued

Amounts due from related parties are neither past due nor impaired. These entities do not have credit ratings assigned but their reliability is determined by the Group on the basis of long-term cooperation and which have a good credit history. The Group's management believes that amounts due from related parties will be fully repaid within one year.

### Memorandum of Understanding ("MoU")

On 26 August 2012, Sonera and the Company entered into a memorandum of understanding, details of which are disclosed further in Note 20.

### Compensation of key management personnel

Compensation paid to key management personnel for their services in full time executive management positions and to the members of the board of directors consists of a contractual salary, performance bonus dependent on the financial performance of the Group, and other compensation in the form of reimbursement of apartment rent expenses from the Group. Total compensation included in staff costs in the statement of comprehensive income is equal to 409,349 thousand Tenge for the year ended 31 December 2018 (2017: 236,408 thousand Tenge). The compensation scheme does not include share-based payments, post-employment or other long-term benefits, which were nil for all years presented.

## 10. Property, plant and equipment

	Property	Plant and machinery	Equipment tools and installations	Assets under construction and advances given	Total
<b>As at 1 January 2017</b>					
Cost	21,216,911	193,752,896	26,553,990	16,711,684	258,235,481
Accumulated depreciation and impairment losses	(5,313,603)	(137,350,205)	(20,250,067)	–	(162,913,875)
<b>Carrying amount as at 1 January 2017</b>	<b>15,903,308</b>	<b>56,402,691</b>	<b>6,303,923</b>	<b>16,711,684</b>	<b>95,321,606</b>
Additions	59,459	–	1,480,694	14,202,569	15,742,722
Transfers	–	11,887,139	2,062,191	(13,949,330)	–
Depreciation charge	(579,066)	(14,604,457)	(2,200,723)	–	(17,348,246)
<b>As at 31 December 2017</b>					
Cost	21,276,370	205,640,035	30,096,875	16,964,923	273,978,203
Accumulated depreciation and impairment losses	(5,892,669)	(151,954,662)	(22,450,790)	–	(180,298,121)
<b>Carrying amount as at 31 December 2017</b>	<b>15,383,701</b>	<b>53,685,373</b>	<b>7,646,085</b>	<b>16,964,923</b>	<b>93,680,082</b>
Additions	123,935	–	1,010,949	13,079,613	14,214,497
Transfers	374,922	8,084,799	180,748	(8,640,469)	–
Transfer to Advances given for Intangible assets (Note 11)	–	–	–	(345,037)	(345,037)
Depreciation charge	(646,165)	(15,336,475)	(2,891,266)	–	(18,873,906)
<b>As at 31 December 2018</b>					
Cost	21,775,227	213,724,834	31,288,572	21,059,030	287,847,663
Accumulated depreciation and impairment losses	(6,538,834)	(167,291,137)	(25,342,056)	–	(199,172,027)
<b>Carrying amount as at 31 December 2018</b>	<b>15,236,393</b>	<b>46,433,697</b>	<b>5,946,516</b>	<b>21,059,030</b>	<b>88,675,636</b>

As at 31 December 2018, the gross carrying value of property, plant and equipment, which had been fully depreciated and were still in use, was 125,217,497 thousand Tenge (31 December 2017: 105,879,825 thousand Tenge).



## 11. Intangible assets

	Software and licenses	Intangible assets in progress	Advances given	Total
<b>As at 1 January 2017</b>				
Cost	73,151,906	5,638,363	8,222	78,798,491
Accumulated amortisation	(35,956,011)	–	–	(35,956,011)
<b>Carrying amount as at 1 January 2017</b>	<b>37,195,895</b>	<b>5,638,363</b>	<b>8,222</b>	<b>42,842,480</b>
Additions	4,480,056	456,750	1,043,713	5,980,519
Transfers	6,133,204	(5,638,363)	(494,841)	–
Amortisation charge	(5,762,324)	–	–	(5,762,324)
<b>As at 31 December 2017</b>				
Cost	83,765,166	456,750	557,094	84,779,010
Accumulated amortisation	(41,718,335)	–	–	(41,718,335)
<b>Carrying amount as at 31 December 2017</b>	<b>42,046,831</b>	<b>456,750</b>	<b>557,094</b>	<b>43,060,675</b>
Additions	4,523,468	184,819	250,014	4,958,301
Transfer of Advances given for Property, plant and equipment (Note 10)	–	–	345,037	345,037
Transfers	112,514	548,872	(661,386)	–
Amortisation charge	(7,758,259)	–	–	(7,758,259)
<b>As at 31 December 2018</b>				
Cost	88,401,148	1,190,441	490,759	90,082,348
Accumulated amortisation	(49,476,594)	–	–	(49,476,594)
<b>Carrying amount as at 31 December 2018</b>	<b>38,924,554</b>	<b>1,190,441</b>	<b>490,759</b>	<b>40,605,754</b>

Initially, a new billing system, Amdocs, was classified as intangible assets in progress. As at 31 December 2017, Amdocs was transferred to software and licenses.

