



KAZAKHTELECOM

Think digital!



2018
Annual Report



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INTRODUCTION

The modern world is unthinkable without information communications technologies and Internet which have penetrated nearly every field of human life and activities from all angles and directions. Nowadays, the unbelievably intensive development of information and telecommunications technologies plays a significant role in economy, science, industry, communications between countries, information management, and data flows exchange. At the same time, the need in increasing volumes and speed goes up with every day. Thus, for the past year the world has witnessed another round of growth in the number of consumers of ICT-services as well as organizations specialized in computer technologies and delivery of services in IT and telecommunications sphere. It is not only ordinary users and end consumers who have been embraced by this amazing process – the scale of the digitization has reached the country level, when a number of states has already started the so-called format of “the digital society”, in which the mankind will not be able to reject numerous benefits of the technological progress and solutions that globally contribute to the maintenance of the comfortable and safe living.

Digital technologies provide undisputable advantages, such as, a simplified access of the population and entrepreneurs to governmental services, accelerated information exchange, introduction of additional opportunities for doing business, and creation of new digital products. In order to bring these ambitions into life as directed by the President of Kazakhstan Nursultan Nazarbayev, the entire country has proceeded with the implementation of the state program named “Digital Kazakhstan”. Its fundamental goal resides in the acceleration of the national economic development and improvement of the living conditions for the population through the use of digital technologies and also by creating an environment where the economy of Kazakhstan will step into the brand-new trajectory of development to ensure the evolution of digital economy of the future.

Striving for implementation of the goals to speed up the technological modernization of economy and provide conditions for the country-wide access to fiber-optic infrastructure, in 2018, Kazakhtelecom JSC has started to realize the largest project to provide all rural settlements of the Republic of Kazakhstan with the broadband access through the fiber-optic communications lines (RS FOCL). This project will make it possible to bring the access to the highspeed Internet to 2.5 thousand governmental entities in 828 rural settlements. The Company is facing a challenge to lay out over 15,000 kilometers of fiber-optic communications line within a bit more than two years.

One of effects of project framework will be expanding innovative services and improved level of their dissemination within rural settlements along with the provision of the access to such services as tele-medicine, opportunities of the online-education, and e-commerce services. Being implemented, the project will have a favorable impact on the level of employment both within the course of its construction works for the network deployment and after the works are accomplished.

Based on the outcome of 2018, the first stage of the RS FOCL Project brought the highspeed Internet access to 27 state entities in 7 rural settlements of Aktobe, West Kazakhstan, East Kazakhstan and Pavlodar oblasts.

On the progress rate of the availability of the access through optical lines, it should be emphasized that over 1 mln ports have been installed under the GPON technology by now, while the number of active users has exceeded 700 thousand, and the utilization of the copper infrastructure is intensively going on. However, the infocommunications operator intends to retain the classical telephone business, despite the overall global migration of the fixed telephone users towards mobile networks. The Company places its bet against the services



that allow utilizing all advantages of both a mobile and fixed telephone connection.

In addition to the construction of network on the basis of fiber-optic cable, another promising business direction resides in the development of the new general connection technology, namely, 5G. In this regard, several memorandums on joint research of the opportunities and testing of this technology have already been signed.

There is one more subject that has been included into the field of research of the experts of Kazakhtelecom. Broad horizons emerging from the application of the IoT, the Internet of Things, are promising to become one of the key drivers of the revenue generation of the IT-industry in the very near future. Pursuing the current trends, Kazakhtelecom has realized a project on the construction of the Central-Asian largest M2M/IoT network based on LoRa technology. The wireless network with the low energy consumption will cover all IoT segments: housing services and utilities, transportation, safety, and industrial facilities, as well as control over urban territories, street lighting and collection of telemetric data from energy consumption meters. In the course of the first phase, the network has been already built in the cities of Almaty, Astana and Shymkent, while the total implementation of the project provides for the installation of more than 400 basic stations of the LoRa technology in all regional centers.

More than that, the Company continues to study, adapt and bring new services and possibilities related to the concept of Smart Home and Smart City into the market. In 2018, the Company has expanded the coverage to as many as 45 thousand video cameras connected to the Cloud Video Surveillance platform within the B2C/B2B/ B2G segments on the basis on the optical urban GPON infrastructure. Those novelties have been actively introduced into the cities and private homes of Kazakhstanis, and the practical experience of the Company in connection therewith has been

repeatedly presented at international sectoral conferences and exhibitions.

In parallel with covering new territories with the fiber-optic lines, the Company has been paying a lot of attention to the development of new assets. Thus, one of the symbolic events was the signing of the agreement between Kazakhtelecom JSC, Telia Company, and Fintur Holdings BV on the acquisition of 75% of the voting shares of Kcell JSC, the Kazakhstani national cell operator. The acquisition of the voting stake will allow delivering several ambitious projects due to the integration of the networks and experience of two operators. The effect of the synergy of two giants will make it possible in the very near future to build a high-technology integrated network within the territory of Kazakhstan.

Besides, the Company has shown positive results in some new directions, specifically, in the E-commerce, where we can name such products as Chocomart, Intermarket, KTstore. Thanks to its reliable and secure infrastructure and compliance with the strict safety standards, the Company has become the operator of fiscal data and provides for the connection of the enormous number of cash register machines (CRM) across the entire Republic. The infrastructure that allows making all major connections online has been installed within the course of the project, and the Company continues testing new cash machines and develop its own payment instrument.

Taking into consideration the growing traffic between Europe and Asia, the Company has been searching for additional options for existing telecommunications channels to ensure a more reliable and stable operation of services, having suggested a new route the telecom operators which has turned to be a worthy alternative to the basic underwater data transmission between the Southeast Asia countries and Europe.



One of the key processes in the past year was the Orleu Transformation Program. As of the end of 2018, the material effect on the cash flows generated through the implementation of the transformation program exceeded the point of KZT 34.4 bln.

At the same time, realization of the initiatives on the transformation of the Company and introduction of the effective business model have added the General Service with the function of legal support and General Financial Service Center to the multi-functional General Service Center (GSC) of Kazakhtelecom JSC which has been in operation since 2017.

All ongoing activities have provided a significant influence on the productivity of the Company as evidenced by the high rating of international agencies in 2018. Thus, according to Fitch Ratings, an international credit rating agency, the rating of Kazakhtelecom JSC has reached the level of BB+ with the Outlook Stable, while Kcell JSC has been rated as BB with the Outlook Stable, being placed for the positive reconsideration after Kazakhtelecom JSC signed the agreement on the acquisition of 75% of the voting stock in Kcell JSC.

Another international rating agency – S&P Global Ratings – has confirmed the improved rating of Kazakhtelecom JSC (BB+ with the Outlook Stable) after Kazakhtelecom JSC signs the agreement on the acquisition of 75% of the voting stock in Kcell JSC.

That said, analysts of the leading rating agencies emphasize that the above-said transaction will help the Kazakhtelecom Corporate Group in raising its share at the mobile connection market to as much as 64%, increasing its business marginality and providing opportunities for future commercial development. According to the analysts, the increase of the rentability will be caused both by high performance indicators of Kcell JSC and due to the synergetic effect in the reduction of costs and continuing growth of revenues of Kazakhtelecom JSC. Many experts of rating agencies agree that the Company witnesses an intensive growth of revenues thanks to the diversification of its product portfolio.

Further dynamic digitization of various sectors and inevitable and all-round penetration of technologies in all spheres of our life constitute the most likely scenario of the near future. The rate of the integration of those processes is conditioned by daily updates in the sphere of information technologies and telecommunications industry. Successfully meeting its strategic goals and continuously developing its services and products, Kazakhtelecom JSC has been able to sustain its leadership position at the market for many years, while mastering new business directions and expanding its product range. Taking a just pride in the quarter-century professional experience, the Company advantageously follows global trends and satisfies demands of the local market, preserving its human resource capital, cherishing corporate values, maintaining investment attractiveness and honoring principles of a fair and transparent business. This report contains the key events and milestones of Y2018, all serving the fundamental goal, – to be closer to each and every consumer and become the first-choice brand since the effectiveness of the service operator in a modern world is measured not only through the volumes of its assets but also through the quality and quantities of its client base.

01

The Company today



Pay TV subscribers:

772,373





Brief Overview

Kazakhtelecom Joint-Stock Company is the flagship telecommunications operator of the Republic of Kazakhstan, providing a wide range of infocommunications services throughout the entire country.



The Company's registered location is as follows: 12 Sauran street, Yessil district, the city of Nur-Sultan, 010000, the Republic of Kazakhstan.

Kazakhtelecom JSC (hereinafter referred to as the Company or Kazakhtelecom) is the largest operator of the fixed telephone connection in

Kazakhstan and a recognized leader in the field of telecommunications services, including to rural settlements, and also one of the biggest operators of the National Data Transmission Network.

Kazakhtelecom maintains an effective and up-to-date telecommunications network on the national scale and covers practically all targeted markets of infocommunications services consumers. The Company considers the reliability and the size of the main network along with the impressive efficiency of the utilized innovative technologies to be its most important competitive advantages.

Advantages of the Company:

- Most of the population of Kazakhstan use its communications services – over 80% of all households are equipped with the fixed telephone connection provided by Kazakhtelecom JSC;
- Its wired communications infrastructure is unparalleled in the country;
- The Company maintains a well-developed network of retail offices and customer service centers – more than 300 across Kazakhstan
- It is the all-known brand trusted by clients;
- 248 network service centers and also 17 data centers and contact centers;
- Telephone density is 17.3 telephone lines per 100 people;
- 1,700,976 ports of the fixed broadband access;
- 7,160,000 users of the mobile connection services*;
- 772,373 Pay TV connection points;
- Receipts arrive at KZT 222,726 mln;
- Revenues equals to KZT 42,883 mln;
- EBITDA margin amounts to 35.9%.

Network service centers

248

Data centers and contact centers

17

Telephone density

17.3
telephone lines
per 100 people

Pay TV connection points

772,373

Receipts arrive

222,726
mln KZT

Fixed broadband access

1,700,976
ports

EBITDA margin

35.9%

Revenues

42,883
mln KZT

* Except Kcell JSC

Key Performance Indicators

Item Description	Unit of measure	2014 actual	2015 actual	2016 actual	2017 actual	2018 actual
Financial Indicators (consolidated)						
	mln KZT					
Sales Revenues	mln KZT	208,223	189,754	205,820	210,225	222,726
Net Profit	mln KZT	7,484	24,209	55,832	24,718	42,883
EBITDA	mln KZT	61,580	66,745	73,718	76,445	79,887
EBITDA margin, %	%	29.6	35.2	35.8	36.4	35.9
Capital Investments (accrued)	mln KZT	55,154	38,699	15,014	29,109	47,853
Efficiency Indicators						
ROIC (Return On Invested Capital)	%	6	9.8	10.1	8.6	6.3
Average Revenue Per User (ARPU)	KZT/month	3,413	3,582	3,605	3,108	5,017
Number of Employees (including subsidiaries)	ppl	29,000	28,343	25,117	23,610	22,457
Total Revenue Per Employee	ths KZT	7,180	6,912	8,194	8,904	9,924
Information on Assets						
Total Assets	mln KZT	417,693	436,494	468,962	471,314	793,395
Long-Term Credits	mln KZT	56,426	27,300	53,795	24,968	135,838
Equity Capital	mln KZT	270,309	292,421	343,798	359,108	414,841
Operational Indicators						
Number of Fixed Lines	lines	4,063,258	3,878,584	3,670,276	3,425,559	2,978,472
Local Network Digitization Level	%	99.06	100	100	100	100
Number of fixed Broadband Access ports	ports	1,543,138	1,502,632	1,592,146	1,686,785	1,700,976
Number of Pay TV connection points	ports	530,630	607,762	670,127	735,419	772,373
Macroeconomic Indicators						
Total Population of Kazakhstan	ths ppl	17,417.4	17,670.9	17,918.2	18,157.1	18,395.6
GDP Growth	%	104.3	101.2	101.1	104	104
Consumer Price Index	%	107.4	113.6	108.5	107.1	105.3
KZT to USD Exchange Rate, average annual rate	KZT	179.19	221.73	342.16	326	344.71



Address of the Chairman of the Board of Directors of Kazakhtelecom JSC



**Nurzhan
Baidauletov**

Chairman of the Board
of Directors
Kazakhtelecom JSC

Dear Colleagues, Clients and Partners!

In 2018, telecommunications services have become one of the key drivers for the development of several industries as our country has proclaimed its transition to the digital format under the auspices of the Digital Kazakhstan State Program. This is a strategic multilevel program aimed to improve living conditions of every citizen through the all-round introduction of digital technologies. Kazakhtelecom and its team have assumed an important role of being directly involved into the implementation of a variety of initiatives, including such a large-scale project as construction of fiber-optic telecommunications lines in rural settlements of the country which is brought into life within the framework of the public-private partnership.

I believe that the Company, being the multi-service operator, possesses all necessary resources to realize tasks and achieve targets set by the leaders of our country.

In general, the last year showed a successful accomplishment of all activities on the expansion of the network coverage, improvement of the service quality, and development of new services in the B2C and B2B segments. Kazakhtelecom is becoming a single access point to infocommunications services; it literally comes to every home, being a reliable partner and infrastructural operator for the implementation of Smart City, Smart Home and Internet of Things projects. We should emphasize growing needs in the application of the Big Data and new approaches in terms of cybersecurity and further promotion of innovative products.

The productivity of the Company's operations in 2018 has been evidenced by the ratings of the international agencies – its significant events had a positive influence on the Company's credit ratings. Thus, according to Fitch Ratings, Kazakhtelecom JSC received BB+ with the Stable Outlook and Kcell JSC was given BB with the Stable Outlook, providing for the subsequent reconsideration and potential upgrade. S&P Global Ratings confirmed the favorable rating of Kazakhtelecom JSC (BB+, Outlook Stable) after the signing of the agreement on the acquisition of 75% of the shares in Kcell JSC by Kazakhtelecom. Acquisition of the majority stake of the mobile service operator has enhanced Kazakhtelecom's operational profile and its market positions, giving a positive impact on the Company's long-term stability. The said transaction will work for the improvement of the network quality indicators for mobile service consumers, especially in view of the forthcoming transition to the 5G standard.

On behalf of the Board of Directors, it is my honor to extend our gratitude to all stakeholders – our shareholders, partners, and clients of Kazakhtelecom – for their trust and many years of cooperation.

I have no doubt that Kazakhtelecom JSC will keep up to the dynamic spirit of its development, adhering to the philosophy of a socially responsible Company, and continue to bring innovative approaches in its work, remaining your technically reliable and stable partner.

*Best regards,
Nurzhan Bidauletov
Chairman of the Board of Directors
Kazakhtelecom JSC*



Address of the Chairman of the Management Board of Kazakhtelecom JSC



**Kuanyshbek
Yessekeyev**

Chairman of the Management Board
Kazakhtelecom JSC

Dear Shareholders, Investors, Clients, and Partners!

The year of 2018 will be remembered by Kazakhtelecom JSC and its many-thousand team for its productive operation, development of new promising businesses, intensive application of innovations and progressive technologies, introduction of sustainable values, and establishment of the strong corporate culture.

Adherence to the adopted principles, preservation of traditions, flexibility, and ability to accept changes have formed the foundation of our philosophy, of doing business during this period of time, quite complicated both for the Company and the industry in general. New trends, migration of traffic from the fixed segment to the mobile sector, growing volumes of the transmitted data, digitization of many industries, emerging competition, and numerous challenges of the global telecom market dictated conditions to all players. Yet, the past year has been fruitful and productive to all companies of the Corporate Group. Once again, we demonstrated our capability to work cohesively as a team, to change, and to move forward.

I am proud to bring this Annual Report into your consideration where all most important events and decisions undertaken in 2018 are contained. You are welcome to review our key indicators which form the basis for the evaluation of the Company's success – technical, financial, and sectoral indicators; analysis of our work in various market segments; progress status of implemented projects, and also information on the activities of our subsidiaries and our plans for the upcoming period.

Commencement of the construction of fiber-optic communications lines to provide the broadband access to underserved rural settlements is one of the most significant milestones of our work. It is

planned to build more than 15,000 km of the fiber-optic communications lines within the next two years and connect almost 2.5 thousand governmental entities in 828 rural settlements to the main line channels. It is a pioneer project of such scale to be implemented through the mechanism of the public- private partnership: Kazakhtelecom will build fiber- optic networks, connects governmental entities and budget organizations thereto and ensure a reliable access to services. The erected infrastructure may be later used to provide services to other market players, including through sharing resources with mobile service companies to construct internal networks and render the full range of telecommunications products.

We will have to exert all efforts to achieve our final goal which resides in providing the access to the Internet for all governmental entities and budget organizations in the rural settlements – hospitals, schools, local authorities, emergency services, defense facilities, and law enforcement agencies. Realization of this project will have an undoubtful favorable effect, specifically, development of innovative services and arrangement of access to multiple opportunities of telemedicine, online-education and e-commerce.

Acquisition of 75% of the voting shares in Kcell JSC became another important event which influenced both the Company's situation and overall telecommunications market of Kazakhstan. When preparing for the transaction, Kazakhtelecom performed in-depth investment analysis, assessment and comprehensive inspection of the financial and business activities of Kcell in accordance with the international standards applied to transactions of such kind.

This decision has a strategic importance, making it possible to start implementation of several ambitious projects through the synergetic effect of



the integration of our networks. It will serve as a new impetus for the development of both companies as we are uniting strategic and operational capacities of two giant telecommunications operators of the country. As a result of our joint activities, our clients will be offered a much wider range of services.

The past year was also marked by the fact that the Company started serious research and development in the field of 5G, having entered into the memorandum of understanding on the joint analysis of the possibilities of the 5G technology with Samsung, and having agreed about the testing of 5G in a trial mode with Nokia Corporation. Our Company considers this technology to create infrastructural services and new existing business opportunities.

For nearly a quarter of the century, Kazakhtelecom has been known as a reliable partner, telecom operator and provider of innovative services and products. Largely, such trust has been deserved due to the stable operation of the network and responsible attitude of our personnel to what they do as well as their faith in the principles of our corporate ethics. We paid a lot of attention in 2018 to our staff, holding numerous activities aimed to consolidate efforts and aspirations of our people. Thus, we are at the transition stage, moving away from the operational discipline pattern which is typical for many large companies to the culture of achievements and successful thinking. By the way, in 2018, we have fixed new priorities and key

ideas in the updated model of corporate values and implemented several initiatives intended to integrate personal values with the corporate ones.

Let me take this opportunity to extend my cordial gratitude to the many-thousand team of our Company for their daily work and commitment to our common goal. It is impossible to overestimate the role of the highly professional human resources in the modern-world environment inspired by the endemic digitization and integration of ICT-services. Nowadays, the industry of telecommunications, globally speaking, constitutes a channel which transmits the impulse of development to all wheels of life. Dynamic growth of infocommunications environment and its associated eco-system are among the critical factors of the sustainable economy in any country. In light of the digitization objectives, further improvement of the telecommunications industry and provision of the access to services to the population become our top priorities.

I am fully confident that in the year of 2019 we will successfully continue to realize our projects and global tasks and duly fulfill commitments assumed by the Company.

Best regards,
Kuanyshebek Yessekeyev
Chairman of the Management Board
Kazakhtelecom JSC

2018 Event Calendar

January

Askar Zhumagaliyev, Deputy Prime Minister of the Republic of Kazakhstan, reviewed the operation of the cloud video surveillance in Astana.

The presentation demonstrated key advantages of the innovative service: the cloud surveillance makes it possible to continuously monitor all what happening in vestibules of multi-apartment buildings and also save archive data and obtain access to video images in the online format, through mobile devices and personal account of the user.

February

Kazakhtelecom JSC arranged for the master-class from Bill O'Connor, the founder of Autodesk Innovation Genome, the innovative strategy guru of Autodesk and the expert in the field of innovations, management and technologies. The central theme of the master-class was generating ideas to introduce innovative solutions.

Kazakhtelecom JSC presented its project – Open Digital Platform for Small and Medium Enterprises, aiming at the introduction of the digital liaison system for SMEs to cooperate with each other as well as with the governmental agencies and other market players.

Kazakhtelecom JSC took part in the joint session of the Infocommunications Commission and Council of Telecommunications and Infocommunications Operators under the RCC dedicated to various operational matters of the telecommunications and infocommunications operators of the RCC member-states.

Kazakhtelecom JSC presented a national stand of Kazakhstan and technological achievements at the largest event in the field of mobile

technologies, the Mobile World Congress Barcelona 2018. The Company demonstrated innovative services and technologies in the sphere of infocommunications implemented in Kazakhstan within the framework of the Smart Home and Smart City concepts along with the opportunities of the transit potential.

Kazakhtelecom JSC finalized the first stage of the project on construction of CIS largest M2M/ Internet-of-Things network based on the LoRa, Zigbee and LTE technologies. The network covers all market directions of the Internet of Things world: apartments, private houses and vestibules in the B2C segment, as well as urban streets, multi-apartment buildings, administrative buildings, production facilities and motor roads in the B2B/B2G segment. The first stage was marked with the accomplishment of the CIS biggest energy-efficient LPWAN network based on the LoRa technology covering all multi-apartment buildings, facilities and urban territories of the cities of Astana, Almaty, and Shymkent.

Kazakhtelecom JSC received an award of the Kaspersky Laboratory, being nominated as the Telecommunications Operator with the best user protection against cyberattacks in Europe and Central Asia.

March

As a part of the Kazakhstani delegation headed by Askar Zhumagaliyev, Deputy Prime Minister of the Republic of Kazakhstan, the representatives of Kazakhtelecom JSC visited the Belarus High Technologies Park where they were familiarized with the latest developments in the field of software products and digital solutions for various industries and mobile applications.



April

In the course of the 13th International HR-Conference "Future Organization", Kazakhtelecom JSC made a presentation on its model of the General Customer Service Center before the international experts in the sphere of human resource management, representatives of national and international companies, and senior officials of HR-departments of private businesses, bringing it as an example of the successful transformation.

Kazakhtelecom JSC held the TOP-100 Conference with the participation of the Heads of the companies of various levels where the new model of its corporate values named CREDO was presented. The new model consisting of five major directions is intended to facilitate effective management and development of the Company and also to satisfy all needs of the population in infocommunications services and products.

May

Kazakhtelecom JSC held the annual Republican competition for the title of the Best Welding Cableman for Handling Fiber-Optic Cables which brought together over 30 specialists of regional branches.

The annual General Shareholder Meeting of Kazakhtelecom JSC approved the size of the dividends on the basis of the Y2017 outcomes. The dividend per 1 ordinary share amounted to KZT 1,595.79.

June

Kazakhtelecom JSC selected candidates for the internship under the PROTelecom Project: 80 students of the third and fourth years of studies and graduates commenced their work in the Company's divisions in Astana and Almaty. The principal goal of the internship program was to involve students and graduates of the

leading national universities to participate in the Company's activities.

Kazakhtelecom JSC acted as a partner of the Conference of TEDxAstana 2018 within the framework of developing the Company's initiatives to integrate ideas of transformation for both external and internal stakeholders. The event contributed to the positioning of transformation ideas at the in-depth value level of the perception of the employees.

Kazakhtelecom JSC held another republican contest for the title of the Best Professional to Serve Digital Lines of Kazakhtelecom JSC in 2018.

In conjunction with the Blockchain and Crypto Technology Association of Kazakhstan, Kazakhtelecom JSC organized the first International Conference named "Blockchain Regulation: Opportunities and Risks" dedicated to the statutory regulation of the application of the distributive computational technology. In parallel therewith, Kazakhtelecom JSC joined the Blockchain and Crypto Technology Association of Kazakhstan.

Kazakhtelecom JSC presented a national stand of Kazakhstan and technological achievements at the largest event in the field of mobile technologies, the Mobile World Congress Shanghai 2018. The event was marked with signing memorandums, contracts and agreements and holding strategic talks with top-managers of the global leading companies in the field of telecommunications as well as mobile and innovative technologies. The stand demonstrated the operator's infrastructure, specifics of its network technology, its innovative services and solutions within the Smart Home and Smart City concepts, and proposals to be brought into the global market of the Internet of Things area.

July

Within the framework of its social corporate responsibility and on the eve of the Communications and Information Professional's Day, Kazakhtelecom JSC organized a celebration reception in honor of the communications sector veterans. The Company provides regular support to more than 10,000 pensioners of the Company and industry in general, of which over 500 people are also veterans of the Great Patriotic War and persons with the equivalent status.

Kazakhtelecom JSC and Uzbektelecom JSC shook hands on the cooperative activities in respect of new business directions. In the course of the meeting held in Tashkent, CEOs of the companies exchanged their plans on infrastructural development to ensure the overall coordination of activities within the infocommunications market. On top of that, they also agreed on expansion of the external Internet channels of Uzbektelecom JSC with the use of the unique technological solution suggested by Kazakhtelecom JSC.

The Committee on Regulation of Natural Monopolies and Protection of Competition and Consumer Rights under the Ministry of National Economy of the Republic of Kazakhstan granted an approval to Kazakhtelecom JSC to acquire 75% of the voting stake of Kcell JSC.

August

Kazakhtelecom JSC provided technical support for the holding of the 5th Caspian Summit with the participation of the Presidents of Kazakhstan, Azerbaijan, Islamic Republic of Iran, Russian Federation, and Turkmenistan. Speaking specifically, the technical support included the organization and office equipage of the press-center for 500 work seats, provision of the international and intercity connection services, access to the highspeed Internet with the speed of 1Gbps, and deployment of WiFi network.

As a part of the cooperative agreement with IVI.ru, which is the Russian online-cinema, Kazakhtelecom JSC introduced an additional service of providing an access to the online-cinema.

September

At annual international exhibition-conference of communication providers of "GCCM 2018", Kazakhtelecom JSC presented new opportunities for the transit of information flows between Europe and Asia. The presentation announced the results of the assessment of technical parameters of new possible overland route to be laid through the countries of Europe, Russia, Kazakhstan, Turkmenistan, and Iran with the subsequent connection to the Gulf countries and India. The new route constituted an alternative to the existing underwater sea cables. The event brought together more than 350 representatives of 110 companies from CIS, Southeast Asia, Europe, and Near East.

Kazakhtelecom JSC signed the Memorandum of understanding with the Interbank Card Center of Turkey BKM Bankalararasi Kart Merkezi A.S., aiming to exchange professional experience in the field of developing new technologies and innovations for global financial services at B2B market segment under the Fintech concept.

As a part of their working visit to Pavlodar oblast, the Prime Minister of the Republic of Kazakhstan, Mr. Bakytzhan Sagintayev, and the Deputy Prime Minister of the Republic of Kazakhstan, Mr. Askar Zhumagaliyev, got familiarized with the operation of CIS largest data center of Tier III, belonging to the network of data processing centers of Kazakhtelecom JSC. This joint project, implemented in conjunction with Hewlett-Packard, is the country-biggest complex of network and computing equipment and specialized software products that opens an access to a wide range of services and products rendered on the basis of the Data Processing Center. A special attention was paid to the new trend of digital economy development, specifically, to the industry of cloud computations and mining.

Pursuant to the requirements of the Law of the Republic of Kazakhstan "On Combating Corruption" and according to the Strategy of the Corporate Group of companies aimed to honor the principles of a fair business, Kazakhtelecom JSC established the Compliance Service.



Kazakhtelecom JSC held the VI International Science and Research Conference dedicated to the digital transformation of telecom business and opportunities of 5G technology. The conference was attended by representatives of RIPE NCC, GSMA, telecom operators, consulting and IT-service companies, and telecommunications equipment suppliers of Kazakhstan and Russia.

Kazakhtelecom JSC made a presentation of the business portal ISMET.kz in Astana. Approximately 100 representatives of the small and medium businesses took part in the event.

Kazakhtelecom JSC reported on the completion of the first stage of construction of the Central Asian largest energy-efficient LPWAN network which had been started in the year of 2017 based on the LoRa technologies to cover all private and multi-apartment buildings, facilities and urban territories of the cities of Astana, Almaty, and Shymkent. The said M2M-network is the foundation of the future infrastructure for the implementation of the Smart City solutions, in particular, automated data collection from metering devices (Smart Metering) and Smart Lighting.

October

Signing of the public-private partnership agreement under the Project on the Provision the Broadband Access to Rural Communities of the Republic of Kazakhstan based on the fiber-optic communications line technologies between the Ministry of Information and Communications of the Republic of Kazakhstan, Kazakhtelecom JSC, and Consortium consisting SilkNetCom LLP and Transtelecom JSC. The implementation of this project will bring the highspeed access to hospitals, schools, akimats and other governmental agencies. Pursuant to the agreement, Kazakhtelecom JSC will connect 2,496 public entities and budget organizations

out of total of 3,500 to the broadband data transmission services.

S&P Global Ratings, the international credit rating agency, confirmed the credit rating of Kazakhtelecom JSC as of the level of BB+ with the Stable Outlook. Based on the national chart, the rating of the Company grew from the level of kzAA – to the point of kzAA.

The Chairman of the Management Board of Kazakhtelecom JSC, Mr. Kuanyshbek Yessekeyev, reported to the President of the Republic of Kazakhstan, Mr. Nursultan Nazarbayev, on the testing of the 5G technologies held in Kazakhstan along with the prospects of its practical application.

Under the implementation of the Digital Kazakhstan State Program, Kazakhtelecom JSC proceeded with the large-scale activities on the laying of fiber-optic communications lines (FOCL) within the territories of rural settlements. The first in line were the village of Ozyorki of East Kazakhstan oblast and villages of Maiskiy district of Pavlodar oblast: Karaterek, Kentubek, and Malaisary.

Representatives of the Ministry of Finance of the Republic of Kazakhstan reviewed the work of the multi-functional General Service Center (GSC) of Kazakhtelecom JSC, consisting of the Salary Accrual Center, Legal Department, and HR-GSC, to share and exchange experience.