As at 31 December 2018, the carrying amount of the 3G license was 2,333,333 thousand Tenge (31 December 2017: 2,666,667 thousand Tenge) and its remaining amortisation period was 7 years. As at 31 December 2018, the carrying amount of the 4G license was 20,944,444 thousand Tenge (31 December 2017: 22,677,777 thousand Tenge) and its remaining amortisation period was 12 years. As at 31 December 2018, the gross carrying value of intangible assets, which had been fully amortised and were still in use was 27,630,351 thousand Tenge (31 December 2017: 19,275,605 thousand Tenge).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS OF KAZAKHSTANI TENGE, UNLESS OTHERWISE STATED)  
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## 12. Trade and other receivables

	<b>31 December 2018</b>	31 December 2017 (restated)*	1 January 2017 (restated)*
Trade receivables from subscribers	20,579,975	16,394,364	13,571,486
Trade and other receivables from dealers and distributors	629,826	326,613	1,280,359
Trade receivables from roaming operators	456,470	259,550	1,895,114
Trade receivables for interconnect services	330,859	900,299	452,276
Less: allowance for impairment of trade receivables	(6,680,113)	(5,642,354)	(2,839,931)
<b>Total financial assets</b>	<b>15,317,017</b>	<b>12,238,472</b>	<b>14,359,304</b>
Less: long-term trade receivables from subscribers	(3,009,995)	(1,617,206)	(1,162,961)
<b>Total current financial assets</b>	<b>12,307,022</b>	<b>10,621,266</b>	<b>13,196,343</b>
VAT recoverable	6,674,090	5,516,033	2,330,281
Prepaid other taxes	1,201,942	497,818	454,778
Advances to suppliers	975,529	2,556,276	1,456,953
Deferred expenses	411,507	446,512	544,379
Other receivables	1,010,707	678,995	871,862
<b>Total trade and other receivables</b>	<b>22,580,797</b>	<b>20,316,900</b>	<b>18,854,596</b>

\*The retrospective restatement of the consolidated financial statements is disclosed in Note 5.

Total financial assets are denominated in currencies as follows:

	<b>31 December 2018</b>	31 December 2017 (restated)*	1 January 2017 (restated)*
Tenge	14,860,547	11,978,922	12,464,190
US dollar	456,470	259,550	1,895,114
<b>Total financial assets</b>	<b>15,317,017</b>	<b>12,238,472</b>	<b>14,359,304</b>

\*The retrospective restatement of the consolidated financial statements is disclosed in Note 5.

The allowance for impairment of trade receivables relates to trade receivables from subscribers, dealers and distributors.

The ageing analysis of trade receivables is as follows:

	<b>31 December 2018</b>	31 December 2017 (restated)*	1 January 2017 (restated)*
<i>Total neither past due nor impaired</i>	10,391,317	9,123,562	12,594,547
<i>Past due but not impaired</i>			
due for 1 month	998,019	118,310	77,591
due for 2 months	984,739	881,987	61,162
due for 3 months	510,551	577,530	213,468
due for 4 to 6 months	811,176	696,213	941,068
due for more than 6 months	1,621,215	840,870	471,468
<i>Total past due but not impaired</i>	4,925,700	3,114,910	1,764,757
<i>Impaired</i>			
30 to 60 days	268,376	72,966	56,860
60 to 90 days	11,254	22,752	69,496
90 to 120 days	133,627	110,273	82,514
120 to 200 days	202,978	171,071	232,627
over 200 days	6,063,878	5,265,292	2,398,434
<i>Total impaired</i>	6,680,113	5,642,354	2,839,931
<i>Allowance for impairment of trade receivables</i>	(6,680,113)	(5,642,354)	(2,839,931)
<b>Total financial assets</b>	<b>15,317,017</b>	<b>12,238,472</b>	<b>14,359,304</b>

\*The retrospective restatement of the consolidated financial statements is disclosed in Note 5.

The main factors, which the Group takes into account when considering whether receivables are impaired, are their past due status, historical experience of collectability and forward looking macro-economic factors.

There are no customers who represent more than 10 percent of the total balance of receivables. The concentration of credit risk is limited due to the customer base being large and unrelated.

Neither past due nor impaired receivables represent receivables from companies and subscribers with no credit ratings assigned but their reliability is determined by the Group on the basis of long-term cooperation representing those companies which have a good credit history. The Group's management believes that neither past due nor impaired receivables in the amount of 12,704,826 thousand Tenge will be fully repaid in 2019.

A reconciliation of movements in the financial assets impairment allowance is as follows:

	<b>2018</b>	2017 (restated)*
As at 1 January	5,642,354	2,839,931
Charge for the year	1,981,368	2,864,623
Receivables written off during the year as uncollectible	(943,609)	(62,200)
<b>As at 31 December</b>	<b>6,680,113</b>	<b>5,642,354</b>

\*The retrospective restatement of the consolidated financial statements is disclosed in Note 5.

The Group considers that the carrying amount of receivables is approximately equal to their fair value.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS OF KAZAKHSTANI TENGE, UNLESS OTHERWISE STATED)  
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## 13. Share capital and earnings per share

Share capital of the Group at 31 December is as follows:

	31 December 2018		31 December 2017	
	Share	Number of shares	Share	Number of shares
JSC Kazakhstelecom	75.00 percent	150,000,000	–	–
JSC Raiffeisenbank	11.14 percent	22,282,367	–	–
JSC Freedom Finance	5.68 percent	11,353,659	9.08 percent	18,153,541
Single Accumulative Pension Fund	1.72 percent	3,431,950	1.14 percent	2,270,950
Fintur	–	–	51.00 percent	102,000,000
TeliaSonera Kazakhstan	–	–	24.00 percent	48,000,000
JSC Central Securities Depository	–	–	13.24 percent	26,472,717
Other	6.46 percent	12,932,024	1.54 percent	3,102,792

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

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

	2018	2017 (restated)*
Profit for the period attributable to equity shareholders	8,531,032	11,699,257
Weighted average number of common shares	200,000,000	200,000,000
Earnings per share (Kazakhstani Tenge), basic and diluted	42.66	58.50

\*The retrospective restatement of the consolidated financial statements is disclosed in Note 5.

The Group has no dilutive or potentially dilutive securities outstanding.

According to the requirements of the Kazakhstan Stock Exchange (“KASE”), the Group has calculated its book value per share, which was calculated based on the number of common shares outstanding as at the reporting date. The book value per share as at 31 December 2018 and 31 December 2017 is presented below.

	31 December 2018	31 December 2017 (restated)*
Net assets, excluding intangible assets	27,469,535	27,478,716
Number of common shares in issue	200,000,000	200,000,000
Book value per share (Kazakhstani Tenge)	137.35	137.39

\*The retrospective restatement of the consolidated financial statements is disclosed in Note 5.

Dividends declared and paid during the years ended 31 December were as follows:

	2018	2017
Dividends payable as at 1 January	–	–
Dividends declared during the year	11,678,000	11,678,000
Dividends paid during the year	(11,678,000)	(11,678,000)
<b>Dividends payable as at 31 December</b>	<b>–</b>	<b>–</b>

#### 14. Trade and other payables

	31 December 2018	31 December 2017 (restated)*	1 January 2017 (restated)*
Trade payables	13,372,884	18,275,481	22,696,052
<b>Total financial liabilities</b>	<b>13,372,884</b>	<b>18,275,481</b>	<b>22,696,052</b>
Accrued salaries and bonuses to employees	1,716,864	1,334,003	1,276,596
Other payables	2,910,727	4,795,199	4,070,062
<b>Total trade and other payables</b>	<b>18,000,475</b>	<b>24,404,683</b>	<b>28,042,710</b>

\*The retrospective restatement of the consolidated financial statements is disclosed in Note 5.

Trade payables are denominated in currencies as follows:

	31 December 2018	31 December 2017 (restated)*	1 January 2017 (restated)*
Tenge	6,287,335	14,174,439	10,602,504
US dollar	7,085,549	4,099,843	11,624,078
Other	–	1,199	469,470
<b>Total financial liabilities</b>	<b>13,372,884</b>	<b>18,275,481</b>	<b>22,696,052</b>

\*The retrospective restatement of the consolidated financial statements is disclosed in Note 5.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS OF KAZAKHSTANI TENGE, UNLESS OTHERWISE STATED)  
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## 15. Borrowings

	<b>31 December 2018</b>	31 December 2017
Eurasian Development Bank	29,749,590	26,103,278
Halyk Bank of Kazakhstan JSC	21,688,817	34,209,722
SB Alfabank JSC	10,086,666	10,104,722
Bonds	5,193,713	–
<b>Total borrowings</b>	<b>66,718,786</b>	<b>70,417,722</b>
<i>Including</i>		
Long-term loans – principal amount	10,000,000	12,000,000
Short-term loans – principal amount	51,630,000	58,000,000
Loans discount	(366,125)	–
Long-term bonds	4,935,969	–
Loans – accrued interest	261,198	417,722
Accrued coupon payable on bonds	257,744	–

	<b>31 December 2018</b>	31 December 2017
Short-term borrowings	51,782,817	58,417,722
Long-term borrowings	14,935,969	12,000,000
<b>Total borrowings</b>	<b>66,718,786</b>	<b>70,417,722</b>

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

The carrying amount of the Group's borrowings approximates their fair value.

The details of the Group's borrowings as at 31 December 2018 are as follows:

Bank name	Date of issue	Maturity date	Nominal interest rate	Principal amount	Outstanding balance
Eurasian Development Bank	10.02.2017	20.12.2019	12.00%	29,630,000	29,749,590
Halyk Bank of Kazakhstan JSC	28.11.2016	02.12.2019	11.50%	8,000,000	7,818,525
Halyk Bank of Kazakhstan JSC	23.09.2016	20.09.2019	11.50%	4,000,000	3,893,578
Halyk Bank of Kazakhstan JSC	19.07.2018	16.07.2021	11.50%	10,000,000	9,976,714
Alfabank JSC	26.06.2018	07.06.2019	12.00%	5,000,000	5,036,666
Alfabank JSC	04.07.2018	07.06.2019	12.00%	5,000,000	5,050,000
<b>Total</b>				<b>61,630,000</b>	<b>61,525,073</b>

On 16 January 2018, the Group undertook a bond placement on the Kazakhstan Stock Exchange, in which bonds to the value of 4.95 billion Tenge were placed with investors at a yield of 11.5 percent. This was the first placement in the programme, which the Group had announced on 14 December 2017, aimed at expanding and diversifying the Group's funding sources, increasing the average term of Kcell's financial liabilities and decreasing its funding costs.

The programme details are as follows:

<b>Type of bonds:</b>	Unsecured coupon bonds
<b>Amount of bonds:</b>	30,000,000 (thirty million) bonds
<b>Nominal price of a bond:</b>	1,000 (one thousand) Tenge
<b>Total volume of the bond issue:</b>	30,000,000,000 (thirty billion) Tenge

	Maturity	Coupon rate, %	31 December 2018	31 December 2017
Unsecured Tenge denominated bonds	16 January 2021	11.50%	4,950,000	–
Including/(excluding):				
Discount on bonds issued, net			(14,031)	–
Accrued coupon payable			257,744	–
			<b>5,193,713</b>	–

As at 31 December 2018 and 2017, no assets were pledged under borrowing agreements.

As at 31 December 2018 and 2017, the Group was in compliance with its financial covenants.