Kazakhtelecom JSC and Samsung entered into the memorandum of understanding to conduct joint research of the opportunities suggested by the 5G technology. The cooperative initiative considered certain options to utilize 5G in order to expand the capacities of fixed access organization and also create additional business possibilities.

Kazakhtelecom JSC and CDN-Video OOO signed the Memorandum of cooperation in the field of developing the Internet-content in Kazakhstan.

The major goal of signing the memorandum resided in the localization of the traffic within the network of Kazakhtelecom JSC through the use of the CDN opportunities (Content Delivery Network).

Kazakhtelecom JSC accomplished the construction of the fiber-optic communications lines to arrange for the connection of 16 governmental entities and budget organizations in 4 rural settlements of East Kazakhstan and Pavlodar oblasts under the Project on the Provision the Broadband Access to Rural Settlements of the Republic of Kazakhstan based on the fiber-optic communications line technologies.

November

Kazakhtelecom became the favorite of the voting in the nomination of LEVEL UP, the most significant international business award in the field of human resource management, namely, WOW!HR_KZ, for its Talent Management project which had been launched in 2016, aiming to develop personnel reserves and identify leaders.

The Chairman of the Management Board of Kazakhtelecom JSC, Mr. Kuanyshbek Yessekeyev, made a presentation of the blockchain-platform to create blockchain-products at the formal opening ceremony of Astana Hub, the International Technological Park of IT-Start-ups.

Kazakhstan Stock Exchange Forum nominated Kazakhtelecom JSC with the award for the contribution in the development of the stock exchange market. The award ceremony was attended by the specialists of the Stock Exchange market of Kazakhstan, listing companies, leading financial experts, and media representatives.

Kazakhtelecom JSC conducted a listing operation and placed its bonds at the Astana International Exchange on amount of KZT 75 bln.

Almaty hosted the coordination session attended by the senior managers of Kazakhtelecom JSC and personnel of the Main Telecommunications Network Control Center which had been implementing the pilot project named "CREDO: our way to the culture of success", aimed to strengthen and promote corporate values of the Company.

The Financial Service Center and General Service Center with the legal support function were added to the multi-functional General Service Center (GSC) which had been in operation in Kazakhtelecom JSC since 2017.

Kazakhtelecom JSC held the second international forum of the Internet of Things concept in Astana, during which local and foreign experts discussed a variety of matters of its application in daily life as well as modern tendencies of development and prospect of utilizing the concept in the realities of Kazakhstan.

December

Astana witnessed the start-up session of the Project: CREDO – our way to the culture of success, which was attended by TOP 100 employees of the Central Regional Telecommunications Directorate.

Kazakhtelecom JSC conducted a listing operation and placed its bonds at the Astana International Exchange for the amount of KZT 25 bln.

In the course of the annual national teleconference named "The Second Five-Year Period of the Industrialization. Made in Kazakhstan", the Chairman of the Management Board of Kazakhtelecom JSC



reported to the President of the Republic of Kazakhstan, Mr. Nazarbayev, on the progress of implementation of the project on provision of the rural settlements of the country with the broadband Internet accesses.

Kazakhtelecom JSC accomplished construction of fiber-optic communications lines to provide for connection of 13 governmental entities and budget organizations in 3 rural settlements of Aktobe and West Kazakhstan oblasts under the Project on the Provision the Broadband Access to Rural Settlements of the Republic of Kazakhstan based on the fiber-optic communications line technologies. As of December 10th, 2018, FOCL laid to 27 governmental entities and budget organizations in 7 rural settlements were accomplished and commissioned, having fulfilled the obligations stipulated by PPP Agreement for 2018.

On December 12th 2018, Kazakhtelecom JSC, Telia Company and Fintur Holdings BV signed the agreement on the acquisition of the aggregated 75% of the voting stake in Kcell JSC, the Kazakhstani mobile service provider. Pursuant to the terms of the transaction, Kazakhtelecom acquired 24% of the shares of Kcell from Telia Company и 51% of the shares from Fintur Holdings BV (a joint enterprise of telecommunications operators of Telia Company (58.55%) and Turkcell (41.45%), respectively.

According to the Unified National Pension Fund, Kazakhtelecom JSC was recognized as the best national employer. Kazakhtelecom was said to be among the first Kazakhstani companies with the clearly defined HR-policy.

Fitch Ratings placed the ratings of Kazakhtelecom JSC (BB+, the Stable Outlook) and of Kcell JSC (BB, the Stable Outlook) for the positive reconsideration after Kazakhtelecom JSC signed the agreement on the acquisition of 75% of the voting stake in Kcell JSC.

S&P Global Ratings confirmed the credit rating of Kazakhtelecom JSC (BB+, the Stable Outlook) after Kazakhtelecom JSC signed the agreement on the acquisition of 75% of the voting stake in Kcell JSC.

The city of Almaty welcomed the Youth Organization's Forum held by Kazakhtelecom JSC. The session hosted the presentation of the new Z-telecom. Reloading Project to develop talented young professionals. The Forum was attended by more than 150 delegates aged under 35 years representing all branches of the Company.

The payment of the guaranteed dividend on the preferred shares of Kazakhtelecom JSC for Y2018 was made in the amount of KZT 300 per 1 share.



CORPORATE PROFILE

Basic Information

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

The initial emission of shares for the size of the Company's authorized capital, amounting to KZT 12.1 bln, was registered in March 1996.

Pursuant to the Law of the Republic of Kazakhstan “On Joint-Stock Companies” dated May 13th 2003, Kazakhtelecom Open Joint-Stock Company was re-registered into Kazakhtelecom Joint-Stock Company (Kazakhtelecom JSC). Legal Entity State Re-Registration Certificate No. 6924-1901-AO as of April 1st 2004 was issued by the Department of Justice of the city of Astana. Due to the establishment of the Office of Justice of Saryarka district under the Department of Justice of the city of Astana, the Company received a new certificate on the state re-registration of the legal entity under a different number of 570-1901-01-AO as of January 26th 2012.

On August 18th 2014, due to the changes in the registered address of Kazakhtelecom JSC, the Department of Justice of the city of Astana issued



a respective legal entity state re-registration certificate. The Company operates under General License No. 14014826 as of 09.10.2014 issued by the Committee of Communications, Informatization and Information of the Ministry for Investments and Development of the Republic of Kazakhstan. The shares of the Company are included into the official list of the Kazakhstan Stock Exchange (KASE). The principal shareholder of Kazakhtelecom JSC is Samruk-Kazyna JSC, with 100% state participation, which holds 51% of the ordinary shares of the Company. Kazakhtelecom JSC is a legal entity, maintaining regional branches within its organizational structure. Besides, the structure of the assets of Kazakhtelecom JSC comprises a number of subsidiaries and other affiliates. The Company is represented throughout the entire territory of the Republic, having a network of 248 network service points as well as its own network of 15 data centers, and also contact centers. The Company's central office is located in Nur-Sultan, the capital city of Kazakhstan. The group of companies of Kazakhtelecom JSC employ over 23 thousand people.



Organizational Structure of Kazakhtelecom JSC

General Shareholder Meeting

Board of Directors

Management Board

Central Office

BRANCHES

Business-to-Business Division

Business-to-Customer Division

Central Regional Telecommunications Directorate

Almatytelecom Regional Telecommunications Directorate

Western Regional Telecommunications Directorate

Eastern Regional Telecommunications Directorate

Northern Regional Telecommunications Directorate

Southern Regional Telecommunications Directorate

Long Distance Communication Association

Main Telecommunication Network Operation Control Center

Information Systems Directorate

Telecommunications and Infrastructure Objects Construction Directorate

Telecom Supply Directorate

Directorate «Academy of Information and Communication Technologies»

List of Subsidiaries and Other Affiliates of Kazakhtelecom JSC

List of Subsidiaries and Other Affiliates of Kazakhtelecom JSC

1. Khan Tengri Holding B.V.
2. KT Cloud Lab LLP
3. QazCloud LLP
4. VOSTOKTELECOM LLP
5. Info-Net Wireless LLP
6. KT-IX LLC (Russian Federation)
7. NURSAT JSC*
8. NURSAT+ LLP
9. Kcell JSC

* This telecommunications operator is within the final stage of its voluntary liquidation

Capital Stock Structure

The Company's authorized capital amounts to KZT 12,136,529 ths., consisting of 10,922,876 ordinary shares and 1,213,653 preferred shares. The nominal value of one share is KZT 1,000. The percentage of the preferred shares of Kazakhtelecom JSC of the total number of emitted stock equals to 10%.

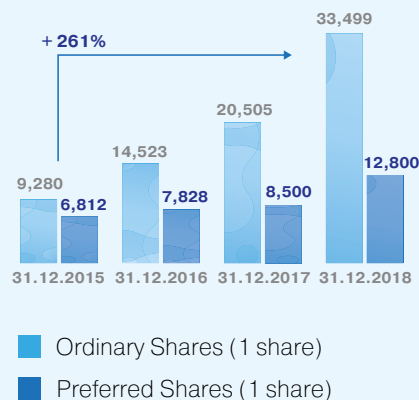
Ordinary and preferred shares of Kazakhtelecom JSC were included into the official list of Kazakhstan Stock Exchange JSC (hereinafter referred to as the Stock Exchange) under the A Category as from October 16th 1997. Starting from September 1st 2008, the shares have been transferred to the first category of the official list of the Exchange Stock.

At present, both ordinary and preferred shares of the Company are referred to the Premium category of the official list of Kazakhstan Stock Exchange JSC and are traded on the main board of the Stock Exchange.

On April 28th 2006, the state-owned stake of Kazakhtelecom JSC was transferred to Kazakhstan Holding for Management of State Assets Samruk JSC founded under Decree No. 117 of the Government of the Republic of Kazakhstan as of February 23rd 2006 for the effective management of the governmental stock in a number of the largest national companies of Kazakhstan. Then, pursuant to Decree No. 962 of the Republic of Kazakhstan as of October 17th 2008 "On Measures for Implementation of Decree No. 669 dated October 13th 2008" of the President of the Republic of Kazakhstan, Sovereign Wealth Fund Samruk-Kazyna JSC (hereinafter referred to as SWF Samruk-Kazyna JSC or the Fund) was established by merging joint-stock companies of Kazyna Sustainable Development Fund and Kazakhstan Holding for Management of State Assets "Samruk". To date, the Fund is the largest shareholder of the Company.

SKYLINE INVESTMENT COMPANY S.A. has become a new significant shareholder of Kazakhtelecom JSC in July 2018.

Picture 1.





Holders of Ordinary Shares of Kazakhtelecom JSC as of 01.01.2019

Shareholders	Number of shares	Percentage (%) *
SWF Samruk-Kazyna JSC	5,570,668	51.00
SKYLINE INVESTMENT COMPANY S.A.	2,671,481	24.46
ADR (nominee holder on behalf of BNY Mellon)	1,001,276	9.17
Other shareholders with less than 5% in possession **	1,679,451	15.37
Total declared ordinary shares	10,922,876	100

As of 01.01.2019, members of the Management Board and Board of Directors do not hold any ordinary shares of Kazakhtelecom JSC. No cross-shareholdings.

Share Value (KZT)***	31.12.2015	31.12.2016	31.12.2017	31.12.2018
Ordinary shares (1 share)	9,280	14,523	20,505	33,499
Preferred shares (1 share)	6,812	7,828	8,500	12,800

Securities

Information on the Registrar

The full official name: Central Securities Depository Joint-Stock Company.

August 16th 2018 was marked by the joint extraordinary general shareholder meeting of Central Securities Depository JSC (hereinafter referred to as the Central Depository) and Integrated Securities Registrar JSC (hereinafter referred to as the Integrated Registrar) where the decision on the reorganization of the Central Depository and the Integrated Registrar in the form of the merging of the Integrated Registrar with the Central Depository has been taken. The Central Depository has become the successor of all rights and obligations of the Integrated Registrar as from January 1st 2019.

Postal Address:

Republic of Kazakhstan,
050051, the city of Almaty, Samal-1 district, 28

tel.: +7 (727) 262 08 46

fax: +7 (727) 355 47 60

Telephone Hotline: 8 800 080 86 68 (calls from fixed and mobile phones are free within the Republic of Kazakhstan)

E-mail: kacd@kacd.kz

More details on Central Securities Depository JSC are given at the corporate website of Kazakhtelecom JSC (section "About the Company" >> "For Investors and Shareholders" >> "Securities" >> "Information on the Registrar") and on the website of the Central Depository (<http://kacd.kz>).

* Percentage values are based on the total number of placed ordinary shares

**Including shares repurchased by Kazakhtelecom JSC

***Closing price as of the last available date

Issuance of Bonds

In the year of 2018, Kazakhtelecom JSC issued and placed bonds for the total amount of KZT 100,000,000,000. On November 6th and December 12th 2018, the Company's bonds have been included into the official list of the Astana International Financial Center – Astana International Exchange.

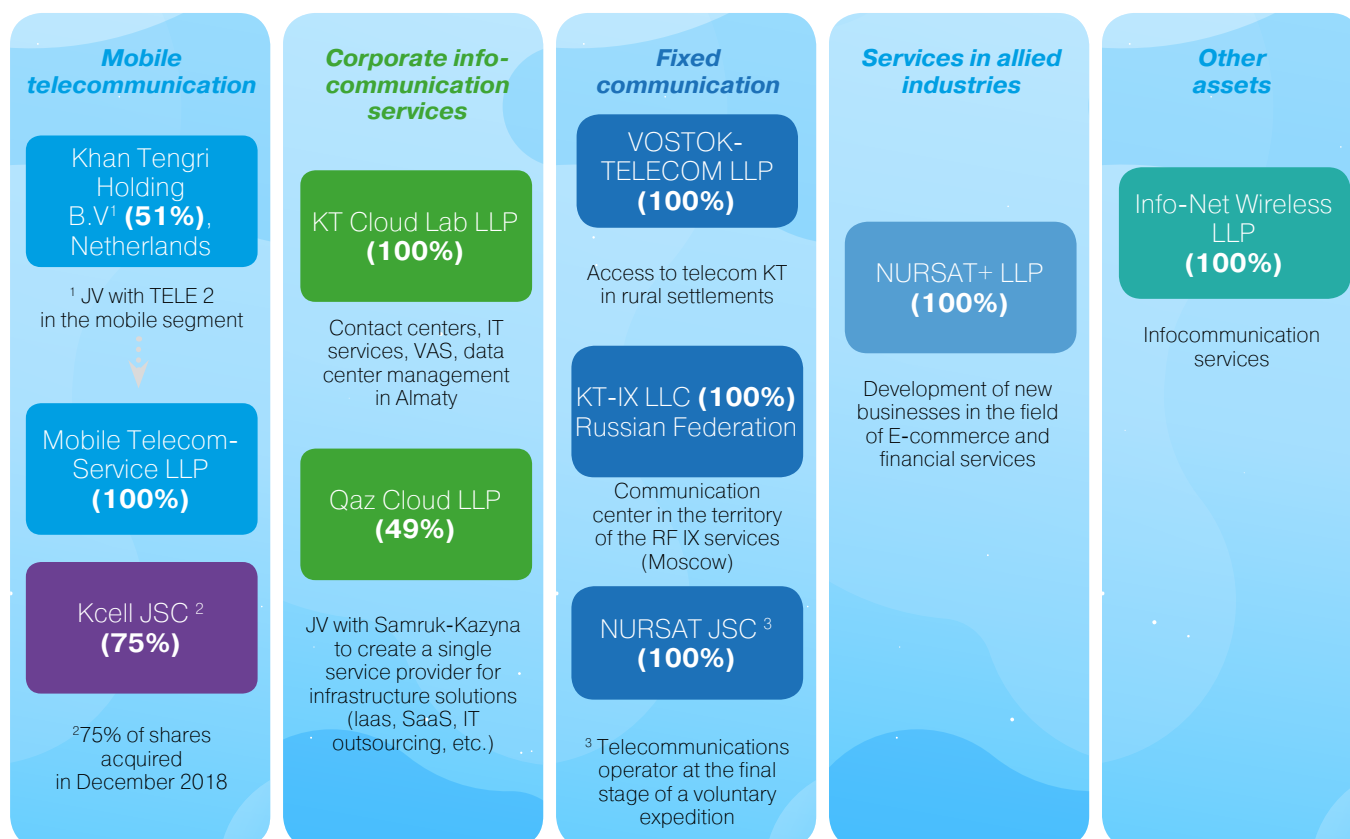
Company's Assets Structure: subsidiaries and other affiliates of the Company

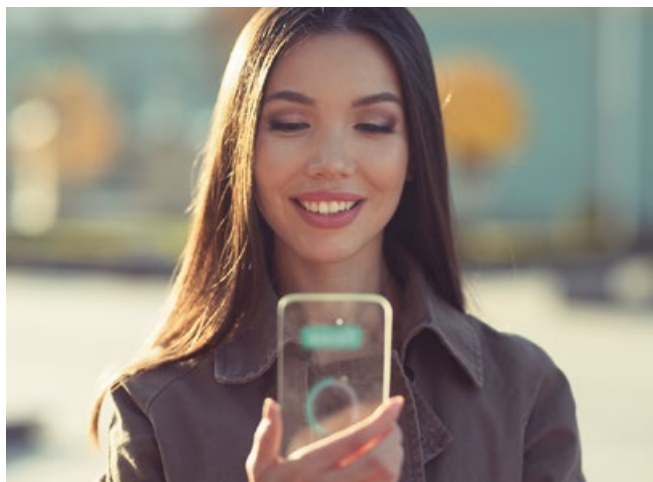
The Company's subsidiaries strengthen positions of the Corporate Group of Kazakhtelecom JSC in the mobile segment of the telecommunications market and bring their own contribution into the development of the traditional telecommunications services and other related servicing industries that have potential for growth.

Structure of the Corporate Group of Kazakhtelecom JSC as of 01.01.2019



KAZAKHTELECOM





KCELL JSC

In December 2018, Kazakhtelecom JSC signed the agreement on the acquisition of 75% of the stake pack in Kcell JSC, the Kazakhstani mobile service Company. The decision on the acquisition of 75% of the voting shares of Kcell JSC was made by the Board of Directors of Kazakhtelecom JSC in conjunction with the Investment and Strategy Committee of Samruk-Kazyna JSC. The said transaction will allow Kazakhtelecom JSC to significantly expand its presence at the mobile service market in accordance with the Company's long-term development strategy.

It is expected that the acquisition of the control stock in Kcell will bring a favorable effect on the share value of Kazakhtelecom JSC as well as contribute to further development of the telecommunications industry of Kazakhstan in general, inter alia, due to the expansion of the assortment and improvement of the quality of services offered to the population of the Republic in the field of progressive telecommunications products. It is also planned to build an advanced integrated network to render high-quality services of the mobile and fixed communication.

Khan Tengri Holding B.V. (joint venture with Tele2 in the mobile market segment)

In pursuance of the strategic initiative to establish an integrated operator, the Company continues to place efforts in the development of the mobile business on the basis of the joint venture with the Tele2 Group in the mobile market segment, namely, Tele2/ALTEL JV managed by Khan Tengri Holding B.V. Tele2/ALTEL JV has been successfully implementing its activities, and the outcomes of Y2018 show that all major operational and financial & economic indicators have been achieved as planned. The revenues for Y2018 increased by 17.5% if compared with Y2017, having arrived at the level of KZT 122 bln. As of the end of 2018, the total user base of Tele2/ALTEL JV amounted to 7.2 mln users, while the number of base stations exceeded 6 thousand.

Tele2/ALTEL JV remains to be the technological leaders of the telecommunications industry of the country, continuously introducing progressive technical solutions for end consumers. As of the end of 2018, the technology of LTE Advanced has been implemented throughout the network, bringing the total population coverage up to 75%. Several mobile financial services have been also launched, due to which the users of Tele2/ALTEL JV can pay for goods and services through the balance of their cell phones.

On top of that, the project of the integration of Mobile Telecom-Service LLP with ALTEL JSC has been honored with the Global Carrier Award for being the best telecommunications project in Asia.

QazCloud LLP (joint venture with the subsidiary of Samruk-Kazyna JSC)

QazCloud LLP is a single provider of IT-services for the group of companies of Samruk-Kazyna JSC.

Major spheres of activities:

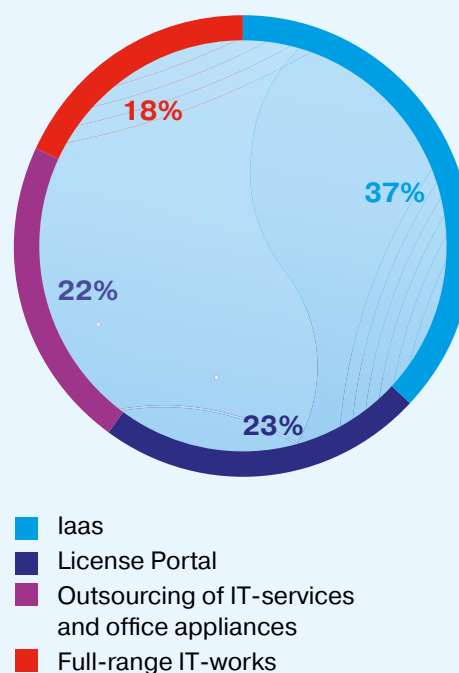
- IaaS – infrastructure-as-a-service;
- Services of the Information Security Management and Development Center;
- SaaS (Services of Microsoft, 1C Cloud);
- Outsourcing of IT-services, printing services and user equipment services.

In the year of 2018, the Company has started intensive activities to implement the business plan approved by the Investment Committee of SWF Samruk-Kazyna JSC. A team of specialists has been formed to support all directions of the business activities. Those specialists are certified at the international level in the field of project management, IT equipment management, and software management.

Outcomes of 2018:

- Creation of the Company's own virtual cloud to render IaaS services (infrastructure-as-a-service) and SaaS products (software-as-a-service);
- Commencement of the step-through migration of the information systems of portfolio companies of the Corporate Group of Samruk-Kazyna JSC;
- Introduction of the unique solutions, innovative for the Republic of Kazakhstan, in the sphere of IT infrastructure management, such as, SDS (Software-defined storage);
- Generation of revenues in the amount of KZT 3.7 bln.

Picture 2. Structure of QazCloud LLP revenues





KT Cloud Lab LLP

Major directions of business activities of KT Cloud Lab LLP:

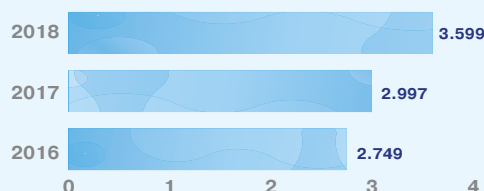
- Services of the Republic Contact Center (CC);
- Services of the Infocommunications Center in the Innovative Technologies Park within the Special Economic Zone (DPC);
- Rendering of IT-outsourcing.

Outcomes of 2018:

- Expansion of client portfolio of the CC – contact centers have been arranged for Halyk Bank of Kazakhstan JSC, Astana International Financial Center JSC, Baiterek National Management Holding JSC, Youth Congress of Kazakhstan, Kompetenz Insurance Company JSC, KTZ EXPRESS JSC, and others.
- Customer support functions for users of Kazakhtelecom JSC (CC 160) have been transferred to KT Cloud Lab LLP. As a result of the set of activities carried out to improve business process of CC 160 as well as unification of services and human resource management, the quality of the customer service for the Company's users has raised from 82% to 92%, which is currently consistent with the leading international customer service standards.
- Ongoing work to implement effective projects, including the project of Contact Center 111 for the protection of rights of children and youth, and the Company received a testimony letter from the Children's Ombudsman in the Republic of Kazakhstan.
- Commencement of the provision of services on the technical support and administration of internet-portals. The Company is the provider of such services for the portals of Kazakhtelecom JSC, Samruk-Kazyna JSC, t.sk.kz, privatization portal of privatization.sk.kz, and transformation portal of transformation.sk.kz, the website of the Children's Ombudsman, www.balaombudsman.kz, has been developed and is under administration.

- Ongoing activities on the development of new products and services on the basis of the data processing center (DPC). New products have been selected and implemented, including the services for the localization of the virtual platform for project management processes for Kazpost JSC and KEGOC JSC.

Picture 3. Revenues of KT Cloud Lab LLP, bln KZT



NURSAT+ LLP

"NURSAT+ LLP" is a subsidiary of Kazakhtelecom JSC, developing new business directions in the field of financial payments and e-commerce.

In 2018, the Company has been mostly engaged in the promotion of the following key business directions:



Payment System
Services (Fintech):

ktpay payment system

- The Company has developed the ktpay payment system and launched it in the trial mode;
- A mobile application of the product has been created for iOS and Android platforms, now the work is focused at the creation of the payment widget platform;
- Authorization function in the application has been developed with the use of Touch ID/Face ID;
- In conjunction with Kazakhtelecom JSC, the work is carried out to organize receipt of payments for telecommunications services from users.

E-commerce
Services:

Internet-shops: www.Chocomart.kz and www.Intermarket.kz

- Integration of internet-shops with the processes and resources of the Corporate Group has been accomplished in the beginning of 2018;
- The assortment of products has been raised from 30 to 40 thousand items;
- The number of product suppliers has increased from 45 to 90;
- Visitor traffic of the Internet-shops exceeded 100,000 seances per months with over 6,000 of repeated clients.

KT Store Marketplace Platform

- The MVP version of the market place has been launched inside the Corporate Group in October 2018. This project provided for the integration with such e-shops as chocomart.kz and intermarket.kz.
- The next phase of the works plans for the connection of other online-shops and further development of the product.



VOSTOKTELECOM LLP

In 2018, VOSTOKTELECOM LLP ensured the uninterrupted operation of the wireless access network in the rural settlements of the Republic of Kazakhstan which serves as a basis for the voice communication services and Internet access for those users of Kazakhtelecom JSC who are located in rural communities, and also provided technical maintenance of antenna-feeder devices at the basic stations of Tele2/ALTEL JV.

In addition to that, in 2018 VOSTOKTELECOM LLP has obtained radio frequencies within the range of 800 MHz for the deployment of the 4G network (LTE) across the entire territory of the Republic of Kazakhstan. It is planned to use them for the deployment of the LTE/WLL-800 network to provide good-quality services of BBA in all rural settlements.

KT-IX LLC

KT-IX LLC is a peer-to-peer center, serving as a communications hub of Kazakhtelecom JSC within the territory of the Russian Federation (Moscow).

In the year of 2018, the Company provided for the flawless and accident-free operation of the communications hub of telematic services and network data transmission to Moscow Long-Distance Telephone Station No. 9. In cooperation with Kazakhtelecom JSC and "MSK-IX", such projects as "Aggregation-25" and "Aggregation-50" aimed at the aggregation of channels and provision of the high-quality television contents under Ultra HD and 4K standards for users in the Republic of Kazakhstan have been launched in a trial mode. The commercial operation of the projects will start in 2019.

Dividend Policy

The goal of the Dividend Policy of Kazakhtelecom JSC resides in ensuring the balance of the interests of the Company and its shareholders along with the predictability and transparency of the approach applied when determining the size of the dividends and terms and procedures of payment thereof. The Dividend Policy Regulations of Kazakhtelecom JSC approved by the extraordinary General Shareholder Meeting as of 18.01.2013, Protocol No. 49, envisages for the concrete approach to the determination of the size of the dividends which shall be the maximum value of the following: i) 15% of the net profit, and ii) calculation based on the formula which takes into account the Company's financial and economic situation (indicators of the Company's stability and liquidity). Dividend payment procedures and terms of payment to shareholders in respect of the outstanding dividends are governed by the Dividend Policy Regulations of Kazakhtelecom JSC.

In June 2018, in pursuance of the resolution of the annual General Shareholder Meeting (Protocol No. 62 as of 30.05.2018), the dividends in the amount of KZT 1,595.79 per one ordinary share of the Company have been paid in accordance with the outcomes of 2017. The assured amount of the dividends on preferred shares equals to KZT 300 per one preferred share. Subject to Decision No. 48/221 as of 26.11.2018 of the Management Board, assured dividends for Y2018 have been paid in December 2018.

Kazakhtelecom JSC honors decisions of the General Shareholder Meeting of the Company and fully fulfills its commitments in respect of paying dividends to persons eligible to that extent.

Information Policy

One of the fundamental documents that defines the key principles and general requirements to the disclosure of information on the activities of Kazakhtelecom JSC is the Company's Information Policy. The Information Policy of Kazakhtelecom JSC has been developed and approved by the resolution of the Company's Board of Directors (Protocol No. 45 as of October 26th 2009) with the amendments introduced subject to Protocol No. 15 as of December 29th 2012.

Kazakhtelecom JSC provides for the timely disclosure of the trustworthy information on the Company's operation, including its financial situation, economic indicators, performance outcomes, ownership structure, and management processes. When disclosing information, the Company takes into account provisions of the legislation of the Republic of Kazakhstan in the field of commercial secrecy and other confidential data protected by law as well as respective requirements of its internal documentation.

The information is placed on the official web-portal of Kazakhtelecom JSC simultaneously in the Kazakh, Russian, and English languages and is also published in the Republican periodic, electronic and Internet mass media with the consideration of the list of data which constitute the insider information or commercial secret of the Company.

The policy of Kazakhtelecom JSC for the promotion within social media is based on the principles of transparency and fairness in disclosing information which are fixed in the Corporate Governance Code. The key goal of being represented in social media lies in developing the image of a customer-oriented Company and progressive infocommunications operator as well as stimulating the demand for the services due to the raised awareness.



Promotion in social media is based on such major principles as creation of the unique content and feedback generation. Effectiveness of the promotion activities of Kazakhtelecom JSC within social media is analyzed through the monitoring of the Internet environment.

The reporting period had 120 PR-events with 7,601 materials published at and announced through mass media sources.