The table below details changes in the Group's liabilities arising from financing activities. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	1 January 2018	Financing cash flows*	31 December 2018
Borrowings, principal amount	70,000,000	(8,370,000)	61,630,000
Bonds	–	4,950,000	4,950,000

\*The cash flows from borrowings make up the net amount of proceeds from borrowings and repayments of borrowings in the statement of cash flows.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS OF KAZAKHSTANI TENGE, UNLESS OTHERWISE STATED)  
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## 16. Revenues

	<b>2018</b>	2017 (restated)*
Voice and other services	77,515,304	80,050,026
Data service	45,799,748	45,540,808
Sale of handsets	18,432,075	12,081,596
Value added services	7,953,623	9,802,128
<b>Total revenues</b>	<b>149,700,750</b>	<b>147,474,558</b>

	<b>2018</b>	2017 (restated)*
At a point in time	18,432,075	12,081,596
Over time	131,268,675	135,392,962
<b>Total revenues</b>	<b>149,700,750</b>	<b>147,474,558</b>

\*The retrospective restatement of the consolidated financial statements is disclosed in Note 5.

A reconciliation of movements in deferred revenue is as follows:

	<b>2018</b>
As at 1 January	6,007,580
Payments received from subscribers	101,653,985
Revenue	(95,578,274)
Utilisation for other services	(4,785,545)
<b>As at 31 December</b>	<b>7,297,746</b>

Revenue in the amount of 6,007,580 thousand tenge was recognised in year ended 31 December 2018 that was included in the deferred revenue balance at the beginning of the period.



## 17. Expenses by nature

Operating expenses are presented on the face of the statement of comprehensive income using a classification based on the functions "Cost of sales", "Selling and marketing expenses" and "General and administrative expenses". Total expenses by function are classified by nature as follows:

	2018	2017 (restated)*
Depreciation and amortisation	26,632,165	23,146,570
Interconnect fees and expenses	25,255,806	25,889,588
Network maintenance expenses	15,986,284	16,126,531
Cost of SIM card, scratch card, start package sales and handsets	15,026,175	11,004,649
Staff costs	11,421,009	10,949,404
Frequency usage charges and taxes other than on income	12,835,449	11,388,790
Transmission rent	9,647,353	9,803,504
Sales commissions to dealers and advertising expenses	2,949,694	2,481,146
Amortisation expense of cost to obtain the contract	264,519	125,017
Other	8,445,098	7,228,125
<b>Total expenses</b>	<b>128,463,552</b>	<b>118,143,324</b>

\*The retrospective restatement of the consolidated financial statements is disclosed in Note 5.

Amortisation and depreciation by function were as follows:

	2018	2017
Cost of sales	23,075,157	20,361,235
General and administrative expenses	3,557,008	2,785,335
<b>Total depreciation of property, plant and equipment and amortisation of intangible assets</b>	<b>26,632,165</b>	<b>23,146,570</b>

Other operating expense for the year ended 31 December comprised the following:

	2018	2017
Operational foreign exchange loss	1,025,442	415,968
Other	166,345	202,083
<b>Total other operating expenses</b>	<b>1,191,787</b>	<b>618,051</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS OF KAZAKHSTANI TENGE, UNLESS OTHERWISE STATED)  
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## 18. Finance income and finance costs

Finance income for the year ended 31 December comprised the following:

	2018	2017
Interest income	781,137	722,764
Foreign exchange gains related to financing arrangements	321,421	234,550
<b>Total finance income</b>	<b>1,102,558</b>	<b>957,314</b>

Finance costs for the year ended 31 December comprised the following:

	2018	2017
Interest expense	9,720,695	10,104,293
Foreign exchange losses related to financing arrangements	173,394	272,387
<b>Total finance costs</b>	<b>9,894,089</b>	<b>10,376,680</b>

## 19. Taxes

Income tax expense comprised the following:

	2018	2017 (restated)*
Current income tax	6,893,128	7,267,496
Deferred income tax	(3,334,106)	(1,220,315)
Current income tax (benefit)/expense in respect of prior years	173,416	2,575,039
<b>Total income tax expense</b>	<b>3,732,438</b>	<b>8,622,220</b>

\*The retrospective restatement of the consolidated financial statements is disclosed in Note 5.

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense reported in the consolidated financial statements was as follows:

	2018	2017 (restated)*
<b>Profit before income tax</b>	<b>12,263,470</b>	<b>20,321,477</b>
Theoretical tax charge at the statutory rate of 20 percent	2,452,694	4,064,295
Other non-deductible expenses	1,106,328	1,982,886
	3,559,022	6,047,181
Adjustments recognised in the current year in relation to the current tax of prior years	173,416	2,575,039
<b>Income tax expense</b>	<b>3,732,438</b>	<b>8,622,220</b>

\*The retrospective restatement of the consolidated financial statements is disclosed in Note 5.

The Group paid income tax in the amount of 5,099,039 thousand Tenge for the year ended 31 December 2018 (2017: 5,012,000 thousand Tenge).

Differences between IFRS and Kazakhstani statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rates which are expected to be applied to the periods when the temporary difference will reverse.

	31 December 2017 (restated)*	Credited to profit or loss	Impact of IFRS 9*	31 December 2018
<b>Tax effects of deductible temporary differences</b>				
Other	2,479,324	(9,924)	(170,716)	2,298,684
<b>Gross deferred tax asset</b>	<b>2,479,324</b>	<b>(9,924)</b>	<b>(170,716)</b>	<b>2,298,684</b>
<b>Tax effect of taxable temporary differences</b>				
Property, plant and equipment and Intangible assets	7,146,629	(3,344,030)	–	3,802,599
<b>Gross deferred tax liability</b>	<b>7,146,629</b>	<b>(3,344,030)</b>	<b>–</b>	<b>3,802,599</b>
Less offsetting with deferred tax assets	(2,479,324)	9,924	170,716	(2,298,684)
<b>Recognised deferred tax liability, net</b>	<b>4,667,305</b>	<b>(3,334,106)</b>	<b>170,716</b>	<b>1,503,915</b>

\*Impact of IFRS 9 is disclosed in Note 6.

Comparative movements for year ended 31 December 2017 is detailed below:

	1 January 2017 (as previously reported)	Adjustment*	1 January 2017 (restated)*	Debited/ credited to profit or loss	31 December 2017
<b>Tax effects of deductible temporary differences</b>					
Other	1,158,353	124,594	1,282,947	1,196,377	2,479,324
<b>Gross deferred tax asset</b>	<b>1,158,353</b>	<b>124,594</b>	<b>1,282,947</b>	<b>1,196,377</b>	<b>2,479,324</b>
<b>Tax effect of taxable temporary differences</b>					
Property, plant and equipment and Intangible assets	7,170,567	–	7,170,567	(23,938)	7,146,629
<b>Gross deferred tax liability</b>	<b>7,170,567</b>	<b>–</b>	<b>7,170,567</b>	<b>(23,938)</b>	<b>7,146,629</b>
Less offsetting with deferred tax assets	(1,158,353)	(124,594)	(1,282,947)	(1,196,377)	(2,479,324)
<b>Recognised deferred tax liability, net</b>	<b>6,012,214</b>	<b>(124,594)</b>	<b>5,887,620</b>	<b>(1,220,315)</b>	<b>4,667,305</b>

\*The retrospective restatement of the consolidated financial statements is disclosed in Note 5.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS OF KAZAKHSTANI TENGE, UNLESS OTHERWISE STATED)  
CONTINUED

## 20. Contingencies, commitments and operating risks

### Political and economic conditions in the Republic of Kazakhstan

Emerging markets such as the Republic of Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in the Republic of Kazakhstan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of the Republic of Kazakhstan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because the Republic of Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014-2016, the oil price decreased significantly, which led to a significant decrease in the national export revenue. On 20 August 2015, the Government and the National Bank of the Republic of Kazakhstan announced a transition to a new monetary policy based on a free floating Tenge exchange rate, and cancelled the currency corridor. In 2015 and in the first quarter of 2016, the Tenge depreciated significantly against major foreign currencies.

Management of the Group is monitoring developments in the current environment and taking measures it considered necessary in order to support the sustainability and development of the Group's business in the foreseeable future. However, the impact of further economic developments on future operations and financial position of the Group might be significant.

### Taxation

Kazakhstani tax legislation and practice is in a state of continuous development and therefore is subject to varying interpretations and frequent changes, which may be retroactive. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Group may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Group may be assessed additional taxes, penalties and interest. Tax periods remain open to retroactive review by the tax authorities for five years.

In July 2017, the Kazakhstan tax authority completed its comprehensive tax audit for the period between 2012 and 2015. Following the audit, the tax authority made a total claim of 9 billion Tenge, of which 5.8 billion Tenge is for unpaid taxes and 3.2 billion Tenge represents fines and penalties for the late payment. In January 2018, the Company disputed the Notification of the tax authority in the First Instance Court and the Company's appeal was dismissed. Whilst the Company further appealed this decision, 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 is binding, the Company reserves the right to further appeal it in the Supreme Court. In the fourth quarter of 2016 and in the second quarter 2017, the Company made tax provisions of 4 billion Tenge and 2.8 billion Tenge, respectively. The Company made another tax provision of 1.4 billion Tenge, which was reported in the second quarter of 2018. During the third quarter of 2018, the Company has additionally accrued tax provisions in the amount of 0.8 billion Tenge, meaning the full amount at risk of 9 billion Tenge is provided for. On 5 November 2018 the Company 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 Resolution of a judge of the Supreme Court of the Republic of Kazakhstan. The Company intends to appeal to the Supreme Court of the Republic of Kazakhstan again. The goal of the Company is to cancel the decisions of the Almaty City Specialized Inter-district Economic Court and the court of Almaty.

### Capital expenditure commitments

As at 31 December 2018, the Group has contractual capital expenditure commitments in respect of property, plant and equipment and intangible assets totaling 4,295,229 thousand Tenge (31 December 2017: 6,873,547 thousand Tenge).

### Acquisitions and investments

#### i. Memorandum of understanding with Sonera

On 26 August 2012, Sonera and the Company entered into a memorandum of understanding ("the Buy and Sell MoU"), under which the Company had the right to require Sonera to sell to it, and Sonera had the right to require the Company to acquire from it, all participatory interests owned by Sonera in KazNet Media LLP ("KazNet") together with all rights and obligations of Sonera under a framework agreement to buy all the participatory interests in the charter capital of KazNet and all the participatory interests owned by Sonera in Rodnik Inc LLP ("Rodnik") together with all rights and obligations of Sonera under the agreements to buy participatory interests in the charter capital of Rodnik (refer to "Investment in Rodnik by Sonera").

Subject to satisfaction of the applicable conditions, each of Sonera and the Company was entitled to exercise its option at any time starting from nine months after the date of the offering of global depositary receipts and listing on local stock exchange, which took place on 13 December 2012. The purchase price that the Company was supposed to pay to Sonera for the acquisition resulting from the exercise of the option would be the amount of net cost incurred by Sonera in connection with the corresponding investments and acquisition transactions plus interest accrued on such amount.