Starting from the beginning of the current year, the PR-Service has received 30 official inquiries from various media representatives. All 100% of such inquiries have been responded in a due and comprehensive manner according to the timeline set forth by the applicable legislation.

In 2018, mass media paid a special attention to the following prioritized subjects:

- Fintech;
- Implementation of RS FOCL Project;
- M2M (cloud surveillance, Big Data, Smart City, Smart Home);
- Results of the surveys of international credit rating agencies);
- Transformation;
- Information on the Company's participation in international events;
- Operational activities of the Company's branches.



For the period of 12 months of 2018, the Company published 1,615 posts in social networks, 323 publications per each social network.

As to the applications, complaints and questions sent as personal messages to the corporate accounts, and also comments to the publications on the Company's Facebook page, the situation looks as follows: starting from January 1st and within 12 months of the year, 2,648 applications were received as personal messages on the Facebook page, 10,291 messages were posted as comments to the publications, while the number of individual messages sent through VK.com amounted to 1,428 with 12,768 posts as comments to the publications, Instagram Direct brought 4,056 messages and 3,018 posts were made as comments to the publications therein, individual applications and personal messages in Twitter amounted to 71 and 25 more were received as comments to the publications therein. In total, the Company received 34,305 applications, messages, questions and inquiries, of which 90% were properly handled.

The number of the Company's references in the Internet for 12 months arrived at 62,201 times, of which 26,109 are unique sources which suggests for the influx of new authors of such messages along with the improved efficiency of the centralization of all platforms and webpages. For 12 months of the current year we managed to develop and improve relations with our users, having introduced application handling rules. It is noteworthy that the number of the demonstrated negative applications has reduced, while the overall tonality of messages and comments can be characterized as neutral.

Such approach contributes to the increased visitor loyalty to our webpages and brand and strengthens trust to the published messages, stimulating communications between our users and branches and serving as another full-fledged channel of public relations and access point for customer applications. Thus, the number of our subscribers



for all platforms has exceeded the point of 275,466 users, of which 84,828 belong to Facebook, 79,100 prefer Twitter, 43,825 use VK.com, 52,500 are subscribed to our Instagram page, and 15,213 visit Moi Mir (My World).

In 2018 we have perfected stylistics of the visual images and developed requirements to the visualization in accordance with the brandbook and global trends in the field of appearance and design of text messages in social media. The number of created visual materials, i.e. posters, visualizations to posts, infographics objects, amounted to 323 pieces within 12 months.

Website

The Company's website is well structured and convenient for navigation. It contains all information required for concerned parties to get an understanding of the Company's activities. This resource serves as a key instrument in the promotion of the Company's services and its positioning at the market, assuring the maximum openness and accessibility of the information.

Policy of handling conflicts of interest

The Conflict of Interest Policy of Kazakhtelecom JSC (hereinafter referred to as the Policy) has been approved by the respective Decision of the Board of Directors of Kazakhtelecom JSC (Protocol No. 10 as of 24.10.2011). The Policy has been prepared in accordance with the applicable laws of the Republic of Kazakhstan and in pursuance of the Company's Charter and its Corporate Governance Code. The Conflict of Interest Policy of Kazakhtelecom JSC defines procedures of prevention, identification, and handling conflicts of interest as well as procedures of liaison and coordination of the Company's bodies in case a conflict of interest occurs or may occur. The goal of the Policy lies ensuring the appropriate handling of conflicts of interest within Kazakhtelecom JSC to exclude possibilities of possible appearance of any adverse consequences. Subject to the decision of the Board of Directors of 'Kazakhtelecom' JSC (Protocol No. 13 as of 26.11.2013), the Policy has been supplemented with Section 5-1 SITUATION OF INTERESTS CONFLICT, which enlists situations of conflict of interest or situations which may lead to the conflict of interest. When entering employment, each new employee of the Company signs the appropriate Acknowledgement Form to confirm familiarization with the conflict of interest procedures of Kazakhtelecom JSC and his/her commitment to adhere to the requirements of the Policy and be guided by them in one's professional performance.

Relations with shareholders and investors

The Company is committed to strengthen its relations with the investment community.

The field of IR constitutes a prioritized direction of the activities of the Company, which acts as a public Company aimed to raise its investment attractiveness and maximize its market value.

Representatives of Kazakhtelecom JSC maintain a permanent contact with the analysts of investment banks and hold regular meeting with potential investors and shareholders of the Company.

The Company has developed and approved its Investor Relations Concept which contains the key IR principles.

The access of Kazakhtelecom JSC to the financial markets, specifically, its public placement of shares and attraction of additional financial resources within the domestic and external capital markets contribute to the increasing interest of the Kazakhstani and foreign investment community to the Company's activities.

In 2018, in the course of the implementation of the Resolution of the Government of the Republic of Kazakhstan "On Certain Matters of Privatization for 2016–2020", the Company organized the road-show for foreign investors which served as a platform for meetings of the Company's management with the investors in Shanghai, New York, London, and Moscow and also sessions with the analysts of the banks.

The Company's website, namely, the section dedicated to investors and shareholders, contains the regularly updated Investor's Calendar.

02

Strategic Report

Kazakhtelecom JSC
market share*:

Fixed Telephony

76%

Fixed Internet

71%

** In sale proceeds*





Mission, Vision



MISSION

To become unreplaceable and traditional part of everybody's life, surprising and exceeding the expectations!

VISION

Leading Kazakhstan integrated service provider in the market of info-communications

SDD

First choice brand

Digital platform

INITIATIVES

- Development of product package: domestic products, partner products, content, software, service platforms, launch of related directions of business (fintech, ecommerce, edutech, medtech);
- Formation of single brand (convergence of fixed and mobile business);
- Digitalization of promotion channels of sales and customer services with the purpose of quality improvement;
- Digitalization of products improvement (tariffs setting, marketing, appliance of data instruments).

- Digitalization of net resources (including FWA construction, 5G, virtualization, program defined nets, digital data account);
- Digitalization of information systems of business support (billing, issuing an invoice, order management, orchestration, relations with clients, quality support);
- Creation of digital service platforms for partners, API development, software ecosystems with open code
- Centralized data management (Big Data).



Expenses transformation

- Assets/balance optimization;
- Construction of effective organizing architecture of the Company;
- Decreasing of services price;
- Labor productivity improvement;
- Improvement of business units' marginality;
- CAPEX renovation;
- M&A efficiency increasing.

Kazakhtelecom JSC, flexibly responding to external challenges, including the requirements of state programs (also "Digital Kazakhstan"), changes the focus of the strategy from five strategic directions of development (Supermarket of services for the whole family, Information basis for Kazakh business, Integrated operator, Effective business model, New businesses) into three strategic directions of development – the Brand of the first choice, the Digital platform and the Transformation of costs. It is assumed that Kazakhtelecom JSC will be an active participant in the mobile business with implementation of the project "Fiber-optic communication lines in rural settlements", will lay down the basis for the Digital transformation with its subsequently realization.



Company values

Thus, in April of 2018 within the project on transformation of the corporate culture of Kazakhtelecom JSC, the new model of corporate values CREDO was presented. The new model, which contains five main directions, will allow employees to move from the culture of performance discipline, which is inherent in many large companies, to the culture of successful entrepreneurial thinking, as well as to integrate personal values with corporate values of Kazakhtelecom.

Thanks to the consistent work, HR subdivision has obtained the nomination “Best employer”, as well as the largest international business award WOW!HR_KZ for the project “Talent management”.

Corporate culture transformation of Kazakhtelecom JSC

The corporate culture of Kazakhtelecom JSC is aimed at creating an effective working environment leading to the implementation of the Company's long-term strategy.

Changes in personnel behavior is the ultimate goal of corporate culture transformation, which is achieved by changing its ideological component and business processes.

New corporate values of Kazakhtelecom JSC

All 5 new values are combined in one word – CREDO and include important statements and guidelines for each employee of Kazakhtelecom JSC.

About 16,000 employees of Kazakhtelecom JSC participated in a research, since it could be considered that the model of new corporate values was created by the entire Company. Following the study, a strategic session was organized with the participation of the Company's top management, during which the target image of the corporate culture was determined to which Kazakhtelecom JSC aspires. It became the culture of success.

Project of “CREDO: way to culture of success” proved its effectiveness is currently launched in the Directorate of Information Systems, the Division for Corporate Business and the Central RTD. It is planned to launch the project in other branches in the future.



CLIENT

To exceed client's expectations

Key meanings:

- Striving to accurately and fully satisfy the needs of external and internal clients;
- Continuous improvement of client service based on client feedback;
- To be one step ahead – to anticipate the expectations of the client, it is pleasant to surprise him.



RESPONSIBILITY / responsibility for the result

Have committed themselves – responsible for the result

Key meanings:

- Take personal responsibility for the final result;
- Exercise autonomy in decision-making;
- Focus on results rather than processes.



ENTREPRENEURSHIP / Entrepreneurial spirit

Entrepreneurial courage of market leader

Key meanings:

- Show entrepreneurial initiative: feel free to put forward new ideas, be ready to take risks and win;
- To be ambitious, to strive for accomplishments;
- Constantly look for new opportunities for business development.



DIGITAL CULTURE / Digital communication technologies in work and in life

Key meanings:

- Be open to new things and strive for development;
- Acting innovatively: to change the business using digital technologies;
- Be ready for changes.



OUTSTANDING DECISIONS

Quality solutions for business success

Key meanings:

- When making decisions, take into account the interests of all parties and all the variety of factors;
- Use non-standard approaches to solving problems;
- Maintain the balance of IQ + EQ + DQ* – make decisions, combining logic, knowledge of new technologies, social and psychological trends of the new world.

* IQ + EQ + DQ – intelligence, emotional intelligence, digital intelligence.



Strategic directions of the Group's development

Telecommunications industry of the Republic of Kazakhstan is changing rapidly, following global trends. User preferences are changing, and individuals are increasingly interested in digital entertainment, digital communications, security, high-quality financial services and other digital services (e-payments, e-education, security, smarthome, smartbuilding, e-health, etc.). In addition to traditional telecommunications services, the legal entities are needed of QOS, cloud services, customer-oriented business solutions, information security provided by services, etc.

In such conditions, Kazakhtelecom JSC undergoes evolutionary changes in strategic priorities that adapt the Company to changes in the external environment. Kazakhtelecom JSC systematically moves from the model of traditional Telecom operator to the model of integrated service provider.

The Company faces the tasks to transform the business model related with the searching of new growth points: improving of existing services; integration with mobile assets of a group; organizational transformation; improving of customer service up to the level of best practices and experience; efficiency improvement (optimization of capital costs with a focus on return on investment, reduction of production costs, increase in labor productivity); recourse to new markets through the elaboration of business areas related with telecommunications.

As part of the Company transformation into an integrated service provider, Kazakhtelecom JSC sees its further development in the implementation of three main strategic initiatives:

1. Brand of the first choice;
2. Digital platform;
3. Transformation of costs.

1. Brand of the first choice

The strategic direction of development "Brand of the first choice" is intended to shape a sustainable perception of the Kazakhtelecom JSC brand as the best supplier of any info-communication service among consumers in Kazakhstan. The tasks set by the Company to itself are aimed to improve farther of Kazakhtelecom JSC in the market as the number one choice.

Telecommunications industry is changing rapidly with the amplification of the information space and the global spread of the Internet. Info-communication services successfully develop not only traditional telecommunication operators, but also many new forms of online services (Netflix, WhatsApp, Amazon, Google, Yandex, etc.).

The need for rapid innovation, greater convergence and new services means the telecommunications companies will fill key gaps in potential using new models of innovation and updated strategies. Consumers are increasingly demanding high requirements to the speeds, a wide range of products and ecosystems, and as connection safety.

Following the new trends, Kazakhtelecom JSC shall qualitatively change the approaches of products development and their presentation on the market by running the following initiatives:

- 1.1. Extension of the product portfolio and digital platforms;
- 1.2. Formation of a single brand;
- 1.3. Digitalization of promotion, sales and customer service channels;
- 1.4. Digitalization of products intention.

2. Digital platform

The strategic direction of development "Digital platform" allows carrying out tasks on digitalization and improving infrastructure efficiency, optimizing technological processes and providing support to initiatives of the "Brand of the first choice" strategic direction of development.

Constant growth in user number and traffic consumption requires a fundamental transformation of the telecommunications industry. However, a capability of a physical infrastructure in differentiation had significantly decreased: it requires repeated procedures to select a new hardware device, design, integration, network deployment for new services. Multiple growths of user number, devices and traffic requires new approaches to the operators' business development.

SDN and NFV have become key networking technologies that able to:

- Provide innovations, it means, enable corporate users to create new types of applications, services and business models;
- Offer new services that generate new cash flows;
- Reduce the capital expenditures, CAPEX;
- Reduce the operating expenditures, OPEX, by an automating and an algorithmic method of a control using programmable network elements, which greatly simplifies the network design, deployment, administration and scaling operations;
- Provide with the Agility (efficiency, speed and flexibility) allowing quickly deploying new applications in networks, services and infrastructures that quickly adapt to changing requirements.

This initiative involves the progress of the following drivers for Kazakhtelecom JSC for 2018–2028:

- 2.1. Digitalization of the network resources;
- 2.2. Digitalization of the business support information systems;
- 2.3. Creation of the digital service platforms for partners;
- 2.4. Centralized data administration (Big Data).

3. Transformation of costs

Global structural changes occurring in the telecommunication market and associated with a traffic increase and a growth in a loading on the telecommunication infrastructure with increasing costs, as well as followed by low ARPU growth dynamics, dictate the need for constant work to improve operational efficiency and return on the resources spent.

Based on the above changes, the Company has created the "Transformation of costs" strategic direction of development designed to carry out internal transformational changes that will be aimed to improve the operational efficiency, revise the business models, processes, their simplifying and streamlining, and building an effective organizational architecture. This strategic direction includes several initiatives:

- 3.1. Optimization of assets/balance sheet;
- 3.2. Building an effective organizational structure of the Company;
- 3.3. Cost reduction of services;
- 3.4. Productivity increase;
- 3.5. Increase of the business unit profitability;
- 3.6. CAPEX renovation.



An overview of the telecommunications market for 2018

(presented according to the Committee of Statistics, Marketing data on communication market in Internet sources and expert assessments)

Main trends in telecommunications market for 2018

- At the end of 2018, the volume of the telecommunication market in monetary terms increased by 2.5% compared to 2017 and amounted to KZT 728.7 bln.
- In 2018, the communication market showed growth in all major business areas, except of traditionally declining fixed telephony (–4% or KZT –2,8 bln).
- At the end of 2017, the main drivers of revenue growth in the communication market were the following directions:
 - Data transmission services (+6.3%);
 - Fixed BBA (+3%);
 - Mobile communications, including mobile Internet (+3.7%);
 - Digital and satellite TV (+8.3%);
 - ICT services (+3.4%).
- In 2018, the market has remained a main trend, which is a traffic increase in networks – revenues from mobile Internet access remain the leadership in the communication market. In 2018 according to the Committee of Statistics of the RK, several mobile communication subscribers with access to the Internet increased by 4.2%.



- Continued growth in a segment of smartphones has been a major factor in the growth of mobile Internet access. More than 97% of Internet users use mobile phones to access the Internet according to the Committee of Statistics of the Republic of Kazakhstan.
- The reduction in fixed lines by 374,000 units (–10%) is connected with general decrease trend in a fixed telephony market.
- There was also a decrease in a market of fixed access to the Internet by 4%, which is explained by the gradual replacement by mobile access.
- The most anticipated event of the year occurred – Kazakhtelecom JSC acquired 75% of shares of “Kcell” JSC in 2018.

Telecommunication market in 2018

The telecommunication market of the Republic of Kazakhstan amounted to KZT 728.7 bln in 2018 according to the Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan. Over the past 5 years since 2013, steady growth in revenue has been demonstrated in the telecommunication market, with the exception of decrease for 1% in 2016. The market increased by 2.5% in 2018, compared to 2017.

The communication market has different trends in its submarket sections:

- Fixed telephony still decreasing since 2007, an outflow of fixed lines amounted to 374 ths in 2018, out of which the B2C segment outflow amounted to about 230 ths subscribers.
- There were no significant changes in the volume of the client base in mobile communication in 2018, a negative increase amounted to about 465 ths subscribers and amounted to 26 mln people.
- Mobile Internet is developing with the positive dynamics. So in 2018, the client base of mobile BBA increased by 485 ths subscribers and amounted to 14,4 mln subscribers.
- Fixed BBA demonstrated a fall in 2018, compared to 2017, the subscriber base decreased by 4% and amounted to about 2,5 mln.
- The markets of Pay TV and ICT services (telecommunication segment) are actively developing, but they are not making a significant contribution to the growth of the entire communication market due to their small volumes.

The communication market structure consists of 7 dedicated submarkets, according to the results in 2018:

- 1) Mobile communication (voice, VAS, BBA) 48%;
- 2) Broadband Internet (fixed) 14%;
- 3) Fixed telephony 9%;
- 4) Operator services 10%;
- 5) ICT services 10%;
- 6) Pay TV 5%;
- 7) Data transmission services 4%.

Picture 4. Scope and growth of telecommunication market of the RK 2014-2018



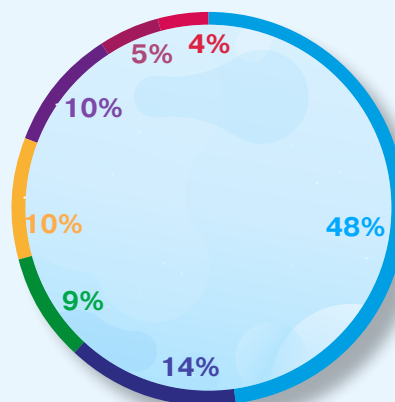
Source: data of the Statistics Committee of the RK



Over the 20 years of telecommunication development, the structure of the communication market has changed irreversibly and stills changing every 5 years. In the period up to 2000, the fixed telephony market dominated (up to **90%** of the communication market and the operator segment was **9%**).

Currently, the mobile market dominates (48%) due to mainly the mobile Internet service.

Picture 5. Revenue structure of the telecommunication industry of the Republic of Kazakhstan by type of service (with sharing of the Internet revenue by technologies)



- Mobile communication (voice communication, VAS, broadband access)
- Fixed internet
- Fixed telephony
- Operator services
- ICT of service
- Chargable TV communications
- Data transfer

Market (bln KZT)	728.7
Telephony	68,2
Internet	99,9
Data transfer	31,3
Operators	69,9
ICT	72,3
TV (including satellite)	35,5
Mobile communication (voice, Internet)	351,4

Kazakhtelecom JSC status on the market

Share of the Group of Kazakhtelecom JSC remained at 30% in general communication market in accordance with the data of the Statistics Committee for 2018.

In terms of market segments, the position of Kazakhtelecom JSC in sale proceeds is as follows:

- Fixed telephony – 76%;
- Fixed internet – 71%;
- Mobile communication (excluding KHAN TENGRI) – 2%;
- Chargeable TV – 43%;
- Information transfer – 64%;
- Service ICT – 10%;
- Operator business – 58%.

Volume of the telecommunication market is represented by two large B2C segments – services rendered to the public, and B2B – services rendered to the corporate sector, including large, medium and small businesses, services to the government sector, as well as services to operators.

Volume of communication services rendered on telecommunication market of Kazakhstan in 2018:

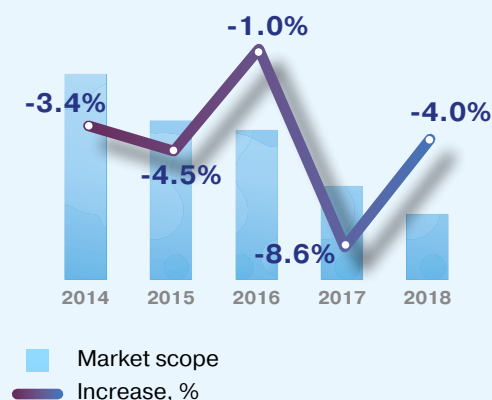
- B2C amounted to KZT 400,7 bln, which is higher by 1,8 bln KZT than in 2017.
- B2B amounted to KZT 328 bln, which is higher by KZT 16 bln than in 2017.

Fixed telephony

Dynamics and capacity of the fixed telephony market in 2014–2018

Capacity of the fixed telephony market in 2018 amounted to KZT 68,2 bln. The fixed telephony market has rapidly lost its position in total revenues for over the past 5 years. This trend stills remain in

Picture 6. Benefits dynamics of the fixed telephone market of the RK 2014–2018



Source: Committee on statistics of the RK, 2018

2018, which is explained by the decrease in demand for fixed telephony services.

The decline in the market in monetary terms is mainly associated with significant reduction in number of fixed-line subscribers by 374 ths subscribers. The total number of fixed lines was 3,323 ths as for the end of 2018.

The outflow of fixed telephony subscribers at the current stage of evolution corresponds to the development scenario of the leading global telecom markets and indicates the extremely high prevalence and availability of mobile services, which are inevitable substitutes for fixed telephony in a mature market. In other words, a slight outflow of fixed telephony subscribers on a background of the general development of the market characterizes it as healthy and developing in relevant areas.



Mobile communication

Volume of the mobile market in Kazakhstan amounted to KZT 351.4 bln as for the end of 2018 and increased by 3.7% compared to the previous year.

Revenues from mobile Internet showed an increase – their share in the total revenue structure of cellular communication increased to 39% in 2018.

Density of mobile subscribers decreased slightly to 142 users per 100 people in 2018, while the density of subscribers with Internet access increased, reaching 79%.

Driver for the extension of the mobile Internet market has been and remains the rapid growth in the number of smartphone users. The Kazakhstan mobile phone market stills to increase the smartphone sales in 2018 after the break caused by the fall of the national currency in August 2015. Currently in Kazakhstan, 97% of all subscribers of mobile operators use the Internet on their smartphones according to the Statistics Committee of the RK.

Market of fixed access to the Internet

Total market capacity of fixed broadband access to the Internet, amounted to KZT 99.9 bln according to estimates, while revenue growth was 3% in 2018 compared to 2017 data. Growth of mobile broadband access subscribers on the Internet and the extension of 4G in Kazakhstan influenced the decline in the fixed Internet subscriber base by 4%, which amounted to 2.5 mln subscribers.

Total number of subscribers in the market decreased by 110 ths and amounted to 2.5 mln, the depth of Internet extension amounted to 42 subscribers per 100 families in 2018.

The market share of Kazakhtelecom JSC was 71% in relation to revenue and 69% in terms of volume.

The growth of the subscriber base amounted to more than + 30,7 ths ports to the size of the base in 2017. The growth of the customer base was connected mainly with broadband access in rural settlements.

Picture 7. Benefits dynamics of the market of fixed BBA for 2014–2018



Source: Committee on statistics of the RK, 2018

In general, ARPU of fixed BBA increased by 1% and amounted to KZT 3,297 in 2018. Main factors affecting the Internet traffic consumption market are an availability of wireless Internet, spread of media traffic in the retail segment, outflow from voice cellular communication in the Internet, extension of the cloud software rent and the rapid deployment of LTE subscriber base.

Data transmission market

The data transmission market is a well-established segment of the telecommunication market in the Republic of Kazakhstan. This market segment has demonstrated a steady growth for every year. The market volume increased by 6% in 2018, compared to 2017 and amounted to KZT 31,3 bln.

ICT service market

There is also a tough competition in the market of other ICT services provided by licensed telecommunication companies, both as a provider of data center services, hardware engineering, and as a provider of various IT outsourcing services.

However, the ICT service market in the communication market is not the crucial, but auxiliary, its share is steadily growing in the total income structure. ICT revenues amounted to KZT 72,4 bln as a part of the overall revenue structure of the telecommunication market in 2018.

Pay TV

Revenues from the Pay TV services amounted to KZT 35,5 bln. The growth rates of revenue were 8% or + KZT 2,7 bln in 2018, compared to 2017. The key peak in revenue growth was observed in 2014, it was associated with the maximum number of connections to Pay TV services. The growth rate of revenues has slowed down that indicates a gradual saturation of the market since 2015.

The total number of subscribers of digital, satellite and cable television amounted to about 1,8 mln in 2018 according to forecasting.

Picture 8. Benefits dynamics from Pay TV services for 2014–2018





Operator market of telecommunication services

The revenue of the operator segment amounted to about KZT 70 bln among market participants in 2018. There was a slight decrease of market due to a decrease in demand for traffic transit from operators of Central Asia in 2018.

Picture 9. Benefits dynamics from operator segment, 2014–2018



Industry regulatory review

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

The MDDDAI Committee of the Republic of Kazakhstan is also an authorized body within the natural monopolies in telecommunication market. In addition, the Committee on Regulation of Natural Monopolies, Protection of Competition and Consumer Rights of the Ministry of National Economy of the Republic of Kazakhstan regulates and controls in terms of protecting competition with respect to a Joint Stock Company.

Kazakhtelecom JSC is currently in the republican section of the State Register of Natural Monopolies.

In accordance with the Business Code, the State Register of market entities holding a dominant or monopolistic position in regulated markets was canceled from January 1, 2017, whereby a joint-stock Company has been referred to 16 services and the activities of Company were subject to price regulation according them. At the same time, it should be noted that price regulation is canceled with the replacement to anti-monopoly regulation instruments.

The activities of Kazakhtelecom JSC were subject to state regulation in terms of tariff setting in three areas in 2018:

1. Natural monopoly services

State regulation of activities in the natural monopolies is performed by forming, establishing and approving a rate as per subparagraph 2) of Article 6 of the Law of the Republic of Kazakhstan "On Natural Monopolies". Service of leasing (rent) or using cable duct system is regulated as per Article 5 of the Law in the sphere of natural monopoly with the exception of the activities of small businesses.

2. Universal telecommunication services

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

- 1) Local telephone services;
- 2) Individual Internet access services with a connection speed of at least 1,536 Kbps.

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

Service rates stipulated in the Rules for regulating prices (rates) for provision of communication lines and channels, channels in cable ducts system and areas necessary for the placement of technical equipment for the needs of the authorized state bodies, military authorities, national security and internal affairs of the Republic of Kazakhstan, as well as the operator of the "Electronic Government" information and communication infrastructure, approved by the Decree of the Government of

the Republic of Kazakhstan dated April 14, 2009 No. 514 shall be approved by the authorized body. At the same time, a new service rates were introduced for a lease (rent) of digital communication channels at the channel and/or network level of data transfer rendered to this category of users from January 1, 2017.

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

For this purpose, the Company is working with a state authority to issue permits for use of the radio frequency spectrum of the Republic of Kazakhstan, as well as to use the numbering resource. The Company shall submit an appropriate application on the elicense.kz state portal. The application shall be reviewed by the state authority within the time limits established by the legislation, after which the relevant decision shall be issued.





State subsidies and guarantees for telecommunication market

In order to reduce the information inequality between the city and rural settlements, the legislation of the Republic of Kazakhstan provides a universal service mechanism that provides socially significant services of the established quality to any user, wherever he/she is located and at a reasonable price for user. Kazakhtelecom JSC has been assigned to provide universal services for many years.

Kazakhtelecom JSC and the state authority for communication market signed an agreement "On subsidies for cost of universal communication services fixed in the telecommunication sector in rural settlements" dated July 12, 2018. As of 2018, the fact of services rendered amounted to KZT 6,183.58 mln. As part of the provision of universal telecommunication services, the Company provided 745,289 subscribers with local telephone services and 188,882 subscribers with individual Internet access services.

In accordance with the State program "Digital Kazakhstan" in order to reduce the "digital gap" of regions of the Republic of Kazakhstan, the project of the public-private partnership "Provision



of broadband access to rural settlements of the Republic of Kazakhstan with use of fiber-optic communication line technology" (hereinafter – PPP Project) in 2018.

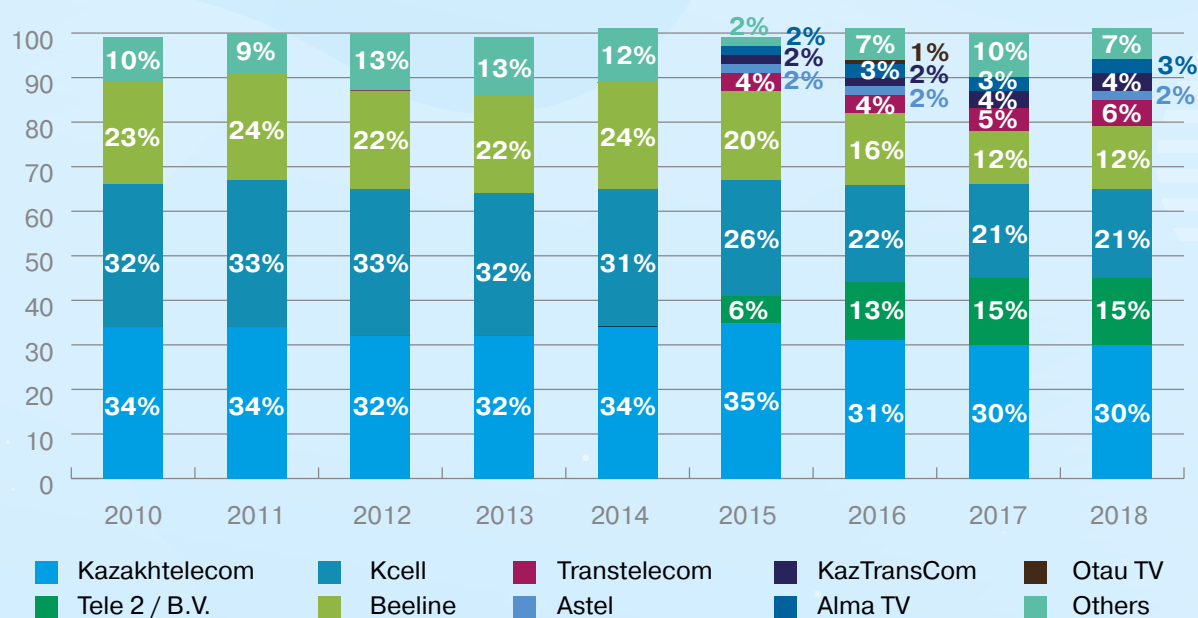
Measures of state support are provided in order to implement objectives of the PPP Project as type of state consumption guarantees of the following services:

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

Company status in the industry

Competitive situation in the telecommunication market of Kazakhstan

Picture 10. Dynamics of the telecommunication market, 2010–2018



Source : annual reports, expert evaluation, Statistics Committee of MNE of the RK.