The contractual right of Sonera to sell the underlying assets (debt and equity interests and related rights and obligations) to the Company is a financial instrument (derivative) within the scope of IFRS 9 Financial Instruments. The derivative instrument should be measured at fair value, with the changes in fair value recognised in the statement of comprehensive income. The Group did not have an unconditional right to avoid the settlement.

Sonera had the right to terminate the Buy and Sell MoU at any time by serving a written notice to the Company.

The exercise of these options was conditional upon Fintur having consented to, authorised or voted in favour of the acquisition to be made by the Company as a result of the exercise of such right. In addition, completion of the acquisition contemplated by the exercise of options is subject to law, regulation and any requisite approvals. Sonera had the option to sell (“the Put Option”) and the Company had the option to buy (“the Call Option”) the participatory interest. The strike price of the both options equals the net costs incurred by Sonera, annually compounded using the interest rate (interest accruals begins when the costs are incurred or the receipts are cashed and ends when the participatory interest are transferred).

Neither the Put Option nor the Call Option can be exercised without the authorisation of Fintur. In addition there is uncertainty in the timing of required changes in 4G/LTE regulation. Accordingly, there is an uncertainty regarding whether the option will be exercised. On this basis, the Company measured the derivative at the original cost of zero.

On 4 May 2016, the Company obtained control over the activity of KazNet (Note 3).

#### ii. Investment in Rodnik by Sonera

Sonera negotiated an agreement with a third party to acquire 25 percent of the participatory interests in the charter capital of Rodnik. Rodnik owns 79.92 percent of the total share capital of KazTransCom JSC (“KTC”).

The purchase price for acquisition is 20 million US Dollars, subject to adjustments to be made based on the amount of net debt of Rodnik and KTC at the time the acquisition is completed.

On 13 August 2012, Sonera entered into a call option agreement with a third party, under which Sonera has a call option to acquire another 75 percent participatory interest in Rodnik. Pursuant to the terms of that call option agreement, the call option exercise price will be calculated based on fair market value of the participatory interest in Rodnik.

The acquisition of 25 percent of the participatory interests in the charter capital of Rodnik was completed on 14 January 2013.

Execution of the KazNet option had no effect on the option related to Rodnik.

#### **The standby letter of credit**

The standby letter of credit for 10 million US Dollars, within the framework of the general agreement between the Group and Citibank Kazakhstan JSC, was issued on 23 September 2015. As at 31 December 2018, the credit limit has been decreased to 5.5 million US Dollars. This instrument has been issued in favour of Apple Distribution International (Ireland) to allow the Group to extend the term of payment for goods purchased from the company, and will have a positive impact on the Group's working capital. As at 31 December 2018, the instrument has been used, the outstanding balance is 546 thousand Tenge.

#### **The “Daytime Unlimited” and failure to disconnect calls on Kcell network**

During 2013, an investigation was initiated by the Agency for Competition Protection of the Republic of Kazakhstan (“the ACP”), in relation to the “Daytime Unlimited” service under the Activ brand and non-interruption of services when a customer's balance reaches zero under the Kcell brand. On conclusion of the initial investigations, the Antimonopoly Inspectorate issued an administrative offence report with a potential fine on the Company of 16 billion Tenge. During the following court process the Company was able to reduce the penalty to 325 million Tenge and subsequently made payment in full in May 2014.

The ACP ordered that the Company should comply with the following on or before 21 April 2014:

1. to stop collection of the subscription fees under the tariff plan “Daytime Unlimited” in case of insufficiency of funds on a subscriber's account;
2. to ensure interruption of connection (voice or Internet access) when a subscriber's balance reaches zero; and
3. to ensure a refund to subscribers, any fees received as a result of failure to interrupt the connection when a subscriber's balance reaches zero (“the Order”).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS OF KAZAKHSTANI TENGE, UNLESS OTHERWISE STATED)  
CONTINUED

## 20. Contingencies, commitments and operating risks continued

### The “Daytime Unlimited” and failure to disconnect calls on Kcell network continued

The Company complied with point 1, however, due to technical limitations of the billing system, the Company is currently unable to implement point 2. However, the Company is in the process of introducing a new billing system that will enable the interruption of the connection.

The Company has challenged the ACP findings and decision through the courts system in the Republic of Kazakhstan, culminating in an appeal to the Supreme Court. On 30 June 2015, the Supreme Court of the Republic of Kazakhstan dismissed the Company's supervisory appeal. On 15 June 2015, the ACP filed a claim in court seeking for enforcement of the order. On 9 July 2015, the court issued a resolution on satisfying the ACP claim to enforce the order, and as a result the Company must now enforce points 2 and 3 in the above ACP order.

As at 31 December 2018, the total amount returned to subscribers is 2,618,045 thousand Tenge. As at 31 December 2018, the Company accrued a provision in the amount of 116,640 thousand Tenge (31 December 2017: 116,640 thousand Tenge). The Company expects further refunding the subscription of fees until point 2 above is enforced.

### New Technical Regulations

Order No. 91 of the Committee of the National Security dated 20 December 2016 on approval of 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). Management is currently implementing an action plan in order to comply with the requirements of Technical Regulations.