Overall dynamics in the market demonstrates the retention of Kazakhtelecom JSC share in terms of revenues for the last 3 years. Rapid growth of the Altel/Tele 2 group of companies is also observed since merger of them.

03

Corporate Governance

In 2018:

117

the Board of Directors decisions

248

the Management Board decisions





Corporate Governance Structure

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

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

The system of the Key Performance Indicators serves as the fundamental element of the performance evaluation of the executive body of Kazakhtelecom JSC. The list of the Company's KPIs and their targeted goals are approved by the Company's Board of Directors. In pursuance of the set KPIs, the Company prepares relevant development plans for implementation.

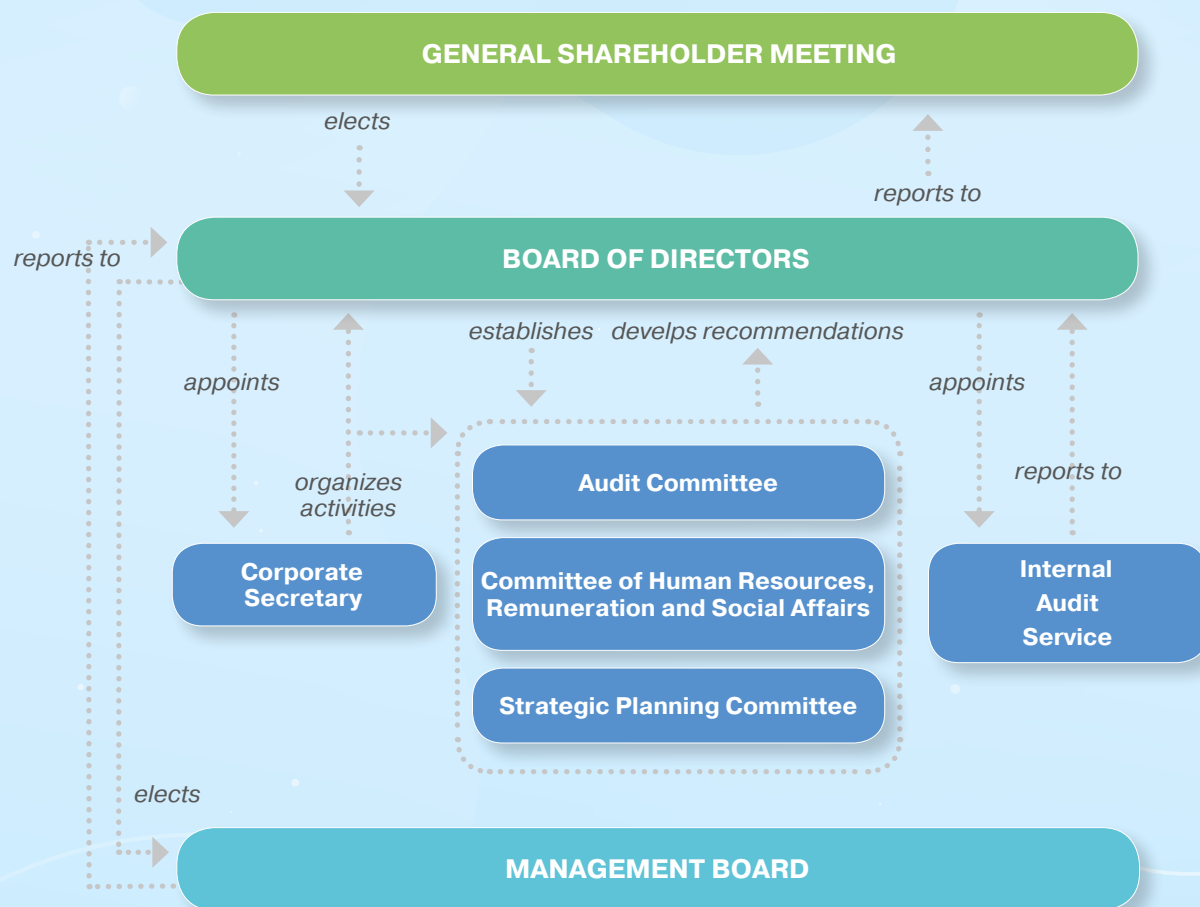
Governing Bodies

The Company has the following governing bodies:

- 1) The General Shareholder Meeting which is the superior governing body;
- 2) The Board of Directors which acts as the management authority;
- 3) The Management Board which serves as the executive body;
- 4) The Internal Audit Service which exercises control over the Company's financial and business activities, conducts assessment in the field of internal control, risk management and implementation of the corporate governance documents and advises for the improvement of the Company's operations.



Corporate Structure of Kazakhtelecom JSC





The Board of Directors of Kazakhtelecom JSC

The Board of Directors constitutes the Company's management authority charged with the general governance over the Company's activities, except for those affairs deemed to be the reserved matters of the General Shareholder Meeting as set forth by the Law of the Republic of Kazakhstan "On Joint-Stock Companies" or stipulated by the Company's Charter, and also with the control over the activities of the Company's Management Board.

The members of the Company's Board of Directors are elected by the annual General Shareholder Meeting and may be re-elected by the respective extraordinary General Shareholder meeting in case of the powers of the previously elected members of the Company's Board of Directors have been brought to an early termination as set forth by the laws of the Republic of Kazakhstan, the Company's Charter, and the Regulations of the Board of Directors of Kazakhtelecom JSC.

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

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

- 1) shareholders, who are natural persons;
- 2) persons named (recommended) to be elected in the Board of Directors to serve as representatives of the shareholders;
- 3) natural persons who are neither shareholders of the Company nor persons named (recommended) to be elected in the Board of Directors to serve as representatives of the shareholders.

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

the overall Board of Directors to the benefit of the shareholders and the Company.

Starting from January 1st 2018 and through May 30th 2018, the Company's Board of Directors was comprised of the members appointed by the decision of the extraordinary General Shareholder Meeting of Kazakhtelecom JSC as of 30.06.2015 (Protocol No. 55).

The annual General Shareholder Meeting of Kazakhtelecom JSC as of May 30th 2018 (Protocol No. 62) brought the powers of all members of the Board of Directors Kazakhtelecom JSC to an early termination, and also appointed a new composition of the Board of Directors of Kazakhtelecom JSC.

The authority of the member of the Board of Directors of Kazakhtelecom JSC, Prikhodzhan D.A., was early terminated by the decision of the Extraordinary Shareholder Meeting dated 19.11.2018.

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

Members of the Board of Directors:

- Baidauletov Nurzhan Talipovich
- Yessekeyev Kuanyshbek Bakytbekovich
- Alimov Abay Savitovich
- Kussainov Yerulan Aitashovich
- Saudabayev Serik Bolatovich

Members of the Board of Directors, Independent Directors:

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

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

Baidauletov Nurzhan Talipovich

**Date of Birth:**

September 1st 1960

Citizenship:

Republic of Kazakhstan

Date when first elected as a member of the Board of Directors:

May 8th 2012

Date of the current appointment as a member of the Board of Directors:

May 30th 2018

Status:

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

Shares owned:

None

Education:

2017–2018

International Chartered Director Program of the Institute of Directors of Great Britain

09.1977–06.1986

Moscow Institute of Railway Transport

Qualified in: Railway Transportation Process Management

Current occupation and recent posts for the past five years:

17.04.2016 – till now

Samruk-Kazyna JSC

Representative of Samruk-Kazyna JSC in the Boards of Directors of Air Astana JSC, of Kazakhtelecom JSC, of Qazak Air JSC, and of National Company Kazakhstan Temir Zholy JSC.

02.06.2014–17.04.2016

Samruk-Kazyna JSC

Senior Asset Management Officer

27.11.2008 – 01.06.2014

Samruk-Kazyna JSC

Managing Director



Yessekeyev Kuanyshbek Bakytbekovich



Status:

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

Shares owned:

None

Education:

2015–2017

Hult Business School, London, GB

Qualified in: Finance

Degree: Executive MBA

2001–2002

Kazakh State Management Academy

Qualified in: Management

1991–1995

Kazakh State University named after Al-Farabi

Qualified in: Applied Math

Candidate of Mathematics

Date of Birth:

June 10th 1975

Citizenship:

Republic of Kazakhstan

Date when first elected as a member of the Board of Directors:

December 16th 2006

Date of the current appointment as a member of the Board of Directors:

May 30th 2018

Current occupation and recent posts for the past five years:

15.03.2010 – till now

Kazakhtelecom JSC

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

23.02.2007–15.03.2010

Informatization and Communications Agency of the Republic of Kazakhstan

Chairman

Alimov Abay Savitovich


Date of Birth:

October 29th 1975

Citizenship:

Republic of Kazakhstan

Date when first elected as a member of the Board of Directors:

November 19th 2018

Date of the current appointment as a member of the Board of Directors:

November 19th 2018

Status:

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

Shares owned:

None

Education:

1998 –2000

Kazakh National Management Academy named after T. Ryskulov

Qualified in: Finance and Credit

1993–1997

Kazakh State University named after Al-Farabi

Qualified in: Law Science

Current occupation and recent posts for the past five years:

05.2018–till now

Skyline Investment Company

Representative

01.2018–till now

Parasat Advising Group LLP

Managing Officer

08.2016–12.2017

KIPROS LLP

Managing Officer

03.2010–12.2015

PetroKazakhstan Oil Holding

Officer of Legal Affairs



Kussainov Yerulan Aitashovich


Date of Birth:

January 28th 1976

Citizenship:

Republic of Kazakhstan

Date when first elected as a member of the Board of Directors:

May 30th 2018

Date of the current appointment as a member of the Board of Directors:

May 30th 2018

Status:

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

Shares owned:

None

Education:
2012–2013

Comenius University (Prague, Czech Republic)
Master of Business Administration

2001–2005

Zhezkazgan University named after
O.A. Baikonurov

Qualified in: Finance and Credit

1993–1996

Karaganda Banking College under the Kazakh
State Management Academy

Qualified in: Banking

Current occupation and recent posts for the past five years:
12.2014 – till now
Damina Educational Center

CEO

04.2016–07.2017
Kazkommerts Bank JSC

Executive Director, Member of the Management Board, Managing Director

07.2014–10.2014
Samruk-Kazyna Invest LLP

General Director Deputy

08.2006–12.2013
Temirbank JSC

Advisor to the Chairman of the Management Board, Managing Director, Member of the Management Board, Branch Director, Managing Director – Member of the Management Board, Deputy Chairman of the Management Board – Member of the Management Board

Saudabayev Serik Bolatovich


Date of Birth:

December 8th 1977

Citizenship:

Republic of Kazakhstan

Date when first elected as a member of the Board of Directors:

July 12th 2010

Date of the current appointment as a member of the Board of Directors:

May 30th 2018

Status:

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

Shares owned:

None

Education:
2004–2006

Kazakh Economic University named after Ryskulov

Qualified in: Economics

1995–1999

Almaty State University named after Abai

Qualified in: Law Science

Current occupation and recent posts for the past five years:
02.05.2018 – till now
Samruk-Kazyna JSC

Communications Sector Head under the Asset Management Directorate

11.07.2016–01.05.2018
Samruk-Kazyna JSC

Communications Directorate Director

11.05.2014–10.07.2016
Samruk-Kazyna JSC

Deputy Senior Director in Asset Management

17.06.2010–10.05.2014
Sovereign Welfare Fund
Samruk-Kazyna JSC

Communications Asset Management Director



Buyanov Alexey Nikolayevich


Date of Birth:

August 5th 1969

Citizenship:

Russian Federation

Date when first elected as a member of the Board of Directors:

June 30th 2015

Date of the current appointment as a member of the Board of Directors:

May 30th 2018

Status:

Independent Director

Shares owned:

None

Independence Criteria

Consistent with the criteria specified in article 1 subclause 20) of the Law of the Republic of Kazakhstan "On Joint-Stock Companies"

Education:

1986–1992

Moscow Institute of Physics and Technologies (MIPT)

Qualified in: Applied Physics and Math

Graduated as: Physics Engineer

Current occupation and recent posts for the past five years:

From January 2016 – till now

Bengala Investments SA (Investment Company)

Director

2014–2016

Managing Director in **Redline Capital**

Management, Member of the Stock Exchange

Council of **Moscow Stock Exchange JSC**

Garrett Martin Johnston


Date of Birth:

July 22nd 1968

Citizenship:

Ireland, Russian Federation

Date when first elected as a member of the Board of Directors:

June 30th 2015

Date of the current appointment as a member of the Board of Directors:

May 30th 2018

Status:

Independent Director

Shares owned:

None

Independence Criteria

Consistent with the criteria specified in article 1 subclause 20) of the Law of the Republic of Kazakhstan "On Joint-Stock Companies"

Education:

1990–1991

Trinity College, Dublin, Ireland

Qualified in: International Trade

TMI Degree (Postgraduate Diploma International Commerce)

1985–1990

University of Dublin

Qualified in: Economics

Current occupation and recent posts for the past five years:

15.06.2015 – till now

Macroscope consulting

Owner and CEO

01.10.2014 – till now

Appselekt.com

Chief Marketing Officer

15.01.2014–30.09.2014

Digicel Caribbean and Central America

CEO Enterprise Solutions

27.12.2011–11.01. 2014

Rosnano MedInvest (RMI Partners)

Vice President in Marketing and Strategy



Zaika Dmitriy Alexandrovich


Date of Birth:

April 27th 1975

Citizenship:

Republic of Kazakhstan

Date when first elected as a member of the Board of Directors:

June 30th 2015

Date of the current appointment as a member of the Board of Directors:

May 30th 2018

Status:

Independent Director

Shares owned:

None

Independence Criteria

Consistent with the criteria specified in article 1 subclause 20) of the Law of the Republic of Kazakhstan "On Joint-Stock Companies"

Education:
2003–2005

Kazakh State Economic University

Specialized in: Financial Management

Qualified as: Economist (graduated with honors)

1992–1998

Almaty Institute of Energy and Communications

Specialized in: Radio Equipment

Qualified as: Radio Engineer

Current occupation and recent posts for the past five years:
20.04.2012–15.08.2016
ALTEL JSC

Independent Director

29.08.2011 – till now
KhimPharm JSC

Independent Director

Naizabekov Timur Kurmangaziyevich


Date of Birth:

April 21st 1983

Citizenship:

Republic of Kazakhstan

Date when first elected as a member of the Board of Directors:

May 30th 2018

Date of the current appointment as a member of the Board of Directors:

May 30th 2018

Status:

Independent Director

Shares owned:

None

Independence Criteria

Consistent with the criteria specified in article 1 subclause 20) of the Law of the Republic of Kazakhstan "On Joint-Stock Companies"

Education:
2014–2015

University College of London (UCL) (graduated with honors)

2005–2007

University of International Business
Master of Finance (graduated with honors)

2000–2004

Kazakh National University named after Al-Farabi
Bachelor of Math and Information Systems in Business (graduated with honors)

Current occupation and recent posts for the past five years:
04.2016–09.2017
Estate Management Company JSC

Chairman of the Management Board, Member of the Board of Directors, Member of the Internal Audit Committee, Member of the Strategic Planning, Personnel & Remuneration Committee

09.2015–04.2016
Commercial RE LLP

CFO, CEO

09.2014–09.2015

Union Bancaire Privee (Great Britain) Financial Analyst/European Stock Markets

10.2012–07.2014
National Investment Corporation

Managing Director, Member of the Management Board/Advisor to the Chairman of the Management Board



During the reporting year, the Board of Directors comprised of **4 independent Directors**

who were fully consistent with the corresponding requirements applicable by the legislation of the Republic of Kazakhstan to the notion of an independent Director.

Pursuant to article 54 clause 5 of the Law of the Republic of Kazakhstan "On Joint-Stock Companies", **minimum 30%** of the total composition of a joint-stock Company's board of Directors shall be independent Directors.

Kazakhtelecom JSC honors this requirement, and the number of its independent Directors exceeds the minimum threshold, equaling to **44%**.

Independent Determination Criteria for Independent Directors

Based on article 1 subclause 20) of the Law of the Republic of Kazakhstan "On Joint-Stock Companies", **an independent Director** is a member of the board of Directors:

- who is neither affiliated with that joint-stock Company at the moment nor has been its affiliate within three years preceding his/her election as a member of the Board of Directors (except when such person served as an independent Director of the said joint-stock Company);
- who is not affiliated with the affiliates of the said joint-stock Company;
- who is neither related through subordination with the officials of the said joint-stock Company or its affiliated organizations nor has been related through subordination with such persons within three years preceding to his/her election as a member of the board of Directors;
- who is not a governmental officer;
- who is neither a shareholder representative at the meetings of the bodies of the said joint-stock Company nor acted as such within three years preceding to his/her election as a member of the board of Directors;
- who neither participates as an auditor in the audit of the said joint-stock Company nor participated in such audits within three years preceding to his/her election as a member of the board of Directors.

Committees under the Board of Directors of Kazakhtelecom JSC

In the pursuance of the effective fulfillment of the functions of the Board of Directors along with the more in-depth and decent addressing its issues, the following committees have been established under the Board of Directors:

1. Audit Committee;
2. Committee of Human Resources, Remuneration and Social Affairs;
3. Strategic Planning Committee.

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

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

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

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

well as over the independence of both the external and internal audit.

Subject to the Corporate Governance Code of Kazakhtelecom JSC, the Committee is comprised of the independent Directors only, who comply with the independence criteria stipulated by article 1 subclause 20) of the Law of the Republic of Kazakhstan "On Joint-Stock Companies".

As of 01.01.2019, the composition of the Audit Committee under the Board of Directors of Kazakhtelecom JSC was as follows:

The Committee's Chairman:

- Naizabekov Timur Kurmangazyevich – an independent Director.

The Committee's Members:

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

The Audit Committee holds regular in-person meetings every quarter as minimum, and also extraordinary meeting, whenever necessary.

In 2018, the Audit Committee held 11 meetings, of which one was held in absentia, where 33 matters were considered, and respective recommendations provided to the Company's Board of Directors, including in the field of: operations of the Internal Audit Service, internal controls and risks, financial reporting, external audit, and other important issues.



Participation in the meetings of the Audit Committee in 2018:

Members of the Board of Directors	No. 1 15.01	No. 2 22.01 in ab- sencia	No. 3 01.02	No. 4 12.02	No. 5 07.03	No. 6 14.03	No. 7 21.05	No. 8 12.07	No. 9 14.09	No. 10 28.09	No. 11 30.10	Participation percentage
Naizabekov T.K.	Didn't participate as he was elected to be a member of the AC as from May 31 st 2018							+	+	+	+	100%
Garrett Martin Johnston	+	+	+	+	+	+	+	+	+	+	+	100%
Buyanov A.N.	+	+	+	+	+	+	+	+	+	+	+	100%
Zaika D.A.	+	+	+	+	+	+	–	+	+	+	+	90.9%

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

In its activities, the **Committee of Human Resources, Remuneration and Social Affairs** fully reports to the Company's Board of Directors and operates in accordance with the respective Regulations on the Committee of Human Resources, Remuneration and Social Affairs under the Board of Directors of Kazakhtelecom JSC, approved by the decision of the Board of Directors (Protocol No. 2 as of 18.03.2015).

The key objectives of the Committee reside in developing recommendations for the Board of Directors in the following spheres:

- 1) appointments of the members of the Company's Management Board and Board of Directors as well as appointments to the senior positions in the subsidiary organizations and other managing posts in accordance with the List of the managerial posts;
- 2) systems of motivation and remuneration for employees and officials of the Company;
- 3) social support to the Company's personnel;
- 4) sponsorship support and charity;

- 5) any other matters falling within its competence as may be directed by the Board of Directors and/or provisions of the internal regulations of the Company.

In 2018, prior to the holding of the annual General Shareholder Meeting on 30.05.2018, the Committee of Human Resources, Remuneration and Social Affairs comprised of the following persons: Zaika D.A., Buyanov A.N., Garrett Martin Johnston, Saudabayev S.B., and Prikhozhan D.A.

The currently effective composition of the Committee of Human Resources, Remuneration and Social Affairs under the Board of Directors of Kazakhtelecom JSC was approved on May 31st 2018 as follows:

The Committee's Chairman:

- Zaika Dmitriy Alexandrovich – an independent Director.

The Committee's Members:

- Kussainov Yerulan Aitashovich – a member of the Board of Directors;
- Saudabayev Serik Bolatovich – a member of the Board of Directors;
- Buyanov Alexey Nikolayevich – an independent Director;
- Garrett Martin Johnston – an independent Director;
- Naizabekov Timur Kurmangaziyevich – an independent Director.

In 2018, the Committee of Human Resources, Remuneration and Social Affairs ran 8 in-person meetings where 24 matters were considered and respective recommendations provided to the Company's Board of Directors, in particular, in the field of: appointments of employees to the posts in the Company's Management Board, appointments of chief executive officers of subsidiary organizations, approval of KPIs for the managerial staff, labor remuneration, human resources management, and other issues.

Pursuant to the Regulations on the Committee of Human Resources, Remuneration and Social Affairs, the Committee's Chairman invited the following persons to act as presenters and observers of the Committee's sessions and also to provide relevant information on the meeting agenda points:

- members of the Board of Directors;
- employees of the Company (top-managers, managers of business units, and specialists);
- candidates to the managerial positions as provided for by the List of the managerial posts.

Participation of the members of the Committee of Human Resources, Remuneration and Social Affairs in the Committee's meetings in 2018

Members of the Board of Directors	No. 1 15.01	No. 2 07.03	No. 3 21.05	No. 4 17.07	No. 5 23.07	No. 6 14.09	No. 7 05.11	No. 8 11.12	Participation percentage
Zaika D.A.	+	+	+	+	+	+	+	+	100%
Saudabayev S.B.	+	+	+	+	+	+	+	+	100%
Buyanov A.N.	+	+	+	+	+	+	+	+	100%
Garrett Martin Johnston	+	+	+	+	+	+	+	+	100%
Kussainov Ye.A.	Didn't participate since they were appointed to the Committee only as from May 31 st 2018			+	+	+	+	+	100%
Naizabekov T.A.				+	+	+	+	+	100%

In its work, the Committee has been strictly keeping to the Charter of Kazakhtelecom JSC, Company's Corporate Governance Code, and Regulations on the Committee of Human Resources, Remuneration and Social Affairs.

The Strategic Planning Committee under the Board of Directors of Kazakhtelecom JSC was established on the basis of the decision of the Board of Directors in the year of 2010. The Strategic Planning Committee is a consultative and deliberative body of the Board of Directors of Kazakhtelecom JSC and operates in accordance with the respective Regulations on the Strategic Planning Committee adopted by the decision

of the Board of Directors (Protocol No. 14 as of 19.11.2010).

The major goals of the Committee are to develop and present recommendations to the Company's Board of Directors in the field of identifying top priority business directions of the Company and its growth strategy, including various activities contributing to the improved efficiency of the Company's operations in the long-term perspective.

Before 30.05.2018 the Strategic Planning Committee consisted of the following persons: Buyanov A.N., Zaika D.A., Saudabayev S.B., Sarsenov A.G., and Prikhozhan D.A.

The currently effective **composition of the Strategic Planning Committee under the Board of Directors of Kazakhtelecom JSC** has been approved as from May 31st 2018 as follows:

The Committee's Chairman:

- Buyanov Alexei Nikolayevich – an independent Director.

The Committee's Members:

- Garrett Martin Johnston – an independent Director;
- Zaika Dmitriy Alexandrovich – an independent Director;
- Naizabekov Timur Kurmangaziyevich – an independent Director;
- Kussainov Yerulan Aitashovich – a member of the Board of Directors;
- Saudabayev Serik Bolatovich – a member of the Board of Directors;
- Alimov Abai Savitovich – a member of the Board of Directors (elected in the composition of the Strategic Planning Committee on December 12th 2018).

According to clause 15 of the Regulations on the Strategic Planning Committee, it holds meetings under the annual plan approved by the Committee, but minimum every quarter as well as extraordinary sessions, whenever necessary.

In 2018, the Strategic Planning Committee ran 7 in- person meetings where 17 matters were considered, and respective recommendations provided to the Company's Board of Directors. These matters covered the transaction on the acquisition of the shares of Kcell JSC, business planning, approval of the Strategy on increasing the Company's shareholder value, involvement of advisory services, implementation of strategic projects, and other important issues within the Company's operation.

The Committee's Chairman invited the following persons to act as presenters and observers of the Committee's sessions and also to provide relevant information on the meeting agenda points:

- members of the Board of Directors;
- managerial and other employees of the Company and its subsidiaries;
- representatives of consulting companies.

Participation of the members of the Strategic Planning Committee in the meetings of the Committee in 2018

[illegible]

The Committee comprehensively deals with the challenges on the determination and presentation of recommendations in the field of identifying top priority directions of the Company and its growth strategy, including various activities contributing to the improved efficiency of the Company's operations in the long-term perspective, into consideration of the Board of Directors.

In assessing the performance of the committees, it is noteworthy that the committees under the Board

of Directors of Kazakhtelecom JSC, in their work, act to the benefit of the Company and in a bona fide and reasonable manner. Based on the outcomes of 2018, the committees have met all objectives, tasks and functional responsibilities set by the Company's Corporate Governance Code, respective Regulations on the committees, decisions of the Company's Board of Directors, directions of the Board of Directors as well as operational plans of the committees for the year of 2018.

Corporate Secretary

In pursuance of the effective corporate governance system, the Company has its Corporate Secretary.

The Board of Directors decides on the appointment of the Corporate Secretary and defines his/her term of office, functions and operating procedures.

In performing his/her duties, the Corporate Secretary reports to the Board of Directors of the Company and provides for the clear and effective coordination between the Company and its shareholders and also between the bodies of the Company as stipulated by the regulatory provisions of the legislation of the Republic of Kazakhstan and the Company's Charter, Corporate Governance Code and other internal documents.

The Corporate Secretary of Kazakhtelecom JSC, Abdykalykov B.K., is the recipient of several state awards and holds the honorary sectoral title of Uzdik Bailanysshy (the Best Communications Operator). He was recognized as one of the best corporate secretaries of SWF Samruk-Kazyna group of companies, being the permanent member of many workgroups for further improvement of the corporate governance and functions of corporate secretaries.



Major issues considered by the Board of Directors in 2018

The Board of Director of Kazakhtelecom JSC holds regular meetings in accordance with the annual operational plan as well as whenever necessary. The year of 2018 witnessed 13 meetings of the Board of Directors of Kazakhtelecom JSC, of which 9 were in-person sessions, and 4 were held through the absentee voting.

In 2018, 117 agenda points were brought into consideration of the Board of Directors of the Company, and the following most important decisions taken by the Board of Directors of Kazakhtelecom JSC in 2018 are worth being emphasized:

- On the approval of the 2019–2023 Development Plan of Kazakhtelecom JSC;
- On the adoption of the Sustainable Development Policy of Kazakhtelecom JSC and Stakeholder Map of Kazakhtelecom JSC;
- On the approval of the Operating Rules and Procedures of Kazakhtelecom JSC;
- On the approval of the Performance Evaluation Rules of the Board of Directors of Kazakhtelecom JSC and its committees, and members of the Board of Directors and Corporate Secretary of Kazakhtelecom JSC;
- On the election of the members of the Management Board of Kazakhtelecom JSC for another term;
- On the preliminary approval of the annual financial statements of Kazakhtelecom JSC for Y2017;
- On the approval of the staff schedule for the Central Office of Kazakhtelecom JSC;



- On the establishment of the Compliance Service of Kazakhtelecom JSC;
- On the participation of Kazakhtelecom JSC in the large-sized transaction.

The following reports of the Management Board of Kazakhtelecom JSC are being reviewed on a regular basis (quarterly):

- On the implementation of large investment projects;
- On the implementation of the Company's Development Plan;
- On risks;
- On the transparency of Kazakhtelecom JSC and on the assessment of the effectiveness of the information disclosure processes;
- On the concluded transactions which constitute related-party transactions, the decisions on which were taken by the Management Board of Kazakhtelecom JSC;
- Reports of the Internal Audit Service.

Participation of the members of the Board of Directors in the meetings of the BoD in 2018

Members of the Board of Directors	No. 1 01.02	No. 2 15.02 abs.	No. 3 16.03	No. 4 05.04	No. 5 30.05 abs.	No. 6 31.05	No. 7 24.07	No. 8 25.09	No. 9 09.10	No. 10 12.10 abs.	No. 11 06.11	No. 12 04.12 abs.	No. 13 12.12
Baidautetov N.T.	+	+	+	+	+	+	+	+	+	+	+	+	+
Yessekeyev K.B.	+	+	+	+	+	+	+	+	+	+		+	+
Prikhozhan D.A.	+	+	+	+	+	+	+	+	+	+	+	On 19.11.2018 his powers were terminated by the decision of the extraordinary shareholder meeting	
Alimov A.S.	Appointed to be a member of the BoD by the decision of the extraordinary shareholder meeting as of 19.11.2018											+	+
Sarsenov A.G.	+	+	+	+	+	On 30.05.2018 his powers were terminated by the decision of the annual shareholder meeting							
Kussainov Ye.A.	Appointed to be a member of the BoD by the decision of the annual shareholder meeting as of 30.05.2018					+	+	+	+	+	+	+	+
Saudabayev S.B.	+	+	+	+	+	+	+	+	+	+	+	+	+
Buyanov A.N.	+	+	+	+	+	+	+	+	+	+	+	+	+
Garrett Martin Johnston	+	+	+	+	+	–	+	+	+	+	+	+	+
Zaika D.A.	+	+	+	+	+	+	+	+	–	+	+	+	+
Naizabekov T.K.	Appointed to be a member of the BoD by the decision of the annual shareholder meeting as of 30.05.2018					+	+	+	+	+	+	+	+

Information on the Performance of Evaluation Policy of the Board of Directors of Kazakhtelecom JSC

All matters related to the performance evaluation of the Board of Directors in the reporting year were regulated by the Performance Evaluation Rules applicable to the Board of Directors of Kazakhtelecom JSC and its committees, and also to the members of the Board of Directors and Corporate Secretary of Kazakhtelecom JSC, as approved in February 2018.

Performance of the BoD is evaluated to analyze operating productivity of the BoD, both in general and specifically in respect of its committees, Chairman of the BoD, each member of the BoD, and its Corporate Secretary, revealing strengths and weaknesses of the work of the BoD when compared with the best international practice and standards,

and also identifying undisclosed reserves and underutilized capabilities of the BoD.

Such evaluation helps to assess the contribution of the Board of Directors and each of its members in the growth of the long-term value and sustainable development of the Company as well as to find promising directions and recommend activities for the further improvement of the performance of the BoD.

The Corporate Governance Code of Kazakhtelecom JSC and above-mentioned rules envisage for the annual evaluation within the structured process approved by the Board of Directors of the Company. In doing so, at least every three years the evaluation shall be conducted with the involvement of independent consultants. Directors shall not be allowed to participate in the process of his/her performance evaluation, except for as a respondent in a questionnaire and/or interview.



In 2018, under the framework of the diagnostics of the corporate governance of Kazakhtelecom JSC, PricewaterhouseCoopers LLP conducted an independent assessment of the performance productivity of the Company's Board of Directors. Based on the outcomes of the diagnostics, the Board of Directors of Kazakhtelecom JSC received a positive evaluation of its performance.

Committees under the Company's Board of Directors were also positively evaluated by the Board of Directors following the outcomes of their activities in 2018.

Information on remuneration of the members of the Board of Directors

The terms of remuneration of independent Directors are reflected in the respective agreements signed with them. The members of the Board of Directors of Kazakhtelecom JSC, except for the independent Directors, fulfill their duties on the uncompensated basis.

The members of the Board of Directors acting as independent Directors receive annual fixed remuneration as well as additional remuneration for their participation in each in-person meeting of the Committee under the Board of Directors of Kazakhtelecom JSC.

An independent Director is compensated for the relevant costs (travelling, accommodation, per diems, telephone communications within the Republic of Kazakhstan, services of scanning, copying, facsimile, printing out, typing of documents, access to Internet in the Republic of Kazakhstan, and courier and mail services) associated with the attendance at in-person meetings of the Board of Directors and its Committees and participation

in the annual General Shareholder Meeting as well as meetings convened by shareholders, Chairman of the Board of Directors and/or Management Board held outside the location of the permanent residence of such independent Director.

Remuneration for the fulfillment of the functions of a member of the Board of Directors of Kazakhtelecom JSC is payable only to the independent Directors elected to the membership of the Company's Board of Directors.

The amounts of the annual fixed remuneration and additional remuneration for the participation in each in-person meeting of the Committee under the Board of Directors are defined in accordance with the respective decisions of the General Shareholder Meeting of Kazakhtelecom JSC, Protocol No. 39 as of September 4th 2009, and No. 46 as of December 29th 2011:

1. The size of the annual fixed remuneration for each independent Director of Kazakhtelecom JSC is as follows:
 - for non-residents of the Republic of Kazakhstan – USD 45,000;
 - for residents of the Republic of Kazakhstan – KZT 6,660,000.
2. The size of the additional remuneration for each independent member of the Board of Directors of Kazakhtelecom JSC for his/her participation in each in-person meeting of the Committee under the Board of Directors, including through tele-video conference communications means, is as follows:
 - for non-residents of the Republic of Kazakhstan acting as a member of the Committee – USD 500;
 - for non-residents of the Republic of Kazakhstan acting as a member of the Committee – KZT 75,000.

Payments to the Independent Directors within Y2018

No.	Members of the BoD – Independent Directors	Currency	Amount of the annual fixed remuneration	Amount of the additional remuneration for the participation in the activities of the Committees	Total for Y2018
1	Non-residents of the RoK (2 persons)	USD	90,000	23,500	113,500
2	Residents of the RoK (2 persons)	KZT	10,582,000	2,625,000	13,207,000

Kazakhtelecom JSC discloses information on the amounts of remuneration of the members of its Board of Directors to all concerned parties

as stipulated by the legislation of the Republic of Kazakhstan and Charter of Kazakhtelecom JSC.

The Management Board

The Management Board constitutes a collective executive body that exercises operational management of the Company's activities in pursuance of its goals and implementation of its strategy.

The Management Board operates under the principle of the maximum observance of the interests of the Shareholders and full answerability to the decisions of the General Shareholder Meeting and Board of Directors.

The Management Board consists of 7 members, namely, the Chairman of the Management Board and other persons elected by the Board of Directors of the Company.





Yessekeyev Kuanyshbek Bakytbekovich


Date of Birth:

June 10th 1975

Citizenship:

Republic of Kazakhstan

Date when first appointed as a member of the Management Board of Kazakhtelecom JSC:

December 15th 2006

Date of the current appointment as a member of the Management Board of Kazakhtelecom JSC:

February 5th 2016

Status:

A member of the Board of Directors, the Chairman of the Management Board of Kazakhtelecom JSC

Education:

University Degree, Candidate of the Math Science
2015–2017

Hult Business School, London, GB

Qualified in: Finance

Degree: Executive MBA

2001–2002

Kazakh State Management Academy

Qualified in: Management

1991–1995

Kazakh State University named after Al-Farabi

Qualified in: Applied Math, Candidate of the Math Science

Current occupation and recent posts for the past five years:
15.03.2010 – till now
Kazakhtelecom JSC

The Chairman of the Management Board, a member of the Board of Directors

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

The Chairman

Outside employment and membership in the Boards of Directors in other organizations:

A member of the Board of Directors of "Khan Tengri Holding B.V", a member of the Supervisory Council of "Mobile Telecom-Service" LLP

Ownership of the shares of the Company, its suppliers or competitors: None

Uzbekov Askhat Arkhatovich

**Date of Birth:**

June 18th 1980

Citizenship:

Republic of Kazakhstan

Date when first appointed as a member of the Management Board of Kazakhtelecom JSC:

27.09.2016

Date of the current appointment as a member of the Management Board of Kazakhtelecom JSC:

14.03.2017

Status:

A member of the Management Board of Kazakhtelecom JSC, Chief Financial Officer of Kazakhtelecom JSC.

Education: University Degree**1996–2000**

University of Turan

Qualified in: International Economics

Current occupation and recent posts for the past five years:**01.2015 – till now****Kazakhtelecom JSC**

Managing Officer – Chief Treasurer, Managing Officer – Financial Controller, Chief Financial Officer

02.2012–12.2014**KMG EP International**

Financial Officer

Outside employment and membership in the Boards of Directors in other organizations:

none

Ownership of the shares of the Company, its suppliers or competitors: none



Makhanbetazhiyev Batyr Apenovich


Date of Birth:

March 12th 1972

Citizenship:

Republic of Kazakhstan

Date when first appointed as a member of the Management Board of Kazakhtelecom JSC:

07.06.2010

Date of the current appointment as a member of the Management Board of Kazakhtelecom JSC:

17.03.2017

Status:

A member of the Management Board of Kazakhtelecom JSC, Chief Strategy Officer of Kazakhtelecom JSC

Education: University Degree

2015–2017

Hult Business School, London, GB

Qualified in: Finance

Degree: Executive MBA

1989–1994

Moscow State University named after M. Lomonosov

Qualified in: Economic Cybernetics, Mathematical Economist

Current occupation and recent posts for the past five years:
04.2010 – till now
Kazakhtelecom JSC

Chief Administrative Officer, Chief Strategy Officer of Kazakhtelecom JSC

Outside employment and membership in the Boards of Directors in other organizations:

none

Ownership of the shares of the Company, its suppliers or competitors: none

Abykhanov Rafael Yelamanovich

**Date of Birth:**

June 7th 1971

Citizenship:

Republic of Kazakhstan

Date when first appointed as a member of the Management Board of Kazakhtelecom JSC:

09.09.2013

Date of the current appointment as a member of the Management Board of Kazakhtelecom JSC:

14.03.2017

Status:

A member of the Management Board of Kazakhtelecom JSC, Chief B2B Officer – Chief Officer of B2B division, Kazakhtelecom JSC branch

Education: University Degree

1990–1996

Kazakh National Technical University

Qualified in: Radio Equipment

Current occupation and recent posts for the past five years:

As from 09.09.2013 – till now

Kazakhtelecom JSC

Chief B2B Officer – Chief Officer of B2B division, Kazakhtelecom JSC branch

07.05.2009–08.09.2013

Kazakhtelecom JSC

Managing Operators Director

Outside employment and membership in the Boards of Directors in other organizations:

The Chairman of the Supervisory Council of KT-IX LLC

Ownership of the shares of the Company, its suppliers or competitors: none



Lezgovko Alexander Vladimirovich


Date of Birth:

September 15th 1961

Citizenship:

Republic of Kazakhstan

Date when first appointed as a member of the Management Board of Kazakhtelecom JSC:

26.03.2007

Date of the current appointment as a member of the Management Board of Kazakhtelecom JSC:

14.03.2017

Status:

A member of the Management Board of Kazakhtelecom JSC, Chief Technical Officer of Kazakhtelecom JSC

Education: University Degree.

1978–1983

Almaty Energy Institute

Qualified in: Automatic Telecommunications

Current occupation and recent posts for the past five years:
03.2007 – till now
Kazakhtelecom JSC

Vice-President – Chief Technical Officer. Chief Technical Officer of Kazakhtelecom JSC

Outside employment and membership in the Boards of Directors in other organizations:

none

Ownership of the shares of the Company, its suppliers or competitors:

holds share of Kazakhtelecom JSC

Abdildabekov Marat Mukhtarovich

**Date of Birth:**

October 13th 1967

Citizenship:

Republic of Kazakhstan

Date when first appointed as a member of the Management Board of Kazakhtelecom JSC:

08.06.2007

Date of the current appointment as a member of the Management Board of Kazakhtelecom JSC:

14.03.2017

Status:

A member of the Management Board of Kazakhtelecom JSC, Chief Information Technologies Officer of Kazakhtelecom JSC

Education: University Degree

1984–1991

Kazakh State University named after S.M. Kirov

Qualified in: Mechanics and Applied Math

Current occupation and recent posts for the past five years:

05.2007 – till now:

Kazakhtelecom JSC

Vice-President – Chief Information Technologies Officer, Chief Information Technologies Officer of Kazakhtelecom JSC

Outside employment and membership in the Boards of Directors in other organizations:

The Chairman of the Supervisory Council of KT Cloud Lab LLP, a member of the Supervisory Council of QazCloud LLP.

Ownership of the shares of the Company, its suppliers or competitors: none



Kukelis Kaspars


Date of Birth:

November 3rd 1971

Citizenship:

Latvia

Date when first appointed as a member of the Management Board of Kazakhtelecom JSC:

01.06.2017

Date of the current appointment as a member of the Management Board of Kazakhtelecom JSC:

01.06.2017

Status:

A member of the Management Board of Kazakhtelecom JSC, Chief B2C Officer – Chief Officer of B2C Division of Kazakhtelecom JSC branch

Education:

University Degree

2001–2004

Harvard Business School, Boston, USA

EMBA (Marketing Strategy, General Management, Accounting & Control, Leadership & Organizational Efficiency, Information Technologies).

1989–1994

Almaty Technological University

Qualified in: Economics

Current occupation and recent posts for the past five years:

01.06.2017 – till now

Kazakhtelecom JSC,

Chief B2C Officer - Chief Officer of B2C Division of Kazakhtelecom JSC branch

01.02.2017–01.06.2017

Kazakhtelecom JSC

Chief B2C Officer

01.09.2015–20.03.2016

ALTEL JSC, an independent Director, a member of the Board of Directors

01.09.2013–01.02.2014

Kcell JSC, Commercial Officer

Outside employment and membership in the Boards of Directors in other organizations: none

Ownership of the shares of the Company, its suppliers or competitors: none

Progress Report of the Management Board and most important decisions of 2018

The Management Board of Kazakhtelecom JSC runs in-person meetings once in a week, and, whenever necessary, schedules additional sessions.

In 2018, the Management Board of Kazakhtelecom JSC held 54 in-person meetings where 248 decisions were taken by the Management Board along with 2 decisions which were adopted through the absentee voting.

In the course of the reporting period, the Management Board considered and took decisions in respect of the following major points.

Matters considered: preliminary annual financial statements of Kazakhtelecom JSC and its subsidiaries, Sustainable Development Report of Kazakhtelecom JSC for 2017, quarterly risk management reports, Risk Registry and Risk Map for 2019, Indicator Limits of the Corporate Risk Management System of Kazakhtelecom JSC, draft Strategy for the shareholder value increasing for 2018–2028, Operating Rules and Regulations of Kazakhtelecom JSC (update), and so on.

Documents approved: drafts of the Operational Budget, Capital Investment Budget and Development Plan for 2019–2023, Guidelines and Program for the implementation of initiatives in the field of sustainable development, Communications Plan of Kazakhtelecom JSC for the relations with stakeholders for 2018, Action Plan for the implementation of the Digital Transformation Program of Kazakhtelecom JSC, and others.

Restructuring of the organizational management system of Kazakhtelecom JSC implemented under the Orleu Transformation Program has led to the establishment of the general service centers for legal support, personnel management, and administrative and financial functions.

Information on the remuneration of the members of the Management Board

The terms and procedures related to the remuneration of the members of the Management Board of Kazakhtelecom JSC are defined by the Regulations of the Management Board of Kazakhtelecom JSC, Regulations on the labor compensation of employees of the Central Office of Kazakhtelecom JSC, and also by the Rules on paying compensation to senior officials of Kazakhtelecom JSC based on the reporting period performance which have been developed in accordance with the Policy of Samruk-Kazyna JSC in the field of performance evaluation and remuneration of senior officials.

Subject to the above-named documents, the Board of Directors, guided by the recommendation of the respective Committee thereof, defines the amounts of the official salaries along with the terms of labor payment and bonus awarding of the Chairman and members of the Management Board.

The fundamental term for paying remuneration resides in the existence of the consolidated final profit for a reporting year.

Senior officials are remunerated on the basis of the yearly performance outcomes, depending on their fulfillment of respective incentive key performance indicators approved by the Company's Board of Directors. Exceeding the targeted goals of the set corporate KPIs is a result of the individual contribution of each member of the Management Board. Thus, efficiency of the incentive KPIs of the Chairman of the Management Board arrived at 100% for the year of 2018.



Significant Transactions of the Company

Pursuant to article 33 clause 1 subclause 33) of the Charter of Kazakhtelecom JSC, making decisions on the participation in large-sized transactions and in transactions in which the Company holds an interest shall be referred to the reserved matters of the Board of Directors of the Company, except when otherwise stipulated by the Company's Charter.

In 2018, the Management Board of Kazakhtelecom JSC approved and brought into consideration of the Company's Board of Directors 9 Decisions related to the participation in transactions in which the Company had an interest, including:

- 1) Additional Agreement No. 2 to Contract No. ALM-OTD-1231/16/37/No. 624-43-DTO on technical maintenance services for communications objects as of 23.12.2016 entered by Mobile Telecom-Service LLP and Kazakhtelecom JSC;
- 2) Additional Agreement No. 2 to Contract No. 639-43-DTO/01/176-DU/16 on technical maintenance services for antenna mast structures, antenna feeder units and radio link equipment as of 28.12.2016 entered by VOSTOKTELECOM LLP and Kazakhtelecom JSC;
- 3) Additional Agreement No. 1 Contract No. 443-43-DTO/17086 on technical maintenance services for communications objects as of 28.07.2017 entered by VOSTOKTELECOM LLP and Kazakhtelecom JSC;
- 4) Cooperative Activity Agreement No. 523-24-DZ on the delivery and promotion of services for affiliates as of 06.08.2018 entered by QazCloud LLP and Kazakhtelecom JSC;
- 5) Additional Agreement No. 7 to Cooperative Activity Agreement No. 743/12-DO/1171-03-DSD as of 14.12.2012 signed with Mobile Telecom-Service LLP in respect of the prolongation of the contracts for the delivery of telecommunications and Internet-services until December 31st 2020;
- 6) Lease agreements for the occupancy of steel structures entered by Mobile Telecom-Service LLP and branches of Kazakhtelecom JSC: Central RTD, No. 351/18/11 as of 04.06.2018; Southern RTD, No. ALM-PMO-464/18/11 as of 20.08.2018; Almatytelecom RTD, No. ALM-PMO-550/18/11 as of 20.08.2018;
- 7) Agreement No. 361-15-CPC as of 27.06.2018 on the termination of Credit Facility Agreement No. 1923 dated February 25th 2016;
- 8) Collaboration Agreement No. 506-18 as of 05.06.2018 on the promotion of telecommunications services without involving the property of Kazakhtelecom JSC signed between Kazakhtelecom JSC and QazCloud LLP (the Agent);
- 9) Cooperative Activity Agreement No. 778-27-DSD as of 24.10.2018 to unite efforts and resources for the joint delivery and promotion of payment channels for payers for telecommunications services among customers of Kazakhtelecom JSC;
- 10) Additional Agreement No. 1 to Contract No. 123-27-DU named "On Sale of the Unified and Converged Service Packs of Fixed and Mobile Communications" as of February 29th 2016 to introduce relevant amendments for the simplification of the procedure of signing communications services contracts with natural persons;
- 11) Additional Agreement No. 8 to Cooperative Activity Agreement No. 743/12-DO/1171-03-DSD as of 14.12.2012 signed with Mobile Telecom-Service LLP on the increase of the capacity of the delivered services due to the reduction of the nominal price for 1 Mbps of additional volumes for the period of Y2019.

Company's Internal Audit



The Internal Audit Service (IAS) is charged with the organization and implementation of the internal audit in Kazakhtelecom JSC, which reports and answers directly to the Board of Directors. The Audit Committee under the Company's Board of Directors supervises activities of the IAS.

The key goal of the activities of the IAS lies in providing the Company's Board of Directors with the independent and objective information intended to ensure effective management of the Company through the introduction of the systemic approach when improving the systems of risk management, internal control, and corporate governance within the Company's operation.

The IAS serves in accordance with the Regulations on the Internal Audit Service of Kazakhtelecom JSC and Internal Audit Organization Policy of Kazakhtelecom JSC, approved by the Board of Directors of Kazakhtelecom JSC.

Audit inspections are revised as scheduled by the Annual Audit Plan concurred with the Audit Committee and approved by the Company's Board of Directors.

All activities of the Internal Audit Service of Kazakhtelecom JSC comply with the International Standards for the Professional Practice of Internal Auditing – as evidenced by the findings of the external evaluation of the internal audit system carried out by the independent consultant, specifically, KPMG Tax and Advisory LLP, in 2018.

In the year of 2018, the IAS conducted 17 (seventeen) scheduled audit inspections in accordance with the approved Annual Audit Inspection Plan along with 5 (five) unscheduled audit sessions under the directions of the Board of Directors and requests of the Company's management. The goals of the audit activities have been met. The work has been successfully completed by 10 specialists of the Internal Audit Service.



04

Risk Management and internal control

The CRMS
Effectiveness made up

99.2%







Risk management system

The corporate risk management system (hereinafter referred to as "CRMS") is a key component of the corporate governance system aimed at timely identification, assessment, monitoring and reduction of potential risk events that may adversely affect the achievement of strategic and operational goals of Kazakhtelecom JSC and its subsidiaries.

The main principles of the risk management system are:

- openness – consideration of CRMS as a stand-alone or separate system is not allowed;
- structural properties – availability of clear structure inherent in the integrated risk management system;

- awareness – support of the risk management process with objective, reliable and up-to-date information;
- continuity – implementation of the risk management process on an ongoing basis;
- cyclicity – the risk management process is a constantly repeating cycle of its main components.

Risk management is provided within the Company with involvement of the Board of Directors, the Internal Audit Service, the Management Board, structural subdivisions, the Risk Management Service, as well as the Internal Control Service.

Risk Management in 2018

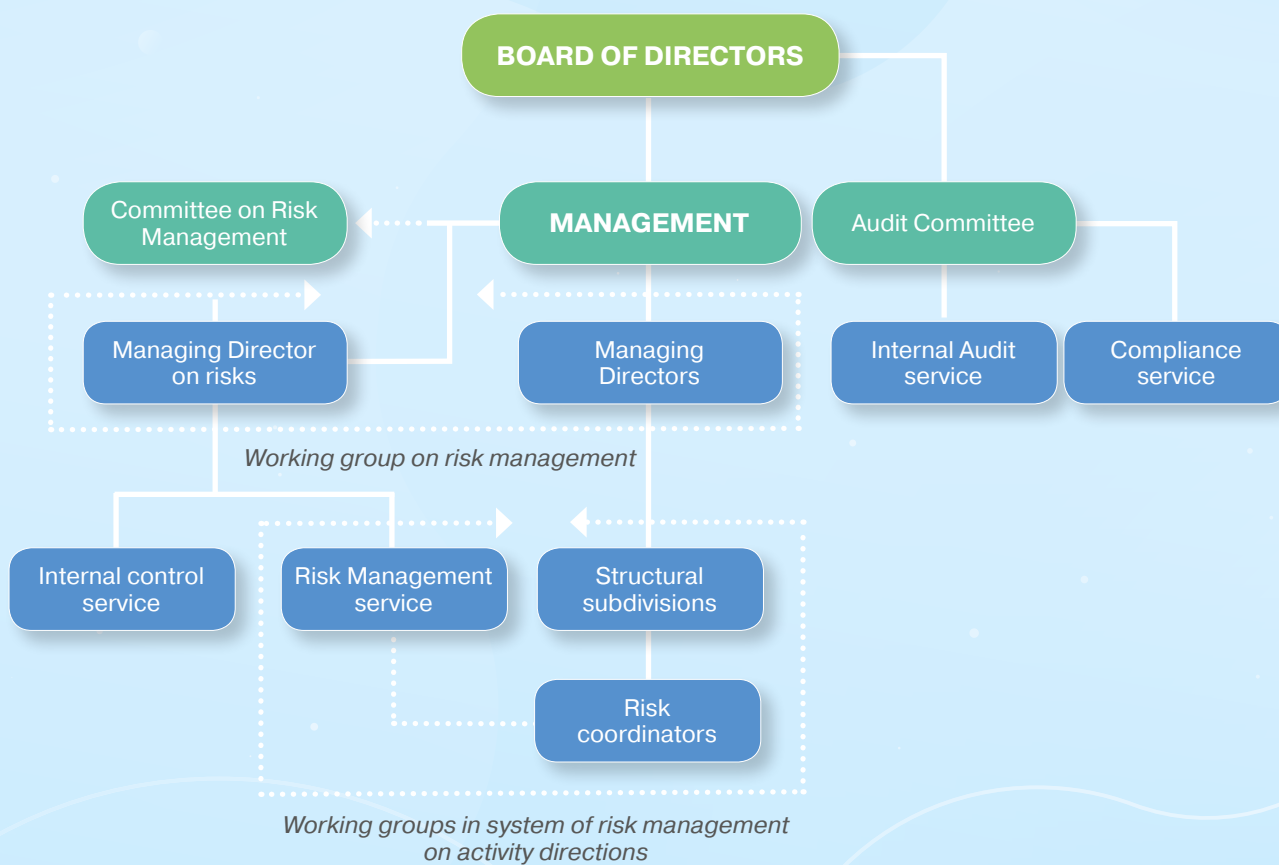
There were no significant changes in the main processes of the corporate risk management system and the internal control system in 2018. In accordance with the current Risk management policy, the Board of Directors reviews reports of the Risk Management Service of the Company on a quarterly basis, obtains information on annual performance assessment of corporate risk management and internal control systems, performed by both internal audit and independent external expert.

Development of RMS has been provided based on the road map developed as per recommendations of independent external expert, which assessed maturity and effectiveness of risk management systems of Kazakhtelecom JSC in 2017. In 2018 main activities of ICS were oriented on updating documentation of the system, due to the ongoing transformation of the organizational structure of the Company and the main business processes.

All risk area of the Company is classified into such categories as strategic, financial, operational, legal. As part of the risk management process, the Company maintains a corporate risk register, reflecting the risks that may affect the achievement of long-term strategic goals and key performance indicators of the Development plan approved by the Board of Directors.

The Board of Directors of Kazakhtelecom JSC approves risk register and risk map of the Company on an annual basis. In 2018 the Risk Management System carried out works on monitoring of the risk register, updating data on risks, control of activities for risk minimization. Thus, according to the risk register and the risk map of the Company, by the end of 2018 there were only 38 risks in the corporate risk register.

Participants of the risk management process





Activities oriented on elimination of causes and minimization of consequences in case of occurrence of risk events, have been developed for certain risks specified in the risk register. Risk Management Service continuously monitored the dynamics of critical risks and implementation of activities for mitigation of risks. Monitoring results are directed in form of risk reporting to the Management Board and the Board of Directors of the Company on a quarterly basis.

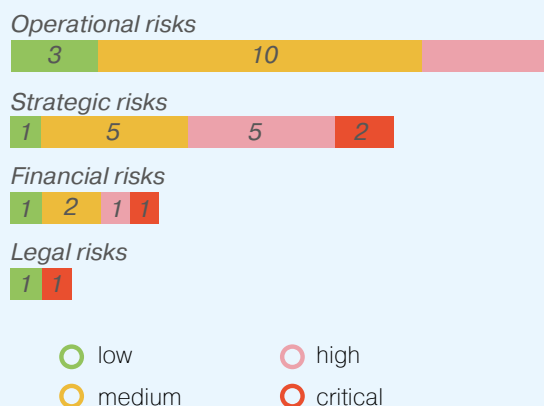
Integration of risk management and internal control systems in branches and subsidiaries

Information on potential risks collected and updated at the level of branches and subsidiaries allows to cover and assess the factors affecting both at the local level and at the level of the whole group. It allows for more successful preventive risk management at the local level and integrated solutions based on integrated data from all facilities.

Branches and subsidiaries reassess and update risk registers and maps on a quarterly basis. Projects in relation to significant risks, affecting indicators both at local and corporate levels with planned implementation in the next year and requiring financing for its reduction by branches, have been developed and presented.

In 2018 the Internal Control Service jointly with the Risk Management Service carried out audit of certain business processes of Company's RTD in order to identify deviations adversely affecting the corporate risk register and increasing likelihood of risk occurrence and migration of certain risks into the risk map critical zone. Recommendations on improvement of efficiency of regional internal control systems were developed as per the results.

Picture 11. Risk Radar in category range



Key risks

No.	Risk	Description of risk and consequences	Response measures	Control level in 2018
1	Failure to achieve target indicators for the segment "fixed telephony".	Decrease of use value of conventional services and traffic outflow from the fixed telephony segment to the mobile communications segment may significantly affect the Company's revenues in this segment.	New services and packaged solutions have been developed and introduced for increase of use value and competitiveness of the product; New rate card has been approved. Service standards have been approved in order to increase the level of customer-oriented approach.	Middle
2	Failure to achieve target indicators for the segment "fixed broadband access to Internet".	Active displacement and replacement of fixed broadband access with mobile access types, as well as the emergence of strong competitors with their own infrastructure, with extensive investment opportunities and the latest technologies in the Kazakhstan market of fixed broadband access services, entails the loss of current and potential customers, which, in turn, may affect the Company's revenues.	New services and packaged solutions have been developed and introduced for increase of use value and competitiveness of the product. New rate card has been approved. Service quality has been improved.	Middle
3	Growth of overdue receivables of customers.	Due to abandoning of fixed-line communications by customers, increase of share of doubtful and overdue receivables can be observed, which can be written off after debt collection measures.	Common center of receivables management (CCRM) has been established in the Company. Third party organizations for debt collection from subscribers are involved. It is planned to introduce a system of notification of ID TV subscribers on debt.	Middle
4	Arising of obligations of the Company under the claims, orders and other demands.	The Company received a statement from the minority shareholders demanding the redemption of their shares in connection with their disagreement with the decision of the Board of Directors of the Company on conclusion of the large transaction on acquisition of shares of Kcell JSC. Financial liabilities to minority shareholders may arise in case of court proceedings and court decision against the Company.	Application on pre-trial investigation on fact of use of insider information and damage to the Company by a group of shareholders has been submitted to the State Revenue Department. The Commission on issue of stock redemption by demand of shareholders has been established.	Middle



Further improvement of the corporate risk management and internal control system

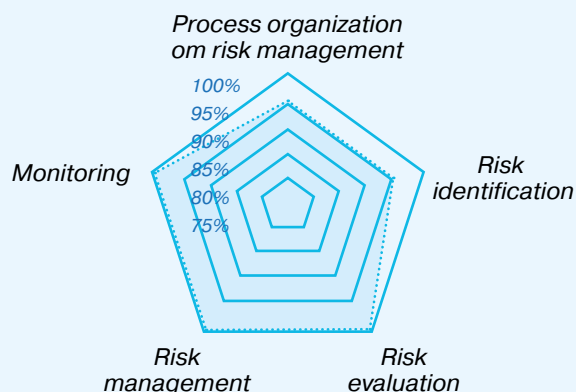
Risk culture of the Company is developed through involvement of structural subdivisions of Kazakhtelecom JSC and subsidiaries in the risk management process, as well as through regular exchange of information between the Board of Directors, the Management Board, Risk Management Committee and employees of the Company. Methodological, consulting and educational support to employees of the Company and subsidiaries on risk management and internal control is provided by the Risk Management Service and the Internal Control Service.