### Amendments and addendums to the “Rules of communication service provision”

Order No. 403 of the Minister of Information and Communications of the Republic of Kazakhstan dated 21 November 2017 on Amendments and Additions to the Order No. 171 of the Acting Minister for Investment and Development of the Republic of Kazakhstan dated 24 February 2015 “On Approval of the Rules for the Provision of Communication Services” was officially published on 16 January 2018, and came into force on 26 January 2018. The rules state that mobile operators will be obliged:

- i. to inform subscribers when bonus allowances are fully consumed and charge from the main balance only after receiving respective consent from subscriber. In case subscriber did not give the consent, operator should postpone services (item 26); and
- ii. potentially it will not be allowed to operators to allow debt of subscribers in roaming (which contradicts to the Rules).

The violations of new rules can be recognized an abuse of dominant position that entails a penalty of 5% of the total income of the company or 10% in case if repeated within a year with monopoly revenue confiscation.

Management is currently assessing the risks associated with the introduction of new rules in order to comply with the amendments and additions to the “Rules for the Provision of Communication services”.

### Cases related to the abuse of dominant position

On 19 October 2018, the Committee on Regulation of Natural Monopolies, Protection of Competition and Consumer Rights of the Ministry of National Economy of the Republic of Kazakhstan (“Committee”) initiated administrative proceedings against the Company for an alleged administrative violation related to the abuse of its dominant position in 2017.

The potential fine, which can be imposed by the court, constitutes approximately 2 billion Tenge. According to the Committee, the violation resulted in the establishment of different prices for Kcell's mobile Internet access service with a data allowance, when the data allowance was exceeded or the monthly subscription fee was not paid in a timely manner.

In addition, the Committee issued an order for the Company to return to Kcell brand subscribers all fees charged in 2017 when the monthly data allowance was exceeded and when the monthly subscription fee for mobile Internet access services had not been paid. Kcell has filed an appeal against this decision with the court.

The Company appealed the order issued by the Committee referring to noncompliance with the requirements of the law.

The management of the Company believes that the overall claim will be satisfied in favor of the Company, and so no provision has been made for this amount.

### Physical verification of fixed assets

Starting from June 2017 Kcell Solutions LLP (“the Subsidiary”) began the process of physical verification of the Company’s fixed assets at its work sites and warehouses, visiting, counting and reconciliation procedures over fixed assets of the Company with accounting data as a general contractor. The Group is analysing shortages and surpluses identified during the physical verification of fixed assets and assessing their potential tax effect.

## 21. Financial risk management

### Financial risk factors

The Group’s activities expose it to a variety of financial risks: market risk (including foreign exchange risk), liquidity risk and credit risk. The Group’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group’s financial performance. The Group does not use derivative financial instruments to hedge risk exposures.

### Credit risk

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group’s sales on credit terms and other transactions with counterparties giving rise to financial assets.

The Group’s maximum exposure to credit risk by class of assets is as follows:

	Note	31 December 2018	31 December 2017 (restated)*
Cash and cash equivalents		6,029,042	12,659,844
Trade receivables	12	12,307,022	10,621,266
Long-term trade receivables	12	3,009,995	1,617,206
Due from related parties	9	1,018,003	810,492
Restricted cash		36,533	38,733
<b>Total maximum exposure to credit risk</b>		<b>22,400,595</b>	<b>25,747,541</b>

\*The retrospective restatement of the consolidated financial statements is disclosed in Note 5.

Credit risk from balances with cash and cash equivalents is managed by the Group’s treasury department in accordance with the Group’s policy. Investments of surplus funds are made only with approved financial institutions and within credit limits assigned to each bank or financial institution. Financial institutions’ credit limits are reviewed by the Group’s Treasury Department on a monthly basis. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through a financial institution’s potential failure to make payments.

The Group has policies in place to ensure that sales of products and services are made to customers and distributors with an appropriate credit history. If corporate customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer taking into account its financial position, past experience and other factors. The Group’s management reviews ageing analysis of outstanding trade receivables and follows up on past due balances. Customers that fail to settle their liabilities for mobile services provided are disconnected until the debt is paid. Management provides ageing and other information about credit risk (Note 12). The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount of trade receivables exposed to credit risk. The Group has no significant concentrations of credit risk since the customers portfolio is diversified among a large number of customers, both individuals and companies. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provisions already recorded.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS OF KAZAKHSTANI TENGE, UNLESS OTHERWISE STATED)  
CONTINUED

## 21. Financial risk management continued

### Foreign exchange risk

The majority of the Group's purchases of property, plant and equipment and inventories, as well as certain services such as roaming are denominated in US Dollars. Hence, the major concentration of foreign exchange risk arises from the movement of the US Dollar against the Tenge. Due to the undeveloped market for financial instruments in Kazakhstan, the management does not hedge the Group's foreign exchange risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows.

	Liabilities		Assets	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
US Dollar	7,085,549	4,099,843	1,203,082	2,472,071
Euro	–	–	21,473	212,019
Others	–	1,199	1,482	4,280

As at 31 December 2018, if the US Dollar had weakened/strengthened by 10 percent against the Tenge with all other variables held constant, after-tax profit for year ended 31 December 2018 would have been 468,761 thousand Tenge lower/higher (2017: 113,014 thousand Tenge lower/higher), mainly as a result of foreign exchange gains/losses on translation of US Dollar denominated bank balances, receivables and payables. Profit is less sensitive to movement in Tenge/US Dollar exchange rates at 31 December 2018 than at 31 December 2017 because of the increased amount of US Dollar denominated cash and cash equivalents at 31 December 2018 offsets exposure to US Dollar denominated accounts payable.