In IV quarter of 2018 the Internal Audit Service (hereinafter referred to as IAS) of Kazakhtelecom JSC carried out assessment of CRMS effectiveness in accordance with the internal regulatory documents. According to the results of the activities, the aggregate score of the effectiveness of CRMS amounted to 99.2%. (In 2017 the aggregate score of the effectiveness of CRMS amounted to 97.1%).

In 2019 works on improvement of corporate risk management and internal control systems will be continued in the framework of the Road map developed on the basis of recommendations of independent external expert, expectations of shareholders and the best world practices.



Picture 12. CRMS Assessment



Risk management and internal control plans for 2019

In 2019 Kazakhtelecom JSC plans to develop risk management system as follows:

- To improve methodological base of risk management system;
- To develop application of risk key indicators;
- To extend risk identification and assessment tools;
- To improve risk culture of risk management;
- To introduce tools for monitoring and post-monitoring of investment project risks;
- To develop an automated risk management system.





05

Operating results

Consolidated net profit

42,883

mln KZT

*which is **72%** higher than
the planned value*





In 2018 the impact on free cash flow amounted to

34.9

bln KZT

with increase by 17% as compared with the previous year.

Reorganization of

14

regional front offices

Orleu Transformation Program

Beginning of the ambitious of Orleu Transformation Program in Kazakhtelecom JSC was announced in spring 2014. For 5 years Kazakhtelecom JSC has been consistently implementing activities aimed at improvements, introducing a number of changes that have already brought financial and qualitative impact. Impact on free cash flow (amount of gained and leftover funds) was equal to KZT **106.2** bln over almost 5 years of implementation of the transformation program.

Among the key events implemented within the framework of Orleu Transformation Program

the events that taught us how to use funds rationally and gain extra funds shall be pointed out:

- launching the common network control center of Kazakhtelecom JSC;
- implementation of remuneration system on the basis of grades;
- acquirement of management skills in relation to customer outflow;
- packaged offering for customers;
- centralized functions of HR, legal and financial support, payroll, IT-services, procurement, repair office, contact center;
- reorganization of 14 regional front offices into 6 regional offices;
- establishment of B2B and B2C divisions.

In 2018 in the framework of the Orleu Transformation Program activities for improvement of organizational efficiency, perception of corporate culture, development of new businesses, development of sales channels, control of customer outflow and optimization of internal processes were continued.

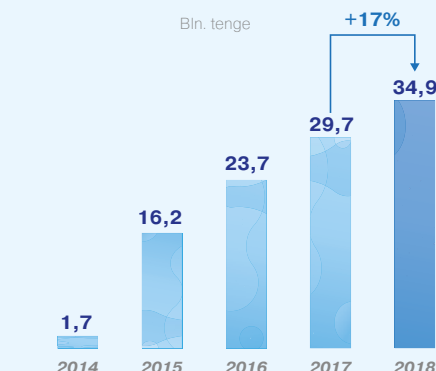
Work on centralization and consolidation of functions, improvement of efficiency of internal processes and customer relations has been continued to implement organizational and operating improvements. Corporate values “CREDO”, one of the most important elements of corporate culture, have been developed. Projects on new businesses are being implemented. Work on commercial projects has been continued and new initiatives have been launched in the environment of divisional structure.

As a result, **ANNUALLY DEMONSTRATED IMPACT FROM IMPLEMENTATION OF ORLEU PROGRAM CONTINUED ITS GROWTH.**

In 2017 this amount was equal to KZT 29.7 bln and in 2018 the impact on free cash flow amounted to KZT 34.9 bln with increase by 17% as compared with the previous year.

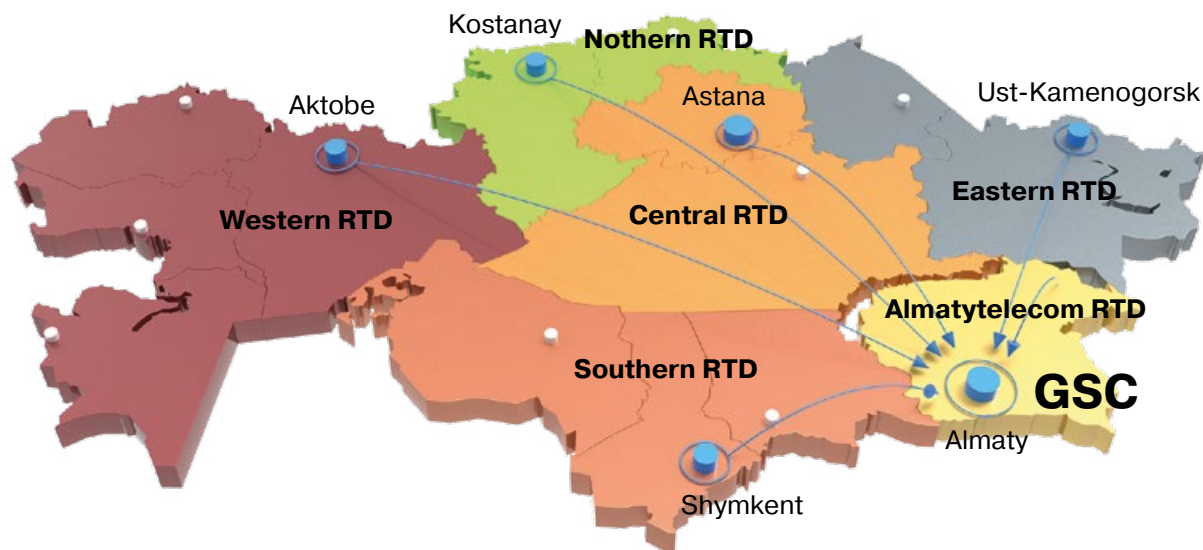
As a logical follow-up for formation of segment-oriented structure, B2B and B2C divisions have centralized a number of functions, such as contact-centers, receivables management, service management, marketing and advisory service. Operating processes and approaches have been unified and standardized due to these measures. In general, the past year was dedicated to formation of interaction processes both in divisions and with other subdivisions of the Company.

Picture 13. Effect on free cash flow for 2014–2018



Shared services centers (hereinafter referred to as SSC) for legal support and the financial SSC have been established, and that allowed standardization of processes and thus increasing productivity, reduction of time required for operations.

Administrative department and Property management service have been separated from the structure of the central office into newly created administrative SSC. This step is the beginning of consolidation of administrative and economic functions, transport support and property management. Thus, 5 SSC are currently in the structure of Long Distance Communication Association. It is planned to separate the SSC into the branch “Service factory”, which will provide support for business of the Company as a whole.



In 2018 one of the key indicators included promotion of services FMS – converged end-to-end solutions of fixed and mobile communications. During the year, the customer base has extended more than twofold, increasing from 398 thousand to 896 thousand.

It is important not only to sell, but also to keep our customers in a competitive environment. Reactive approaches have been revised and new proactive approaches have been developed for control of customer outflow. As a result, we have kept 200 thousand customers. Connection of tariff plans with annual contract has become an additional new tool for keeping customer base and guarantee of service consumption. Number of such connections amounted to 145 ths.

Vacation and sale of premises for KZT 1 bln have been performed in the framework of optimization of property management.

Implementation of projects of direction “New businesses” has been continued: Internet-retailer chocomart.kz and intermarket.kz sold products for KZT 550 mln in the project of e-commerce service development; coverage was extended to approximately 45 ths cameras to “Cloud- based video surveillance” platform on segments B2C/ B2B/B2G, wireless a low-power wide-area networks LoRaWAN have been built in 14 cities of Kazakhstan.

Project “Open digital platform for small and medium business” is being implemented in the framework of the State program “Digital Kazakhstan”. The platform is an aggregator of services required to ensure functioning of business throughout the life cycle of an enterprise. At the end of 2018 approximately 140 services were available on ismet.kz.

Operating results

Key achievements byproducts and segments

B2B

In the B2B segment Kazakhtelecom JSC strives to ensure that all solutions fully meet customer needs in professional communication solutions based on quality and convenience. Kazakhtelecom JSC provides the following services in this segment:

- fixed services;
- converged services;
- information and communications, including cloud services.

Fixed communication services in this segment include services of traditional telephony and broadband Internet access under Megaline Business and ID Net Business brands.

At year-end 2018, more than 20 thousand points have been connected into corporate networks in Kazakhstan and abroad by services of VPN (virtual private network) of Kazakhtelecom JSC. VPN services are the basis for establishment of distributed corporate networks for a large scope of businesses in the country and offer a wide range of opportunities of overlay network structure with L2- and L3-technologies.



Rafael Abykhanov
Chief B2B Officer – Chief Officer of
B2B division of Kazakhtelecom JSC
branch

"This year we summarized results of strategic cycle and dramatically reconsidered trends of the outgoing year. 2018 for us has become a year of transformation start for strengthening competitive advantages, including technological leadership and a diversified portfolio of services. Investments in infrastructure allow us to be one step ahead in terms of providing services to our customers. We have confidence about our future and successfully implement complex long-term projects with our strong team of professionals."



Intellectual services of Kazakhtelecom JSC are universal solution for B2B segment, which allows to organize operative collection or provision of any information by phone in automatic or semi-automatic mode, as well as to provide its customers with other additional services: free call, fee-based information service, TV voting.

Development of ready-made solutions for business included a large scope of preliminary work, including segmentation of the market of legal entities. For optimization of work, customers were divided into the following segments: state organizations, large corporate clients, medium business, small business, individual entrepreneurs.

It is important for Kazakhtelecom JSC as the leading telecommunication and infocommunication operator of Kazakhstan to be at the forefront of technology development and new services.

Offers of telecommunication services for the B2B segment within the segment-oriented model are focused on providing comprehensive solutions for the customer, developed with consideration of specifics of a legal entity, instead of offering services of a single type. In view of this, solutions for each segment were developed: from large corporate clients to individual entrepreneurs:

- end-to end solutions for medium and small business, including high-speed Internet access, telephony services, unlimited long-distance calls in Kazakhstan and in the network ALTEL/TELE2;
- service “Cloud-based video surveillance”: transport and data storage system – connection of customers’ camera to protected communication channel and cloud-based data storage with capacity up to 30 days;

- package “Universal number for business” – option for call forwarding from mobile phones and fixed-line numbers to mobile phone of a customer. The package includes unlimited calls and 4G Internet access;
- Wi-Fi for business enables managers and owners of business centers, restaurants, cafes, universities, schools, parks and other public places to provide their visitors with high-speed Internet, posting useful information, advertising, information about promotions and offers, while potentially increasing the loyalty of customers and visitors, customer traffic and own revenue;
- IT solutions for business with services: cloud webinar, cloud videoconferencing, data storage system, virtual number, Colocation.

In order to implement a flexible tariff policy for large corporate clients and medium businesses, the Company has implemented a mechanism for formation of product packages using the automated discount system module, which allows to take into account the interests of both customers and the Company. Ready-made SOHO package products have been developed and are distributed actively for small business and customers of SOHO segment.

Internet access services for public authorities are provided by centralized connection through a single gateway with maximum coverage of the territory: availability of services in more than 100 settlements of Kazakhstan.

In 2018 Kazakhtelecom JSC continued implementation of strategically important innovative projects in relation to B2B segment. The following services have been launched and put into commercial operation:

1. "Online access to cameras for video surveillance";
2. "Cloud-based information accounting and planning system for administrative and economic activities" (Cloud-based accounting);
3. "Connection to the common platform "Digital map of medicine of Kazakhstan";
4. Test-market sales of FMC services have been launched – One contact (fixed mobile convergence) – technology integrating fixed and mobile communications) with further transfer to commercial service;
5. In December 2018 the pilot project "Cash register leasing" was launched in Astana, Almaty, Shymkent with test-market sales of 300 CR.

In 2018 product "Video Surveillance platform and data storage system in B2B, B2G segments" was launched. In relation to this product Kazakhtelecom JSC and MUS "Municipal monitoring and response activity center" of Astana administration have signed the Memorandum on collaboration for implementation of the project "Municipal video surveillance system". Estimated up to 32,000 video cameras will be connected.

The result of further development of converged products is the launch of FMC solutions in B2B segment and M2M projects. These services for B2B segment include telephony, data transmission services for small and medium businesses and M2M solutions based on fixed and mobile networks. Mobile office, Cash register (FDR) services have been developed and introduced in this direction. According to the Decree of the Government of the Republic of Kazakhstan, Kazakhtelecom JSC is defined as a legal entity providing transfer of information on cash payments on an on-going basis to tax authorities through

public telecommunications. In 2015 the project on introduction of cash register equipment with data transfer function was launched for the purpose of modernization of existing system of application of cash registers in the Republic of Kazakhstan, as well as for improvement of monitoring and analysis of cash transactions. Number of connected cash registers amounted to 156,073 CR at the end of 2018. In December 2018 the pilot project "Cash register leasing" was launched in Astana, Almaty, Shymkent. In order to extend the project for the whole country in the second quarter of 2019, it is planned to distribute approximately 3,000 cash registers under rate "Cash register leasing".

One of the main directions of the state program "Digital Kazakhstan" is the project "Smart City", and in the framework of this program Kazakhtelecom JSC, as an infrastructure operator, took an active part in the project "Smart Aqkol" jointly with partners Tengrilab LLP and Eurasian Group LLP. The main goal of the project is creation of a conceptual model "Smart City" on the basis of aggregation of information flows for establishment of cities managed by data.

The following activities have been implemented within the project by efforts of Kazakhtelecom JSC :

- 17.5 km of fiber-optic communication line has been laid to 9 social facilities (schools, hospital, District Department of Internal Affairs, municipal and district administrations (akimats), cultural center);
- public Wi-Fi (central square, school, hospital, total 34 connection points) has been arranged;
- Wi-Fi has been provided in municipal transport;
- complete coverage of LoRa network for reading 4,500 water meter counters has been provided;
- municipal video surveillance system has been arranged (62 cameras for public and road safety, 24 cameras for hall video surveillance);
- Smart Building system has been installed in district administration (akimat) and School No. 1



- (smoke/fire sensors, door opening, motion sensors, video camera and sensor controller for data collection);
- environmental monitoring system (3 sensors record air pollution (SO₂), nitric oxide (NO), benzene (C₆H₆), nitric oxide (NO)) has been installed;
- automated system of remote traffic control (3 crossroads) has been installed; remote control of fire safety systems (8 facilities) have been installed.

In the framework of program “Digital Kazakhstan” situation center of Aqkol has been built, the center is equipped with required infrastructure for visualization of solutions for control of utilities, aggregation of reliable and timely data on urban resources, ensuring security.

The total area of the situation center is more than 400 square meters. The facility has been designed with use of the best world practices. The main premises of the center are: operational room for 9 operators, equipped with a video wall to display the most relevant information and a crisis room for more than 12 people with a video conference system for interdepartmental interaction.

Data aggregation and processing is carried out in the data processing center of Kazakhtelecom JSC of bunker type, which is unique and allows, without limitation, to reserve the necessary engineering infrastructure, to minimize the risks of forced penetration and data destruction. The bunker has been built underground as per high standards in 1973 in geographical distance from industrial zones.

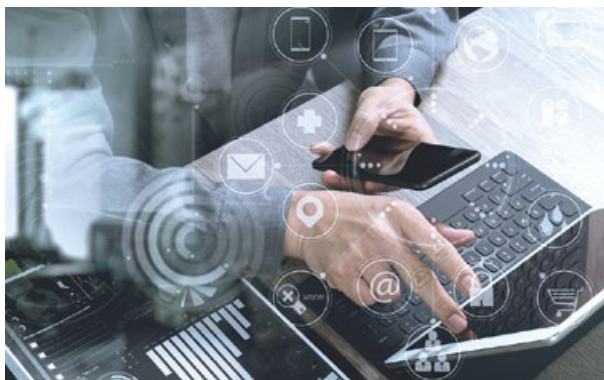
Tengri Lab LLP has created the intellectual and analytics platform for data processing, data correlation and forecasting events. Furthermore, under the project the following facilities have been implemented:

- geographic information system consisting of 18 layers;
- access control and management systems in educational facilities;
- smart public lighting system, (250 lighting facilities);
- integration of industry and government information systems.

Urban mobile application for access to municipal services and messenger has been developed for simplification of communication between citizens and officers of administration (akimat) and municipal services.

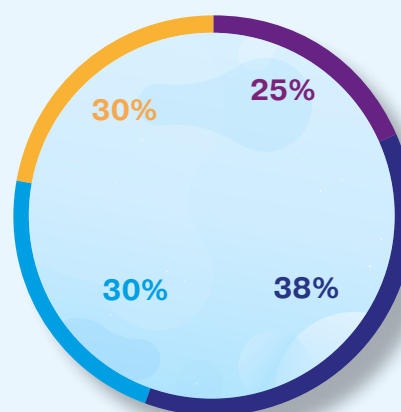
It should be pointed out that in relation to Internet of Things Kazakhtelecom JSC has completed the first stage of the project on construction of the largest in the Central Asia network M2M/Internet of Things on the base of LORA and Zigbee technologies (network data cover all market segments of Internet of things: apartments, detached houses and entrances in B2C segment; street confines of the city, apartment houses, administrative buildings, industrial facilities and roads in B2B/B2G segment).

B2O



In operator segment (B2O) Kazakhtelecom JSC, providing services for connection of telecommunication networks and transmission of inter-network traffic, access to the Internet and renting channels, provides interaction of networks of communication operators of Kazakhstan, strictly adhering to the current legislation and principles of mutually beneficial partnership. The Company is committed to the preservation and development of competitive advantage factors – availability of required amount of network resources to connect the networks of operators and pass all kinds of traffic, an extensive telecommunications network built on modern digital equipment with high bandwidth capacity, providing high-quality and reliable service to operators and their subscribers. Over the past years, group of companies of Kazakhtelecom JSC constantly takes steps to ensure the competitiveness of Internet access services for ISP-providers of Kazakhstan and lease of main communication channels, with annual reduction of rates and improvements of reliability and quality, expanding the geography of transit services in Europe, Russia, Central Asia and China.

Picture 14. Kazakhtelecom JSC market share in operator segment



- Uzbekistan market is estimated at 400G of transit. Kazakhtelecom sales – 100G. Market share 25%
- Kyrgyzstan market is estimated at 180G of transit. Kazakhtelecom sales – 90G. Market share 38%
- transit market China-Europe through the territory of Kazakhstan is equal to 300G. Kazakhtelecom sales – 100G. Market share 30%
- total market volume 910G of transit, sales of Kazakhtelecom – 290G. Market share 30%



Kaspars Kukelis

Chief B2C Officer – Chief Officer of B2C Division of Kazakhtelecom JSC branch

“2018 was a year of establishment and start-up, a year with challenges for the B2C Division: highly competitive environment required adaptation of the business model, development of product packages that accurately satisfy needs of Kazakhstan people. This could not happen without significant changes in all areas of the B2C segment: from planning and finance, to sales and customer experience management. Significant basis was founded in 2018: unprecedented for Kazakhstan rate card has been launched, internal processes have been simplified and become more convenient for customers. These initiatives started in 2018, but B2C team has a lot of work to do in the coming years.”

B2C

In the retail market of communication services (B2C) Kazakhtelecom JSC provides innovative high-tech telecommunication solutions for end users in the following directions:

- fixed-line services;
- Pay TV services;
- converged services;
- package solutions.

Fixed-line services

Fixed-line services include traditional telephony and broadband Internet access using advanced technologies. In this direction, the following services have been launched into the mass market B2C:

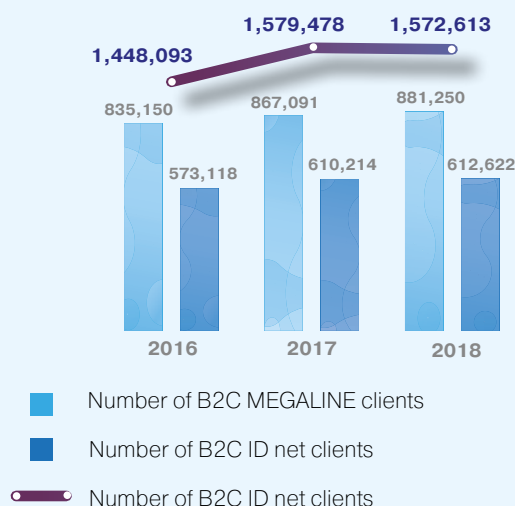
Virtual telephony

The service was launched in 2009, and now more than 150 ths. subscribers are connected to the service in all regions.

Broadband access to Internet

Access services have been available since 2005. At the present time the range of tariff plans for this service contains offers in various price segments, depending on parameters of the service. Kazakhtelecom JSC provides access to the Internet by high-speed FTTH technology with access speed up to 1 Gbit/s, which significantly exceeds the capabilities of competitors. According to data of 2018, more than 1.6 mln households in all cities and towns of Kazakhstan are connected to the service.

Picture 15.



Kazakhtelecom JSC also offers its subscribers Internet access service based on wireless solutions, such as WLL CDMA EVDO in rural settlements, Internet access via Wi-Fi technology in public places. Despite fixed mobile substitution, in 2018 Kazakhtelecom JSC preserves its leading positions by share of fixed-line service market in B2C segment – 94%. Now fixed telephony services of Kazakhtelecom JSC may be obtained with the package of unlimited calls in different regions of Kazakhstan and CIS countries. In the competitive environment, where subscribers move to mobile network as per world telecommunication market trends, customer base of broadband Internet access services of Kazakhtelecom JSC reached about 1.6 mln subscribers in 2018.

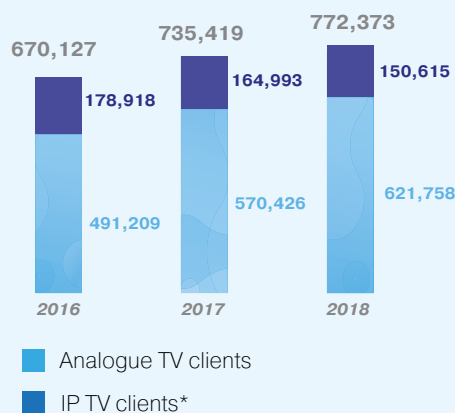
In order to increase ARPU of subscribers, revenue of the Company, as well as increase loyalty to the services, Kazakhtelecom JSC takes additional efforts for development of additional services and modernization of existing ones.

Pay TV services

In 2018 the Company continued to develop and promote digital TV services, including video by request and subscription, karaoke, HD TV package and online access to broadcast TV. In 2018 customer base of Pay TV services including B2B segment amounted to more than 770 thousand subscribers, of which more than 620 thousand subscribers are subscribers of digital television IP TV.

Development of this business area involves preservation of one of the leading shares in the market of paid TV from the one side, and from other side – ensuring implementation of principle of packaged offers (sale of package of services: high-speed Internet access, IP TV and telephone connection) through a wide range of service packages including integrated solutions, as well as provides growth of long-term competitive advantage through the integrated provision of content via different devices: Smart TV, mobile devices, personal computer, etc. with provision of wide range of TV channels and video content.

Picture 16.



*Including B2C, B2B segments



Converged services

In 2018 the important driver of development of the Company was active development of convergence of fixed and mobile networks. In the framework

of partnership with Tele2/ALTEL, the required technological base for development of such services was provided. This direction is presented in the market by FMS products. Services "Universal number" and FMS are prominent representatives of convergence of fixed services with mobile

services, and erase the boundaries of perception of subscribers in relation to traditional communication. Number of subscribers connected to FMS service - more than 850 ths, that represents 3% of the mobile communication market or 84% of the convergence market.

Package solutions

In accordance with the trends of telecommunication market development and changes in preferences of users of communication services, Kazakhtelecom JSC focuses on the development of packaged offers.

According to the profile of services consumption in the B2C segment, significant groups were identified for which the structure of package solutions was developed taking into account the needs of each subscriber (household) and aimed at meeting the family needs of different micro-segments. The package structure contains basic fixed communication services with various technical parameters and its additional services (VAS).

At the end of 2018, the customer base of subscribers connected to the Supertelephone service packages, amounted to about 1,537,998, to the packages with broadband access services – 1,572,613, with TV services – 751,345.

Special attention should be paid to the new rate cards, which was launched at the end of 2018. In 2018 the Company adopted a new business model in the B2C segment, which allowed to change the

Company's positioning in the market. New positioning is oriented on increasing customer lifetime value (CLV). Increase of such indicator of subscribers is achieved through introduction of a system of long-term contracts with customers, which provides mutual guarantees, not previously in place on the market. The Company provides the customer with the opportunity to obtain higher parameters and a list of services at affordable rates at the conclusion of a long-term contract. Customer secures long-term loyalty by a contract. Termination of contracts is not economically beneficial to both parties. Contracts with duration up to three years allows the Company to increase the customer lifetime value (CLV) significantly and to reduce costs for maintenance of customer base. The new business model and product line are aimed both at keeping and at attracting new users in the market. All packaged offers (packages) are formed by FMS principle.

The business model has been implemented by launching a new rate card from December 1, 2018. Additional features of the new rate card are as follows:

1. Arrangement of unique offers, which are not subject to copying by competitors (new packages of TV channels, high speed broadband access with FttH technology: from 200 Mbps to 500 Mbps.);
2. Impressive price level aimed at attracting new users in the market;
3. Implementation of the system of guaranteed contracts on a long-term basis with the offer of a more valuable product by increasing the term of the contract;
4. Providing the subscriber with an independent option to choose additional services.

Also, Kazakhtelecom JSC actively develops information security services and expands the range and functionality of services. Additional agreement with RentSoft LLC has been concluded in relation to inclusion of Kaspersky Internet Security into existing rate cards of Kazakhtelecom JSC at the exclusive price. Manuals for installation/uninstallation and control of Kaspersky Anti-Virus for the purpose of simplification of representation of the product and unloading technical support.

New business areas

The new strategy is a digital business strategy

New business areas and products in the Internet of things (IoT) market

Internet of Things (IoT) technologies allow to obtain universal method for data collection and management of automated system components, saving labor costs. Internet of Things market in Kazakhstan is at a nascent stage and has significant potential for growth of telecommunication market. Considering main trends in Kazakhstan and the world, Kazakhtelecom JSC actively participates in formation of Internet of Things (IoT) market, which will be a key growth driver for IT-industry incomes the nearest ten years. Kazakhtelecom JSC estimates that by 2025 Kazakhstan will have about 100 mln devices connected to the Internet of Things, which will be 3.5-fold more than in the mobile market. The market volume in the country will reach USD 251 mln by 2025.

Taking into account the potential of Internet of Things market growth in Kazakhstan, in 2017 Kazakhtelecom JSC initiated 2 projects in this area for B2C and B2B/B2G segments:

1. Project on development of Smart Home product for B2C segment;
2. Project on development of Internet of Things products for B2B/B2G segment based on LoRa network.

The projects above cover all segments of Internet of Things market: apartments, detached houses and entrances in B2C segment; street confines of the city, apartment houses, administrative buildings, industrial facilities and roads in B2B/B2G segment.



Batyr Makhanbetazhiyev
Chief Strategy Officer
Kazakhtelecom JSC

"Kazakhtelecom JSC, the industry and Kazakhstan face challenges of the digital age. The economy of the whole country is in the process of transformation, and it requires transformation of our approaches to business. Establishment of "Digital Kazakhstan" means national implementation of several technological innovations, launching new business areas and significant transformation of the existing industry of telecommunications.

And we do so. From the strategical point of view the Company moves in the directions founded in 2018: technologies of Internet of Things (IoT) have become key elements of our investments, and such directions as e-commerce and Fintech require a non-standard approach from the Company in relation to establishment of new businesses".



Smart Home product for B2C segment

In 2018 the project on development and launch of Smart Home product for B2C segments was implemented, aimed at household security. In 2018 as part of the project cloud-based platform Smart Home was developed and launched, which allows to users of Smart Home products to control Smart Home devices in own houses through a special mobile application. Smart Home platform is designed for 5 mln devices and up to one mln unique users.

Furthermore, in the framework of the project, the mobile application Smart Home was developed, which is available for download and installment at Android and iOS devices.

Users of Smart Home services have special controller Smart Home with technology ZigBee and the following Smart Home devices installed in their households: video camera, motion sensors, door and window opening/closing sensors, smoke sensors. All Smart Home devices operate on internal battery and do not require power supply, as well as such devices are connected through wireless access technology ZigBee to personal controller Smart Home and do not require wired connection.

With use of cloud-based platform Smart Home and mobile application, users of Smart Home may watch video stream from cameras in an apartment in real-time mode, set various work and control scenarios of Smart Home devices, as well as to obtain notifications from sensors.

Internet of Things (IoT) products based on LoRa network for B2B/B2G segment

Furthermore, in 2018 Kazakhtelecom JSC implemented the first stage of the project on development of IoT products based on LoRa network for B2B/B2G segment. As part of the 1st stage, construction of the largest energy-efficient LPWAN network based on LORA technology in Central Asia has been started.

In 2018 97 LoRa base stations were installed covering all apartment buildings, buildings and rural settlements in Astana, Almaty, Shymkent and Aqkol.

In total, is is planned to install more than 400 LORA base stations in 19 cities, covering more than 30,000 apartment buildings, approximately 1.5 mln apartments and 6,926 square kilometers of urban area, in the framework of the project.

The advantages of the LoRa network is high scalability due to the large coverage radius (up to 25 km), long battery life of end devices (up to 10 years), and open nature of its protocol for a wide range of devices. This Internet of Things network will be the main infrastructure for implementation of solutions and products for the smart city:

- Smart Metering: automation of data collection from metering devices (water, electricity, gas, heat);
- Smart Lightning: smart lighting, remote control and monitoring of urban lighting;
- Smart Parking: smart parking;
- Smart Asset Management: smart management of city assets such as manholes, dumpsters, etc.

Project on development of smart city “Smart Aqkol”

In 2018 in the framework of main directions of the State program “Digital Kazakhstan”, Smart Aqkol project was implemented in Aqkol of Akmola region. In fact, Smart Aqkol is a demonstration platform of opportunities and solutions of Kazakhtelecom JSC for development of smart cities. Aqkol is the first city in Kazakhstan, where most of the available elements and solutions of smart cities are implemented.

Product “Cloud-based video surveillance” for B2C/B2B/B2G segments

In 2017 Kazakhtelecom JSC commenced implementation of the project on cloud-based video surveillance. The first stage of the project was oriented on preparation of the infrastructure in 8,911 entrance hallways and connection of 16,940 cameras to the cloud-based video surveillance platform, which ensures collection and storage of video data from cameras installed in hallways of apartment houses in 18 regions of Kazakhstan.

Advantages of cloud-based video surveillance include online access to video from a smartphone and other devices through developed mobile application and web-portal.

Furthermore, option to watch archive video records with a storage duration of up to 7 days is provided, security of video data storage in DPC of Tier 3 class and integration with OCC of MIA/DIA at the national, city and district levels. Territory of service provision: / Almaty, Nur-Sultan, Shymkent and 14 regional centers.

In 2018, the 2nd stage of the project was implemented, within the framework of which the resources and platform of “Cloud-based video surveillance” were expanded:

1. Coverage has been expended to 33,880 video cameras in 17,822 hallways in B2C segment;
2. Coverage of the B2B/B2B segment by cloud-based video surveillance cameras has been provided by over 11 ths cameras;
3. Video storage servers have been extended to about 12 Petabytes;
4. Network interface with the cloud-based video surveillance platform has been extended to 100 Gbit/s.

Thus, in 2018, ability to connect more than 45 thousand video cameras was provided.

Furthermore, product of cloud-based video surveillance was launched for B2B/B2G segments, and pilot projects with state authorities in relation to online access to video cameras, installed in public places, were implemented. In 2019, it is planned to increase the functionality of the platform, including customized characteristics and use of video analytics functionality.

Blockchain

In 2018 hardware and software system was implemented. This system represents four blockchain hardware nodes in Pavlodar, Aktobe, Shymkent, Karaganda, which operate under the control of the blockchain platform Hyperledger fabric. Also, within the framework of this project, a product for provision of computing and infrastructure resources of Blockchain under BaaS (Blockchain-as-a-Service) concept was formed. Furthermore, Kazakhtelecom JSC joined ALE “National Association of Blockchain and Cryptotechnology” in order to participate in the process of standartization of blockchain technology in Kazakhstan. In 2019, it is planned to put the Baas product into commercial operation.



E-commerce

At the end of 2017, Kazakhtelecom JSC completed the deal on acquirement of assets of online stores – chocomart.kz and intermarket.kz.

In 2018, the site was visited by more than 1 mln users, more than 30 thousand calls were processed. In order to develop these projects, works on increase of the range of products on the site from 30,000 to 40,000 products were carried out. Such categories as furniture, children goods, jewelry, flowers are connected. Large network partners of the country are connected. A separate brand book was created.

Technical integration with stores Homeshop and Forte Market was conducted. More than 3,000 products are presented on the showcase of the bank. Pick-up point of goods in the building of Kazakhtelecom JSC in Almaty was opened.

It is planned to expand the range of goods, establish cooperation with banks and redesign the site in 2019.

Ktstore – marketplace (platform for sellers of goods) has been developed by own means of Kazakhtelecom JSC. In 2018 a beta version of the product was developed, the product of Halyk Bank of Kazakhstan JSC – Home orange was integrated on the website. The layout of the showcase, personal account of the seller, technical infrastructure (CI, docker, ELK – monitoring) were developed. Marketing-kit for partners was created. Launch of ktstore is planned for the second quarter of 2019.

Fintech

Fintech is a payment system of ktpay developed by own means of Kazakhtelecom JSC.

In 2018, the MVP version of the electronic payment system was created. 406 services were implemented in ktpay product. Works on creation of a payment widget, an interface for accepting payments on various commerce platforms have been commenced. Security of the product was strengthened with 3D-secure code. Mobile application for iOS and Android was created. Works on authorization in the application using Touch ID/ Face ID were performed. Operation of the product is carried out in test mode.

Joint operation agreement for receiving payments has been concluded with Kazakhtelecom JSC. It is planned to introduce a widget on the website telecom.kz. Works on obtainment of license of payment organization are being carried out. Commercial launch is planned for the second quarter of 2019.



Telco Cloud

Kazakhtelecom JSC has commenced active development of technological and infrastructure projects in the framework of the Strategy for shareholder value increase. One of such projects includes "Migration of data transmission networks to SDN/NFV", within which it is planned to create a new architecture, including replacement of a great number of nodes and OCC for high performance platform of virtualized network and computing services. In 2018 for these purposes 28 aggregation level switches were installed and connected for modernization of Metro Ethernet networks in Almaty, Atyrau, Shymkent, Taldykorgan and Kokshetau. Target architecture CORD (Central Office as a Data Center) was developed, which included server facilities OCP (Open Compute Platform) and plant Leaf & Spine. Operation of the virtual environment VIM based on RedHat OpenStack was checked and VNF (virtualized network function) – end services in the virtual environment were tested.

In 2018 bandwidth capacity of caching platforms was increased. Google Global Cache has been extended to 300Gb/s, and Akamai AANP – to AANP. Taking into account the connected cache cluster Facebook Network Appliance of 160 Gb/s, total cached traffic is about 500 GB/s and saves KZT 2.2 bln. It is planned to expand Google Global Cache and organize an interface with Amazon CloudFront service in 2019.

5G

In 2018 the Company commenced surveys in the field of development of 5G, signing the Memorandum on understanding on joint study of 5G technology capabilities with Samsung, and achieved agreements on pilot testing technologies jointly with Nokia corporation. Kazakhtelecom closely studies trends and considers 5G technology for creation of infrastructure services and new business opportunities. In 2018 works on active implementation of 5G technology in Kazakhstan were commenced:

- concept and plan of 5G testing in Kazakhstan were developed;
- frequencies and geographic locations for 5G testing were defined;
- agreement with the manufacturers to provide 5G equipment for testing was reached;
- testing of 5G Beamforming element (phase antenna array, forming a narrow beam) for application in fixed wireless networks 5G FWA was carried out.



Marat Abdildabekov
Chief Information Technologies Officer
of Kazakhtelecom JSC

“Our future is in new development directions. All our projects and initiatives since 2018 are the key elements of the new strategy and the new Kazakhtelecom, an integrated digital service provider. We entered the e-commerce market, realizing that our value is the knowledge we have about the needs of our customers in the new economic realities. We strive to meet these needs, both in the market of end users, and in support to small and medium businesses, providing tools for interaction in the digital environment. Digital platform for small and medium businesses “ismet.kz”, implementation of functions of the fiscal data operator, as well as the electronic payment system ktpay – our first steps to create a digital financial ecosystem based on big data and satisfaction the demand of customers and businesses in digital financial services.”

Corporate information systems

As part of the automation of business processes of Kazakhtelecom JSC in 2018, centralization of Directories of the Company's branches was completed. CRM 2.0. was launched for order in 100 seconds. The distinctive features of CRM 2.0. include simplified user interface, possibility of flexible reconfiguration of the system without downtime, advanced integration with technical accounting systems change management system of telecommunications network (CMSTCN), billing, order management. As a result of launching of CRM 2.0, ordering time was reduced due to new model of data and optimization of user interface, control over data was increased, setting of product offer was centralized, control over connection of service package by segment, branch, sales channel.

Open digital platform for SMEs

In 2018 Kazakhtelecom JSC launched project “Open digital platform for business ISMET.kz”. The project is implemented within the framework of initiatives on creation of information basis for Kazakhstani business and development of new businesses and markets by the infocommunication operator, introduction of digital marketing methods to provide customer- and segment-oriented approach to sales.

The platform aggregates digital services of Kazakhstan IT companies, which automate such processes as recruitment, partner search, document management, cash, accounting and tax accounting. Functionality for communications was implemented on ISMET.kz: blogs, section “Questions-answers”, business news and informative articles on business topics. Also, IT Company, integrating its solution on ISMET.kz, has opportunity to enter the potential target market. The platform provides entrepreneurs with modern tools and knowledge for doing business. The portal aims at becoming a single resource for businessmen, whether it is a consultation, advice or software solution.

Digital map of medicine in Kazakhstan

In 2018 Kazakhtelecom JSC launched a new product for medical facilities into the market under the name "Digital map of medicine in Kazakhstan". The project is implemented based on cloud technologies. It integrates and standardizes the websites of medical facilities of Kazakhstan on a single platform. The main users of the service will be citizens of the Republic of Kazakhstan, for whom the portal will aggregate information about all medical facilities and physicians of the country with a system of ratings and reviews.

In 2018 the service was launched in pilot mode in 70 clinics of Kazakhstan.

Cloud-based accounting

Cloud-based accounting service was launched in 2018 in Pavlodar facilities. More than 100 schools and kindergartens are connected to the service. The system of cloud-based accounting automates accounting, personnel records and accounting of the population movement (students), which is most important in terms of introduction of per capita financing in education.

This service will allow bodies of state and local governance to obtain reliable and timely information on the results of financial and economic activities of educational institutions and the actual use of budgetary funds, with reference to students and teachers.

In 2019, the project is planned to be replicated in other regions of the Republic of Kazakhstan.

Single portal of Kazakhtelecom JSC – telecom.kz

At the end of 2018, the digital sales channel accounted for more than 15% of the total sales in the retail segment. Dynamics of visits to the site increased from a monthly figure 143,791 in August to 257,238 in December. In particular, on December 14, 2018, there was a peak daily attendance of 25,519 visits for the entire existence of the site. A new optimized design of the site was developed, the site map was optimized, which allowed search engines to see the resource as transparently as possible.

Online sales of new products and partner services were launched.

Big Data

The Project "Big Data" has been implemented in Kazakhtelecom JSC since 2018. A hardware and software complex for machine learning based on open source software has been launched, the main components of which are the subsystems Data Flow, Big Data Analytics System, Marketing Automation System and Event Processing System.

This project allows you to build a 360-customer profile, perform segmentation, targeting and identify the main interests of customers.

Joint IT and business subdivisions teams on data analysis were identified. Main priorities of 2018 included business cases for reduction of outflow, upselling, cross-selling of services of Kazakhtelecom JSC, e-commerce services, as well as issues of external data monetization.



Alexander Lezgovko
Chief Technical Officer of
Kazakhtelecom JSC

“Digitalization of the country for us means, first of all, expansion of use of telecommunication services, thus we have launched project “Fiber-optic communication lines in rural settlements” as infrastructural basis for new digital economy. The main goal is to provide public and social facilities in rural area with services implemented under the project “Digital Kazakhstan”: for schools – access to educational content and projects offered by the Ministry of Education and Science of the Republic of Kazakhstan; for law enforcement authorities – ability to establish own corporate networks; for medical facilities – ability to use achievements of telemedicine and common information bases. All that is impossible where territories do not have telecommunication infrastructure, and, therefore, the public has not equal rights for use of all state services”.

Network infrastructure and communications

Project “Provision of broadband access by fiber-optic communication lines technology for rural settlements”

One of the key events of 2018 is the commencement of construction of fiber-optic communication lines under the project aimed at providing broadband access to rural settlements in accordance with the State program “Digital Kazakhstan”. It is planned to construct more than 15 ths. km of fiber-optic communication lines and connect almost 2.5 thousand public institutions in 828 settlements to the trunk channels within two years.

This is the first project of comparable magnitude implemented through the mechanism of public-private partnership: Kazakhtelecom as the private partner will build fiber-optic network, connect state facilities and state-funded organizations, provide services at its own expense by the end of 2020. Developed infrastructure may be used for provision of services to other market players, including through the provision of resources to mobile companies for construction of internal networks and rendering full scope of telecommunication services. By the end of 2018 Kazakhtelecom JSC provided connection of 27 SF/SFO in 7 rural settlements in the East Kazakhstan, Pavlodar, Aktobe and West Kazakhstan regions, constructed optical access networks to 79 SF/SFO in 27 rural settlements for connection in the first half of 2019. In addition design and survey works were commenced with development of DED for connection 1 352 SF / SFO in 462 rural settlements in the second half of 2019.

Development of the trunk transport network

In 2018 works on construction of the trunk network DWDM in the framework of the project on extension of bandwidth of the existing National information superhighway (NISHW):

- total capacity of external Internet channels was increased from 890 to 940 GB/s;
- Installed capacity of DWDM trunk network equipment was extended by 1 380 GB/s for extension of border transition, by 440 GB/s for pass of transit traffic, by 1 330 GB/s for pass of backbone data network traffic;
- DWDM control system software was updated, providing additional functional system options;
- Additional input/output structure at junctions ROADM was arranged in Karaganda, Pavlodar, Ust-Kamenogorsk, Taldykorgan, Taraz, Petropavlovsk, Kostanay to ensure traffic protection.

Backbone data network

Backbone data network was extended to 10 ports of 100G and to 296 ports of 10G. 1,497 channels with total bandwidth 585 Gb/s were arranged for B2O/B2B segments, and 300 channels with total bandwidth 1 Gb/s – for the B2G segment. Replacement for more productive core router of municipal networks of Pavlodar, Semey, Ust-Kamenogorsk, Kyzylorda was performed. / New equipment of municipal networks, supporting SDN technology, was installed in Atyrau, Kokshetau, Taldykorgan, Shymkent, and works on connection of access networks (DSLAM, MAD, etc.) to new equipment are being performed.

Introduction and development of IPTV service

- Network capacity was extended to 86,060 connection points to iDTV;
- New service has been introduced – remote connection of additional services IDTV (TV packages) through a call center;
- Servers for statistics collection have been updated;
- In Almaty IPTV Head End wase extended for receiving up to 40 TV channels in MPEG HD, FULL HD, 4K formats;
- Up to 70 HD channels are provided.

Local telecommunication networks

The local telecommunication network of the country is represented by 6,090 switching points (SP). Of which 3,158 SP are at urban telephone network (UTN), and 2,932 SP are at rural telephone network (RTN).

Total installed capacity amounted to 5,403,953 numbers, of which UTN capacity – 4,048,825 numbers, RTN – 1,355,128 numbers.

Kazakhtelecom JSC has also faced such world trend as abandoning fixed telephone lines, and negative growth of FL amounted to 447,087 units in comparison with the previous year, including 387,374 units by UTN, and 59,713 units – by RTN. Comprehensive measures carried out by the Company to prevent outflow, such as service bundling, improving service quality, switching telephony to the GPON network, allowed to keep an active subscriber base.

As of January 1, 2019, number of fixed lines amounted to 2,978,472 units, including 2,123,977 units by UTN, and 854,495 units by RTN.

In 2018 over 38 ths subscribers were switched from copper lines to FTTH network in the framework of optimization of telephone network of the Company. ATC-21 and RSU-238 were removed from service in



Ust-Kamenogorsk. By the end of 2018, the capacity of the broadband access network was increased by 116,433 ports and amounted to 2,420,855 ports, of which 41% is the capacity of GPON ports.

Providing rural schools with access to the Internet

At the end of 2018, out of 7,019 rural schools with a telephone line, 5,761 schools were connected to the Internet using broadband technology, including 75 schools in North Kazakhstan region and 40 schools in Kyzylorda region were provided with access to the Internet on the basis of radio access equipment with installation of switches at junction points.

Centralization of control of telecommunication

Project on centralization of control of telecommunication networks has been implemented in the framework of Orleu. Transformation program. At the end of 2018, automation level of the processes of the Unified network control center reached 95%, while labor productivity increased by 27%.

2018 is characterized by the qualitative development of management processes for changes in the telecommunication network (Change Management), elimination of damage of subscriber access network (incident Management) and, of course, quality management of telecommunication networks (Quality Management), along with the constant development of network performance management processes, resource accounting systems and troubleshooting of telecommunication network resources.

Effective operation of the three-level model of consistent specialization of personnel (Tier 1/2/3), established in accordance with the recommendations of TM Forum promote uniform distribution of the load on the staff and improves the quality of the network as a whole.

At the end of 2018, the average recovery time of the MTTR network decreased by 12% compared to 2017 and tends to decrease.

In fourth quarter of 2018 transition to seven-day service of subscribers in all regions of Kazakhstan was made without increase of personnel number in the framework of centralization of contact- centers. The average waiting time of a subscriber on the line decreased by 16% and amounted to 30 seconds. The efficiency of incident resolution has increased, which has led to a decrease in the number of claims filed by subscribers to the contact center "165" by more than 31%.

Implementation of technical solution for automatic activation/deactivation of TriplePlay services (high-speed Internet, digital TV and telephony as part of the packaged offer) on the basis of GPON equipment allowed significant reduction of terms for connection of such services for subscribers, as well as exclusion of errors of personnel in equipment configuration processes. The process of automatic activation of services is performed within one minute (instead of 4 hours in manual mode), which, of course, has a positive effect on the degree of customer satisfaction with the efficiency of work.

Management of mobile personnel

In the framework of the project “Management of mobile personnel”, over one and half thousand of technical specialists – fitters and installers are equipped with mobile terminals, which allows them prompt processing of applications of subscribers online. Ensuring development of staff mobility has allowed to improve efficiency of tracking the progress of tasks and determine availability of specialists, that, in turn, made distribution works on the network more optimal.

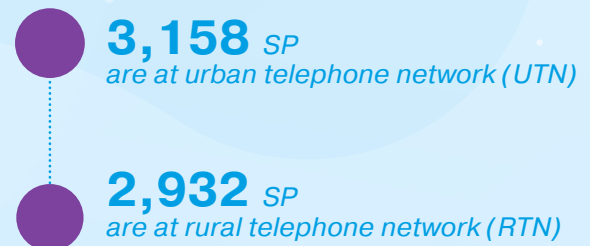
In 2018 mobile personnel worked out more than 1 mln requests for installation of services and repair of damage. Application of this mechanism of technical staff management allowed to improve productivity of this category of specialists by 10%.

Centralized VCIP

Not less significant modernization stage of service provision included the development of the Centralized VCIP Data Base, being a common integrating hub for technical record systems. The resulting effect of VCIP development is represented by a significant reduction in the time of determining the technical possibility of providing services to subscribers on the optical network from 4–8 hours to 100 seconds in Almaty.

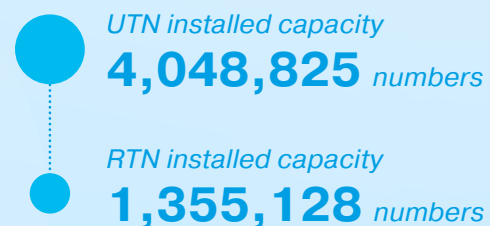
The local telecommunication network of the country is represented by

6,090
switching points (SP)



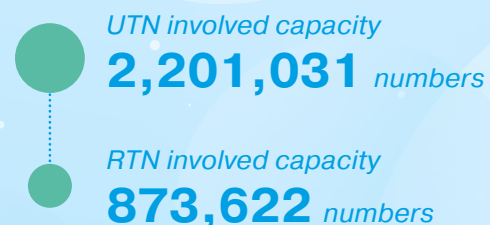
Total installed capacity AMOUNTED to

5,403,953 numbers



Total involved Capacity is:

3,074,653 numbers





Askhat Uzbekov
Chief Financial Officer
Kazakhtelecom JSC

“Financial stability of the Company is the key to the Company’s survival in the market. Stable excess of income over expenses, free and efficient use of funds ensured sustainable development of the Company in 2018. The consolidated net profit of the Company in 2018 amounted to a record KZT 42.8 bln Kazakhtelecom JSC acquired controlling stock of Kcell JSC, that will allow to increase its share in the mobile market up to 64%, to increase business marginality and provide opportunities for its further growth. Maintaining the credit rating of Kazakhtelecom JSC at the level of “BB+” reflects the high level of creditworthiness of the Company, effective risk management and successful preservation of leading positions in the telecommunications market in the Republic of Kazakhstan”.

Financial results

Key Financial Indicators

In 2018, the Company achieved positive results in implementation of the long-term strategy.

According to results of Kazakhtelecom JSC for 2018:

- the number of fixed lines in the network of Kazakhtelecom JSC amounted to 2,978,472 lines or 86.9% to the fact of 2017. The decrease in the number of fixed lines is due to abandoning fixed telephony services by users in favor of mobile communication, which corresponds to global trends;
- the number of broadband access subscribers amounted to 1,700,976 ports, or 101%, to the fact 2017;
- the number of paid TV subscribers amounted to 772,373 points or 105% to the fact of the last year, including ID TV – 621,758 points.

Consolidated revenues from the sale of services

under Kazakhtelecom JSC amounted to KZT 222,726 mln, which is 6% higher than of the last year. The plan was fulfilled by 103.5%.

Consolidated net profit amounted to KZT 42,883 mln, which is 72% higher than the planned value.

Profit before taxes, interest on credit and depreciation – EBITDA is 14% higher than the planned value. As a result, **EBITDA** in 2018 amounted to KZT 79,887 mln with the planned value of KZT 69,376 mln.

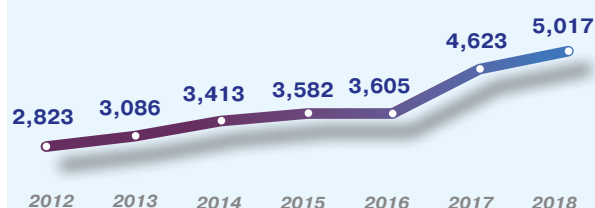
The **EBITDA margin level** of 35.9% exceeded the planned figures by 3.4%, which became possible due to implementation of the strategy aimed at improving efficiency of operating activities and cost optimization.

Consolidated expenses of the main activity of Kazakhtelecom JSC group of companies amounted to KZT 185,622 mln in the reporting period.

In 2018 **the amount of capital expenditure** in the group of companies of Kazakhtelecom JSC amounted to KZT 47,853 mln or 164.4% to the fact of the previous year. Implementation of the plan was equal to 88.4%.

ARPU (average revenue per user) reached KZT 5,017.

Picture 17. Dynamic pattern of ARPU, 2012–2018 (KZT)



Credit rating dynamics

The long-term positive credit history of Kazakhtelecom JSC is evidenced by the dynamics of credit ratings of the Company established by international agencies Standard & Poor's and Fitch Ratings.

On December 18, 2018, International rating agency **Fitch Ratings** confirmed and placed ratings of Kazakhtelecom JSC and Kcell JSC in the list Rating Watch "Positive" upon signing of the agreement on acquirement of 75% of voting shares in Kcell JSC by Kazakhtelecom JSC. According to analysts of the agency, acquirement of a controlling stake in Kcell JSC improved the operational profile of Kazakhtelecom JSC and market positions of the Company. Strong position in the mobile segment will complement the leading position of the Company in the fixed-line segment, including broadband communication.

Standard & Poor's. In December 2018 upon signing of the Agreement for acquirement of 75% voting shares in Kcell JSC by Kazakhtelecom JSC, the credit rating of the Company was also confirmed by the agency as "BB+", outlook "Stable". The Agency noted that the transaction will allow Kazakhtelecom JSC group of companies to increase its share in the mobile market up to 64%, to increase business marginality and provide opportunities for its further growth.

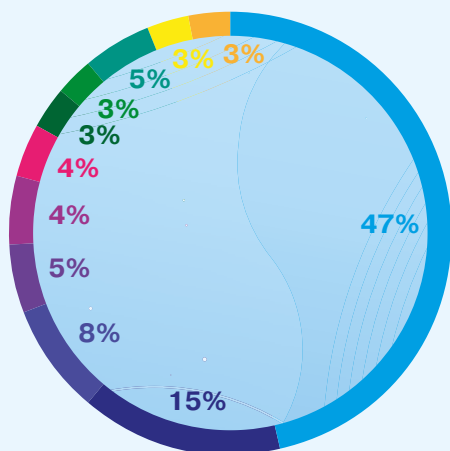
Maintaining the credit rating of Kazakhtelecom JSC at the level "BB+" even after closing the transaction on acquisition of a share in Kcell JSC is a positive event reflecting the high level of creditworthiness of the Company, effective risk management and successful preservation of leading positions in the telecommunications market in the country.



Financial review

Consolidated revenues from distribution of services by Kazakhtelecom JSC amounted to KZT **222,726** mln for 2018.

Picture 18. Revenue structure of Kazakhtelecom JSC group of companies



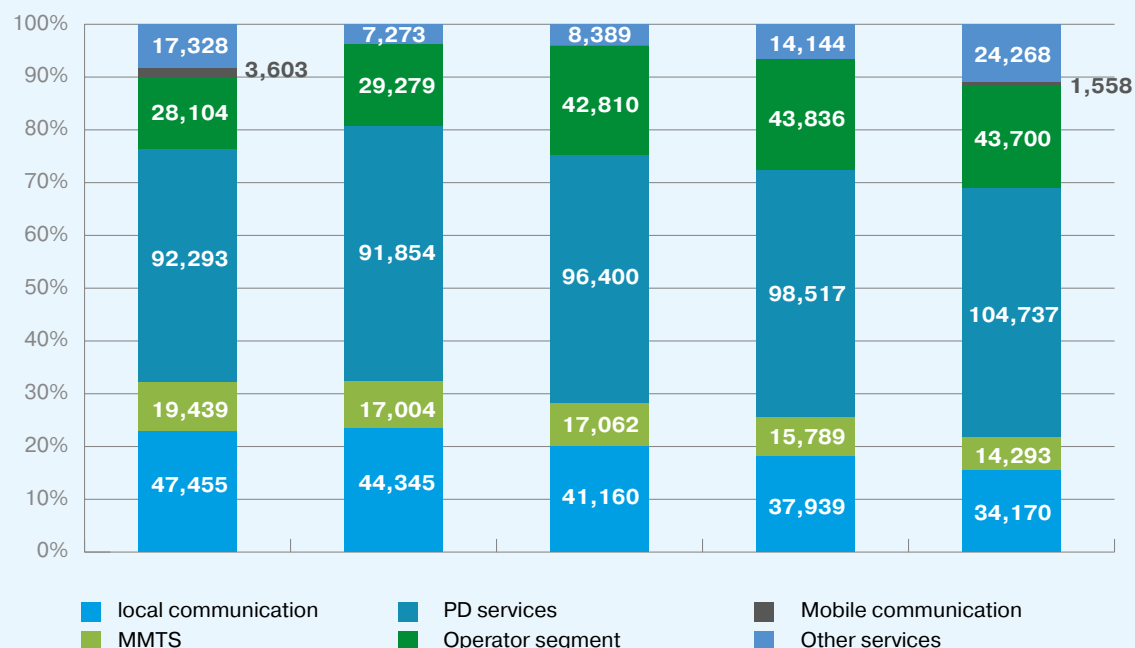
- Net of data transfer
- Local dialing
- Renting of transport channels
- Benefits on providing data transfer to communication operators
- Agreement with international operators
- Intercity international dialing
- Corporative info communication services
- Dialogues with clients of other operators, including mobile operators
- Other
- Benefits on providing of converged services (FMS/FMC)
- Benefits on agreement with communication operators, connected with Kazakhtelecom JSC

The largest relative share in 2018 belongs to revenues:

- from data transmission network services, the share in total revenue structure of Kazakhtelecom JSC amounted to 47.0%;
- from local telephone services, the share in the total revenue structure amounted to 15.4%;
- from leasing of the transport network channels, the share in the total revenue structure was 8.3%;
- from data transmission network services to communication operators, the share in the total revenue structure was 4.6%;
- under agreements with international operators, the share in the total revenue structure amounted to 4.0%;
- from long-distance and international telephone services, the share in the total revenue structure amounted to 3.6%.



Picture 19. Dynamics of the most significant revenue items for 5 years, mln KZT



Decrease of connections of fixed-line telephony and a decrease of voice traffic have been observed over last few years. As a result, the decline in growth rates of revenue from services of telephony services in the subscriber segment, due to:

- high level of penetration of mobile communication, low rates of mobile operators;
- the growing popularity of alternative types of dialing and substitute services (VoIP, Skype, WhatsApp, etc.).

There is also a slowdown in the growth rate of fixed broadband access, which is associated with increased competition, including through the development of mobile broadband access.

Kazakhtelecom JSC takes the following measures in order to compensate decrease of revenues from “aged” services and creation of balanced product portfolio:

1. Adherence to strategy of active growth and increase of market share in segments, where extensive growth is still possible, namely:
 - Pay TV services;
 - new services.
2. Timely implementation of additional services – it is, first of all, converged services, data center services, system integration, “Cloud-based computing” (SaaS, PaaS, etc.), content services for a wide range of users (thematic web-portals, mobile commerce, mobile marketing, multimedia content, etc.).

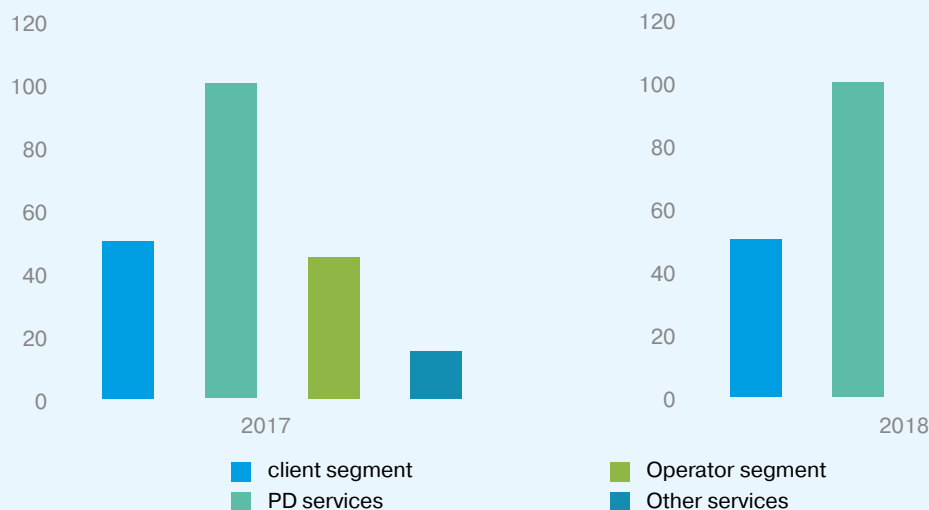


Revenues from new services, 2018

With the growth of penetration of broadband Internet access services and development of IT technologies, the manner of consumption of services has been changed. More and more customers tend to use voice services, using VoIP

technology via Internet communication applications (Skype, WhatsApp, messengers), which affected the consumption of traditional telephony services. Data network services present the leaders.