### Cash flow and fair value interest rate risk

The Group does not have floating interest bearing assets or liabilities as of 31 December 2018, and as such, management has not presented interest rate sensitivity analysis.

### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash. Due to the dynamic nature of the underlying businesses, the Group's treasury aims to maintain flexibility in funding by keeping sufficient cash available.

The table below shows financial liabilities as at 31 December 2018 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the reporting date.

The maturity analysis of financial liabilities as at 31 December 2018 is as follows:

	Demand and less than 3 months	From 3 to 12 months	More than 12 months	Total
<b>Liabilities</b>				
Borrowings	5,693,931	53,098,692	16,926,723	75,719,346
Trade payables	13,372,884	–	–	13,372,884
Due to related parties	674,718	–	–	674,718
<b>Total future payments</b>	<b>19,741,533</b>	<b>53,098,692</b>	<b>16,926,723</b>	<b>89,766,948</b>



The comparative maturity analysis of financial liabilities as at 31 December 2017 is detailed below:

	Demand and less than 3 months	From 3 to 12 months	More than 12 months	Total
<b>Liabilities</b>				
Borrowings	2,687,722	62,109,417	13,319,444	78,116,583
Trade payables	18,275,481	–	–	18,275,481
Due to related parties	1,177,333	–	–	1,177,333
<b>Total future payments</b>	<b>22,140,536</b>	<b>62,109,417</b>	<b>13,319,444</b>	<b>97,569,397</b>

Management believes that the payments of the borrowings and other financial liabilities will be financed by cash flows from operating activities and that the Group will be able to meet its obligations as they fall due. The Group can extend borrowings up to an additional twelve months, subject to consent of the lenders (Note 15).

### Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for owners and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to owners, return capital to owners, issue new capital and sell assets to reduce debt.

### Offsetting a financial asset and a financial liability

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows as at 31 December 2018:

	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position and net amount of exposure
	(a)	(b)	(c) = (a) – (b)
<b>ASSETS</b>			
Trade receivables from interconnect services	219,099	38,772	180,327
Trade receivables from roaming services	884,173	427,703	456,470
<b>Total assets subject to offsetting, master netting and similar arrangement</b>	<b>1,103,272</b>	<b>466,475</b>	<b>636,797</b>
<b>LIABILITIES</b>			
Trade payables for interconnect services	291,577	38,772	252,805
Trade payables for roaming services	427,703	427,703	–
<b>Total liabilities subject to offsetting, master netting and similar arrangement</b>	<b>719,280</b>	<b>466,475</b>	<b>252,805</b>

Financial instruments represented by trade receivables from interconnect services in the amount of 150,532 thousand Tenge and corresponding trade payables in the amount of 8,555 thousand Tenge are not eligible for offsetting. Services include testing, monitoring, analysing and optimisation of international SMS traffic routes that are provided by various number of counterparties and the Group has no intention to process payables and receivables on a net basis.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS OF KAZAKHSTANI TENGE, UNLESS OTHERWISE STATED)  
CONTINUED

## 21. Financial risk management continued

### Offsetting a financial asset and a financial liability continued

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows as at 31 December 2017:

	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position and net amount of exposure
	(a)	(b)	(c) = (a) – (b)
<b>ASSETS</b>			
Trade receivables from interconnect services	3,240,121	2,625,399	614,722
Trade receivables from roaming services	1,449,632	1,190,082	259,550
<b>Total assets subject to offsetting, master netting and similar arrangement</b>	<b>4,689,753</b>	<b>3,815,481</b>	<b>874,272</b>
<b>LIABILITIES</b>			
Trade payables for interconnect services	3,319,596	2,625,399	694,197
Trade payables for roaming services	1,190,082	1,190,082	–
<b>Total liabilities subject to offsetting, master netting and similar arrangement</b>	<b>4,509,678</b>	<b>3,815,481</b>	<b>694,197</b>

Financial instruments represented by trade receivables from interconnect services in the amount of 285,577 thousand Tenge and corresponding trade payables in the amount of 4,944 thousand Tenge are not eligible for offsetting. Services include testing, monitoring, analysing and optimisation of international SMS traffic routes that are provided by various number of counterparties and the Group has no intention to process payables and receivables on a net basis.

The amount set off in the statement of financial position reported in column (b) is the lower of (i) the gross amount before offsetting reported in column (a) and (ii) the amount of the related instrument that is eligible for offsetting.

The Group has master netting arrangements with telecom operators, which are enforceable in case of default. In addition, applicable legislation allows an entity to unilaterally set off trade receivables and payables that are due for payment, denominated in the same currency and outstanding with the same counterparty. These fall in the scope of the disclosure as they were set off in the consolidated statement of financial position.

## 22. Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Republic of Kazakhstan continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments. For the purpose of fair value disclosures the Group determines below described instruments' fair value hierarchy as level 2 (significant observable inputs).

### Financial assets carried at amortised cost

The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of cash and cash equivalents, trade receivables and due from related parties approximate fair values due to their short-term maturities. As at 31 December 2018 and 31 December 2017, the fair value of financial assets was not significantly different from their carrying value.

### Financial liabilities carried at amortised cost

The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Carrying amounts of trade payables, dividends payable and due to related parties approximate fair values due to their short term maturities. As at 31 December 2018 and 31 December 2017, the fair value of financial liabilities was not significantly different from their carrying value.

## 23. Subsequent events

In February 2019, the Group fully repaid loans to Alfa-Bank JSC and opened a credit line in the SB JSC VTB Bank Kazakhstan in the amount of 5 billion Tenge for a period of one year and annual interest rate of 10.9%



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