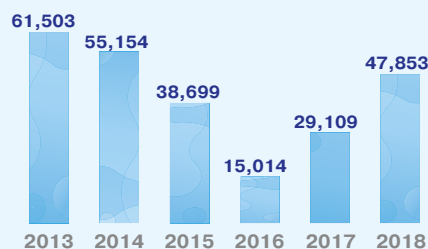
Picture 20. Changes in benefits' structure in 2018 related to 2017, mln KZT



Investment activity

In 2018, the portfolio of investment projects of Kazakhtelecom JSC, excluding subsidiaries and affiliates, amounted to about KZT 47.7 bln, and about KZT 35 bln was spent on technical development projects.

Picture 21. Investment dynamic, mln KZT



Kazakhstan content in procurement

In order to ensure procurement transparency, the procurement plan for the upcoming period and the long-term procurement plan, as well as information on the procurement and its results, are published on the e-procurement portal and the corporate portal of the joint-stock Company. In 2018, the group of companies of Kazakhtelecom JSC carried out procurement by open tender and request for quotes with reverse auction in the information system of electronic procurement (www.tender.sk.kz). In connection with the transition to a new platform of electronic procurement, since February 19, 2018, procurement from a single source and by method of requesting quotes, and since May 21, 2018, procurement by open tender have been carried out in the information system of electronic procurement on the new platform ISEZ 2.0 (ІСЭЗ 2.0), placed at: www.zakup.sk.kz.

The Company continuously monitors the indicators of local content in procurement through the information system "Electronic procurement plan and automated reporting system". The monitoring results are displayed in a visual form on the local content monitoring map (www.kmks.kz).

In total in 2018 the group of companies Kazakhtelecom JSC concluded 10,214 contracts for the amount of KZT 64,936 bln, and the local content was equal to 30.24% (goods for KZT 30,896 bln (LC share – 12.44%), works for KZT 16,491 bln (LC share – 58.31%), services – KZT 17,549 bln (LC share – 47.93%).

Share of goods in total procurement amounts to 47.6%, of works – 25.4%, of services – 27%.

In order to achieve indicators on local content, the Company carries out works on development of inter Company cooperation, giving priority to companies of the holding in procurement, to manufacturers of purchased goods, which listed in the register of holding manufacturers.

In 2018 the group of companies of Kazakhtelecom JSC continued work on support of previously concluded long-term contracts for the total amount over KZT 11,097 bln, and the local content was: in goods – 59.7%, in works and services – 94.7%. The purpose of long-term contracts is reduction of costs for goods, works and services, procurement of which is carried out on an annual basis, and development of relations with domestic manufacturers in part of procurement of goods produced in Kazakhstan, support in the development of new import-substituting goods, works and services.



06

Sustainable Development

96%

Employees covered by the collective agreement

9.8%

Labour turnover

19.8

The average number of training hours per 1 employee per year



CASH RECEIPT
=====

Date:	10/12/2018
Store manager:	Alan K. Smith
Cashier:	Ellen Peters
Item	Price
Lemon Juice	5.00
Bottle of water	4.00
Chocolate bar	7.00
Orange juice	15.00
Total	31.00

Bank Card
=====

Date/Time	10/12/2018
-----------	------------

Thank you for shopping!

THANK YOU





Sustainable Development Strategy

Kazakhtelecom JSC as a leading telecommunication Company makes a significant contribution to sustainable development of the country, contributes to the concept implementation for Kazakhstan's transition to a green economy and the Millennium Development Goals proposed by the United Nations.

The info-communication sector is becoming a fundamental element for the purpose of the society development, since it is here where technologies being introduced to create a comfortable living environment for people.

The starting point to determine the approach of sustainable development in Kazakhtelecom JSC is the triune model of sustainability, which equally includes economic stability, social development and the environment.

Kazakhtelecom JSC activities contributing to the long-term positive impact on all spheres of people's lives are following:

- distribution of broadband Internet technologies in rural settlements and an advance in digitalization level of the country;

- improvement of people life quality through the high-speed Internet technologies, telephony implementation, as well as provision of infrastructure for development of the Internet of Things (IoT) and other info-communication technologies;
- design and implementation of energy-efficient data transmission networks, provision of cloud storage and services that reduce the transport use, such as video conferencing software, interaction platforms, etc.;
- provision of data transfer and storage security for customers;
- Company's human resource development through the regular improvement of working conditions and advanced training of employees;
- reduction of negative impact on the environment, green technologies implementation,
- and improving energy efficiency as part of the implementation of own projects;
- constant monitoring of resource consumption and emissions of pollutants in accordance with the Environmental Code of the Republic of Kazakhstan.

Initiatives in the field of sustainable development

Kazakhtelecom JSC is a Company actively using sustainable development approaches in its activities. Activities aimed to improving the effectiveness of corporate management system in sustainable development in 2018, include a list of

economic, social and environmental initiatives for sustainable development. The Company submits the Sustainability report under the international reporting standard GRI to the general public on an annual basis.

Personnel Administration

All efforts on this issue were aimed to improve the quality of service and efficiency of HR processes for the reporting year. A significant work was done on automation and optimization of business processes in personnel management. This way, the processes of recruitment, the conducting COR (career interview), the system of performance evaluation, setting KPI had been automated in the SSP unified information system.

In addition, the process of sending the workers on business trips was optimized by exclusion of a travel certificate. Branches of the Company had started the implementation of the project "Stop bureaucracy" allowing to review and optimize the internal documentation confirmation process in the Company.

All routine processes in personnel administration are transferring to HR SSC in order to improve the efficiency of personnel management and the concentration of employee activities on the main business processes. Thus, the HR SSC front offices were created in the branches of the Company in 2018, and their tasks include the following processes:

- maintenance of personnel profiles in electronic and paper basis,
- maintenance of employment history,
- keeping sheets of temporary disability,
- visa support.

The HR Department together with the HR SSC (shared service center) carried out a significant work to reduce the part of paper-based documentation in the personnel administration processes.



Therefore, the processes of employment contract termination, employee transferring process were automated; the application for leave was improved with reflecting vacation periods, balance of the leave days, that leading respectively to awareness of employees and reducing the number of appeals on emerging issues.

Work on automating business processes in SSC HR was continued, the integration of personnel management systems (PMS and SAP) was completed allowing to solve the problem of manual double-entry, minimize the risk of making mistakes, and reduce the time and labor costs for the process. In addition, the electronic registration of employment contracts had been introduced; the working time accounting and statistical reporting on vacancies have been automated. All these measures have improved the productivity of HR SSC employees.



Recruitment and Staff Adaptation

Revision of the task structure, selection of personnel, and function centralization had been carried out in the framework of the transformation of the HR function in 2018.

Function analysis demonstrated a low efficiency of the business process in the following areas: there were no due attention to the recruitment, no specialists to relevant competencies of the recruiter, no transparency in the process, and the process has been procrastinated. Based on the analysis, it was decided to centralize the recruitment function in the Shared service center for Personnel Management. In the period from April to August of the reporting year, a pilot project was conducted to centralize functions in the branches located in Almaty that demonstrated the success of the initiative. This initiative has been implemented in all branches of the Company in September.

The function centralization allowed to optimize and improve the efficiency of the recruitment in business process, to redirect the workers to solve more complex tasks and to improve the quality of the recruitment system. The transparency and objectivity of the recruitment procedure was improved, equal opportunities were provided for all candidates (regardless of age, gender, nationality and religion), process adaptability (maximum implementation of advanced technologies, process automation).

In addition, the project "PROtelecom" internship program was implemented within a framework of the Effective Personnel Management initiatives of the Orleu Transformation Program in 2018.

The student internship project considered the attracting talented young graduate students from the best universities of the Republic of Kazakhstan, creating an external personnel reserve, Kazakhtelecom JSC image creation as an attractive employer in the market, developing the institution of mentoring, improving cross-functional interaction of employees in the Company.

Students in profile and business specializations are involved to the trainings from universities of Almaty and Nur-Sultan. Each intern has a mentor from among highly skilled workers being key participants of the project.

According to the results of the project, the finalists were selected, who were hired, and 11 students were granted with scholarships by Kazakhtelecom JSC, and the top 5 mentors had been invited to study.

The Rules for the selection of employees of Kazakhtelecom JSC have been updated in order to ensure the effective selection of the most suitable candidates who meet the requirements of the qualifications, professional, business and personal qualities, as well as to form a highly professional, efficiently working team with a high level of motivation and ability to efficiently and operatively solve the tasks facing the Company by selecting both internal and external candidates. Special attention was paid to employees from the personnel reserve included in the replacement matrix.

Training



The Company is committed to ongoing personnel development in accordance with the new challenges of business transformation. Functional academies have been launched for purpose of targeted and pointed business training for employees within the framework of the Orleu Program in 2018 in the following areas:

- 1) "Sales Academy" Project is functioning, which is aimed to provide the employees of the commercial unit with business trainings (B2B, B2C);
- 2) "Technical Academy" Project has been created and launched. Job profiles have been developed for employees of the Main Telecommunication Network Operation Control Center and Unified Network Control Center T1 and T2, an assessment has been carried out, and training plans are being developed. A pilot project was launched for RTD (Regional Telecommunications Direction) to develop job profiles and conduct conformity assessment at the QCC (Quality Control Center) unit as part of the "Technical Academy" Project;
- 3) the profiling of positions has been carried out within the framework of the "Financial Academy" Project for the Financial Shared Services Centers (SSC), the Accounting and Reporting Department and the Financial Department of Central Office.

A modular training on Science and Coaching Art program had been conducted to train HRD branches and employees of the Department of Management and Personnel Development within the framework of HR initiatives of Orleu Program in order to build an effective personnel management system of Kazakhtelecom JSC.

Samruk-Kazyna JSC conducted training for top managers – chief and managing Directors of the Company, in order to improve the successful leadership skills in terms of business transformation and ongoing changes in the market within the implementation of the Road Map activities of the Transformation Program. This program is focused on an improving of integral leadership.

According to the results of the managers' evaluation, a long-term "Manager-Leader" training program has been created and launched for top and middle managers of the Central Office and branches of the Company in order to improve management skills and create a CREDO system of corporate values.

The Company continues to operate a training system; the main components include internal training based on the Infocommunication Technologies Academy Directorate and distance training corporate system. Any employee of the Company is able to be involved to distance training by passing the courses presented in the electronic system, after which a certificate of training shall be issued.



Talent Management

As part of the implementation of instructions given by Samruk-Kazyna JSC and arising from the Personnel Management Strategy of Kazakhtelecom JSC, the Company is carrying out a "Talent Management" Project targeted to form and prepare the personnel pool as the main internal source of replacement of key positions of Kazakhtelecom JSC. This project is a tool to identify and keep talented employees with a high professional level. "Leadership school" operates in the framework of this project, in this program succession candidates passes staged training for development of management and leadership skills. Candidates of the Leadership school in 2016 have passed the 3rd stage of training, candidates of the Leadership school in 2017 have passed the 2nd stage of training, and candidates of

the Leadership school in 2018 have started the 1st stage of the "Foundations of management skills" module program. During the reporting period, the total number of appointments amounted 25.7% (44 people) among candidates of Company. Key vacancies were taken by 24 succession candidates.

The Company has achieved the WOW-HR international prize for its talent management project in 2018.

"Z-telecom reload" forum of the youth organization of Kazakhtelecom had been hosted in Almaty in December 25. The participants had been assigned for CREDO projects, as well as other social projects.

New internal portal 4telecom

Following the values of DIGITAL CULTURE/Digital Culture, Kazakhtelecom JSC has created 4telecom.kz an internal corporate portal for employees. New functionality, actual design of the site with elements of a social network allows staff to achieve the specific information required for the work and to be

in touch with the latest Company's news. Blogs of the Chairman of the Management Board and the Managing HR Director have been created on the portal. Thus, the Company's employees can easily ask questions and get answers from the heads of Kazakhtelecom JSC.



Environmental Protection

One of the important aspects of sustainable development is careful attitude to the environment. Despite the fact that the telecommunication industry is not considered as significant pollutant, Kazakhtelecom JSC constantly seeks to minimize the negative impact and improve the environmental management system.

A certification audit was successfully carried out for compliance with the environmental management system in accordance with the International Standard ISO 14001 and its Kazakhstan counterpart ST RK ISO 14001 in 2018. The audit was conducted by international auditors from TUV Nord.

Documented procedures have been developed allowing the quality environmental management of ecological aspects with the establishment of environmental goals and a program to achieve them as part of the environmental management implementation. Since 2018, cars have been transferred to gas as a motor fuel, as well as Autonomous heating systems has been transferred from diesel fuel to gas/Central heating. This will have a positive impact on reducing of pollutant emissions from autonomous and mobile pollutants in the future.

Kazakhtelecom JSC has created the following main directions for environmental protection:

- compliance with the requirements of the Environmental Code of the Republic of Kazakhstan and other regulatory legislation within the environmental protection;

- following the concept of sustainable development in the planning and implementation of the Company's activities;
- constant improvement of the environmental management system.

Kazakhtelecom JSC implements energy-saving/energy-efficient projects based on LoRA and SDN networks by extending the advanced technologies in the telecommunication industry. As expected, all cities of Kazakhstan will be covered by these networks. The importance of such projects appears to be that they represent the basis for the development of Smart city, smart home, and other similar projects. The LoRA network has a unique combination of communication range and energy efficiency. Its difference from other networks is long battery life (10 years) with minimal maintenance costs. Smart metering (smart energy measurement) and Smart lighting are being implemented as a result of the LoRA network extension. SDN (Software defined network) is a data network in which the level of network management is separated from data transmission devices and is implemented by software. One form of network virtualization reduces significantly the power consumption.



Health & Safety

The Company has a safety and health management system that provides constant methodological guidance, analysis and monitoring of the health and safety system. The system specified uniform requirements for the organization of occupational safety in accordance with the ILO OSH 2001 Guidelines for Labor Safety Management Systems, the International Standard OHSAS 18001:2007 and its Kazakhstan counterpart ST RK 18001:2008.

The main priorities of the Company in the field of industrial safety and labor safety are the creation of healthy and safe occupational conditions, a constant increase in safety level, a decrease in accident rates, industrial injuries, and occupational diseases.

The Company's activities within health and safety are conducted in accordance with the legislation of the Republic of Kazakhstan, as well as internal regulations and procedures specified the requirements for ensuring safe conditions and reducing occupational diseases and injuries:

- the Company shall carry out certification of workplaces with a frequency each 5 years. Thus, 3,638 workplaces had been certified for the period from 2014 to 2018;
- 11 corporate standards within the occupational safety had been updated by taking into account the changes in legal requirements and changes in the Company structure during the reporting year;

- Production councils had been created and operates in the branches of the Company, where the issues of health and safety are considered;
- medical examinations of mass profession workers and office workers are conducted on an annual basis. 16,785 workers were examined at medical centers;
- mass profession workers pass the training and regular test of acknowledge on health and safety annually. So, 15,447 employees of the Company passed training in 2018;
- mass profession workers of the Company, about 13,903 employees, pass instruction before to start work with registration in a log daily.

Once a year and every three years depending on the specialization of the employee, the Company conducts training and testing of acknowledge of industrial safety with the issuance of certificates for permit to certain jobs. Once every three years, the Company conducts training and testing of acknowledge of managers and responsible persons on occupational safety and health with the issuance of certificates.

Unscheduled briefings are held with all employees of structural divisions in case of accidents at work and under orders on compliance of production discipline, duties and safety measures in the all branches of the Company.

The contribution of Kazakhtelecom JSC in social development

Kazakhtelecom JSC takes a responsible approach to the issues of social security of our employees, maintaining the employee's confidence in the future. The Company interacts with representatives of employees on the principles of social responsibility towards a stakeholder represented by employees and fulfillment of contractual obligations under the Collective agreement, aimed at maintenance of decent life standard.

The social activity of Kazakhtelecom JSC is one of the important components of a corporate social responsibility of business, one of a key performance indicator in the field of a sustainable development of the Company. So, jointly with trade unions work on introduction of amendments into the Collective agreement of Kazakhtelecom JSC was carried out, which significantly improved social conditions for employees and pensioners of the Company for the reporting period. Kazakhtelecom JSC focuses on improving the quality of life of the population in places of presence by social and educational programs, transparency of its activities, reducing the negative impact on environmental issues.

The Company has developed and approved a corporate program for the implementation of social projects of Kazakhtelecom JSC for 2018–2021. The program includes internal projects of the Company such as the development of

the volunteer movement, support for socially vulnerable employees, and external social projects, and cooperation with orphanages, charitable foundations.

Following the principles of sustainable development and the implementation of social goals of the Company, the Board of Directors of the Joint Stock Company has approved the Code of Business Conduct based on compliance risks in a new edition, which includes corporate values and business principles.





GLOSSARY

5G / LTE – high-speed wireless Internet technology of the fifth generation, which provides more efficient communication and access to data and communication services by increasing the speed of receiving/transmitting data and expanding the range.

ARPU (Average Revenue Per User) – average revenue per month per subscriber.

B2B (Business-to-Business) – a term denoting commercial relations between legal entities.

B2C (Business-to-Consumer) – a term denoting commercial relations between a legal entity and a consumer.

B2G (Business-to-Government) – a term denoting commercial relations between a legal entity and the state.

B2O (Business-to-Operators) – a term denoting commercial relations between a legal entity and a communication operator.

Big Data – processing of large amounts of data.

Blockchain – continuous chain of blocks containing information built according to certain rules. Most often, copies of block chains are stored on many different computers independently of each other.

CDMA (Code Division Multiple Access) – multiple access with code division, digital cellular (wireless) communication network. Arrangement of CDMA wireless communication is recommended by the international organization for standardization of communications as the most promising for the construction of third-generation networks.

DWDM (Dense Wave Division Multiplexing) – technology of dense wave multiplexing, is the most reliable technology for supporting infrastructure of multiservice and mobile networks, provides a sharp increase in network bandwidth and implements a wide range of fundamentally new communication services.

EVDO (Evolution Data Optimized) – high-speed data transmission technology used in cellular networks of CDMA standard.

FMC – One contact (fixed mobile convergence) – technology integrating fixed and mobile communications) with further transfer to commercial service.

FTTH (Fiber to the Home) – fiber optic cable to the house (means individual/private home).

GPON – Gigabit passive optical networks.

IoT (Internet of things) – a common name for technologies that allow devices embedded in individual objects, to send and receive information through the Internet (wired or wireless).

LoRa (Long Range) – a technology and modulation method of the same name. Wireless technology for long-range transmission of small data, designed for distributed telemetry networks, machine-to-machine communication and the Internet of things.

M2M (Machine-to-machine) – machine-to-machine interaction (machine-to-machine interaction) is a common name for technologies that allow machines to exchange information with each other or to transfer it unilaterally. It may include wired and wireless sensor monitoring systems or any device parameters.

SDN/NFV – software defined networking (Software –Defined Networks, SDN) and network functions virtualization (Network Function Virtualization, NFV).

VAS – Value-Added Services.

VPN (Virtual Privet Network) – a generalized name of technologies that enables to provide one or more network connections (logical network) on top of another network (for example, the Internet).



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Annex



KAZAKHTELECOM

Consolidated financial statements

For the year ended 31 December 2018



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Аудиторский отчет независимого аудитора

Акционерам
АО «Казахтелеком»

Мнение

Мы провели аудит консолидированной финансовой отчетности АО «Казахтелеком» и его дочерних организаций (далее «Группа»), состоящей из консолидированного отчета о финансовом положении по состоянию на 31 декабря 2018 года, консолидированного отчета о совокупном доходе, консолидированного отчета об изменениях в капитале и консолидированного отчета о движении денежных средств за год, закончившийся на указанную дату, а также примечаний к консолидированной финансовой отчетности, включая краткий обзор основных положений учетной политики.

По нашему мнению, прилагаемая консолидированная финансовая отчетность отражает достоверно во всех существенных аспектах консолидированное финансовое положение Группы по состоянию на 31 декабря 2018 года, а также ее консолидированные финансовые результаты и консолидированное движение денежных средств за год, закончившийся на указанную дату, в соответствии с Международными стандартами финансовой отчетности (МСФО).

Основание для выражения мнения

Мы провели аудит в соответствии с Международными стандартами аудита (МСА). Наши обязанности в соответствии с этими стандартами описаны далее в разделе «Ответственность аудитора за аудит консолидированной финансовой отчетности» нашего отчета.

Мы независимы по отношению к Группе в соответствии с Кодексом этики профессиональных бухгалтеров Совета по международным стандартам этики для бухгалтеров (Кодекс СМСЭБ), и нами выполнены прочие этические обязанности в соответствии с Кодексом СМСЭБ.

Мы полагаем, что полученные нами аудиторские доказательства являются достаточными и надлежащими, чтобы служить основанием для выражения нашего мнения.



Ключевые вопросы аудита

Ключевые вопросы аудита – это вопросы, которые, согласно нашему профессиональному суждению, являлись наиболее значимыми для нашего аудита консолидированной финансовой отчетности за текущий период. Эти вопросы были рассмотрены в контексте нашего аудита консолидированной финансовой отчетности в целом и при формировании нашего мнения об этой отчетности, и мы не выражаем отдельного мнения по этим вопросам. В отношении каждого из указанных ниже вопросов наше описание того, как соответствующий вопрос был рассмотрен в ходе нашего аудита, приводится в этом контексте.

Мы выполнили обязанности, описанные в разделе «Ответственность аудитора за аудит консолидированной финансовой отчетности» нашего отчета, в том числе по отношению к этим вопросам. Соответственно, наш аудит включал выполнение процедур, разработанных в ответ на нашу оценку рисков существенного искажения консолидированной финансовой отчетности. Результаты наших аудиторских процедур, в том числе процедур, выполненных в ходе рассмотрения указанных ниже вопросов, служат основанием для выражения нашего аудиторского мнения о прилагаемой консолидированной финансовой отчетности.

Ключевой вопрос аудита	Как соответствующий ключевой вопрос был рассмотрен в ходе нашего аудита
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Признание выручки – корректность сумм признанной выручки с учётом сложности биллинговых систем

Существует значительный риск, связанный с признанием и оценкой выручки от предоставления телекоммуникационных услуг, так как биллинговые системы, используемые Группой, являются сложными, а влияние порядка учёта изменения состава тарифов и многокомпонентных услуг может быть значительным.

По этой причине, а также, в связи с рисками, связанными с переходом на МСФО (IFRS) 15 «Выручка по договорам с покупателями» («МСФО (IFRS) 15»), мы определили признание выручки и соответствующее раскрытие информации в качестве ключевого вопроса аудита.

Раскрытие информации Группой в отношении учётной политики по признанию выручки включено в Примечание 3 к консолидированной финансовой отчётности, а подробное раскрытие информации о доходах включено в Примечание 30 к консолидированной финансовой отчётности.

Мы оценили соответствующие системы ИТ и дизайн средств внутреннего контроля и протестировали операционную эффективность средств внутреннего контроля за сбором данных по операциям, учётом выручки, авторизацией изменений ставок (тарифов), введённых в биллинговые системы, и расчётом сумм, выставленных клиентам.

Мы выполнили аналитические процедуры, включая ежемесячный анализ выручки и анализ изменений в ключевых показателях выручки, сравнили финансовые и нефинансовые данные.

Мы проанализировали положения учётной политики и раскрытие информации на соответствие требованиям МСФО (IFRS) 15.



Оценка долгосрочных активов, включая основные средства, нематериальные активы и инвестиции в ассоциированную организацию – риск обесценения

Существует значительный риск обесценения долгосрочных активов Группы. Основным средствам и нематериальным активам, включая гудвил, присущ риск обесценения в свете стремительных технологических изменений в телекоммуникационной отрасли. Инвестиции в ассоциированную организацию «Хан Тенгри Холдинг Б.В.» присущ также риск обесценения в связи с насыщенностью рынка мобильных телекоммуникаций в Казахстане.

На отчётную дату Группа выявила признаки обесценения по некоторым своим единицам, генерирующим денежные средства (ЕГДС). В соответствии с МСФО 36, руководство должно провести тестирование таких ЕГДС на предмет обесценения.

Тестирование на предмет обесценения единиц, генерирующих денежные средства (ЕГДС), когда присутствуют признаки обесценения, является сложным, и содержит в высокой степени субъективные допущения, например, клиентская база и средний доход с абонента, уровень капитальных вложений и маржа EBITDA в течение прогнозного периода, ставка роста, используемая для экстраполяции потоков денежных средств за пределы прогнозного периода, и ставка дисконта.

Допущения, используемые в ходе проверки обесценения, могут быть некорректными, и, следовательно, может быть вынесено неправильное заключение в отношении необходимости обесценения.

Наши аудиторские процедуры включали, среди прочего, оценку и тестирование допущений, применяемых в модели обесценения. Мы оценили методологию, которую использовала Группа, на соответствие требованиям МСФО 36. Для проведения процедур мы привлекли внутреннего эксперта по оценке. Мы сравнили допущения и данные, которые использовала Группа, с историческими данными и текущей отраслевой информацией. Мы особенно сосредоточились на чувствительности тестирования, оценивая вероятность того, что обоснованная возможность изменений допущений вызовет превышение текущей балансовой стоимости ЕГДС над ее возмещаемой стоимостью.



Раскрытия Группы в отношении тестирования долгосрочных активов на обесценение включены в Примечание 11 к консолидированной финансовой отчетности, которое, в частности, раскрывает, что небольшие изменения в используемых основных допущениях могут привести к обесценению инвестиции в ассоциированную организацию, основных средств и нематериальных активов, включая сальдо гудвила, в будущем.

Операции с ТОО «Мобайл Телеком-Сервис»

Группа осуществляет ряд операций с ТОО «Мобайл Телеком-Сервис», связанной стороной, включая услуги по передаче данных, аренду каналов связи, услуги межсетевых соединений и прочие услуги, полученные, либо оказанные ТОО «Мобайл Телеком-Сервис».

Вопрос по раскрытию операций с ТОО «Мобайл Телеком-Сервис» являлся одним из наиболее значимых для нашего аудита в связи со сложностью, структурой, существенным объемом и количеством данных операций.

Раскрытие по операциям с ТОО «Мобайл Телеком-Сервис» представлено в Примечании 41 к консолидированной финансовой отчетности.

Мы оценили процесс идентификации операций со связанными сторонами. Мы изучили соглашения между Группой и ТОО «Мобайл Телеком-Сервис», чтобы понять суть договорных соглашений и характер данных операций, а также оценили примененные принципы учета. Мы проанализировали признание и представление выручки от передачи в аренду радиочастот LTE на соответствие требованиям МСФО (IFRS) 15. Мы получили подтверждения от ТОО «Мобайл Телеком-Сервис» по операциям и непогашенным остаткам, сравнили раскрытые существенные условия сделок с подтверждающими документами и проанализировали раскрытие по операциям с ТОО «Мобайл Телеком-Сервис».

Предварительная оценка распределения покупной цены при объединении бизнеса

В течение 2018 года Группа приобрела 75% долю в акционерном капитале АО «Кселл». Данное приобретение подробно описано в Примечании 5.

Мы считаем, что вопрос предварительной оценки распределения покупной цены является наиболее значимым для аудита консолидированной финансовой отчетности в связи с тем, что гудвил от данного приобретения в сумме превышения выплаченного вознаграждения над справедливой стоимостью чистых активов приобретенной компании, составивший

В рамках проведения аудиторских процедур мы проанализировали договор купли-продажи между Компанией и продавцами доли в АО «Кселл», и прочие документы по сделке, необходимые для формирования бухгалтерских проводок при объединении бизнеса.

Мы рассмотрели методы оценки и допущения, лежащие в основе существенных суждений, применяемых при определении предварительной справедливой стоимости идентифицируемых чистых активов. Мы привлекли наших специалистов по оценке для анализа методов и допущений, используемых руководством для оценки определенных



54.656.742 тыс. тенге, существенно повлиял на итоговые активы Группы.

Определение справедливой стоимости активов и обязательств требует от руководства применения существенных оценок и допущений.

категорий активов приобретенной дочерней организации, и на выборочной основе протестировали оценку справедливой стоимости активов и обязательств приобретенной дочерней организации.

Мы проанализировали оценку руководства характера и стоимости приобретенных отдельно идентифицируемых нематериальных активов.

Мы рассмотрели презентацию и раскрытие по объединению бизнеса в консолидированной финансовой отчетности.

Важные обстоятельства

Мы обращаем внимание на Примечание 4 к консолидированной финансовой отчетности, в котором указано, что Группа ранее выпустила консолидированную финансовую отчетность за год, закончившийся 31 декабря 2018 года, в отношении которой мы 15 марта 2019 года выдали аудиторский отчет с выражением немодифицированного мнения. Ранее выпущенная консолидированная финансовая отчетность за год, закончившийся 31 декабря 2018 года, одобренная руководством 15 марта 2019 года, была пересмотрена, как указано в Примечании 4. Данный аудиторский отчет в отношении пересмотренной консолидированной финансовой отчетности заменяет аудиторский отчет, выданный нами ранее. Мы не выражаем модифицированное мнение в связи с этим вопросом.

Прочая информация, включенная в Годовой отчет Группы за 2018 год

Прочая информация включает информацию, содержащуюся в Годовом отчете, но не включает консолидированную финансовую отчетность и наше аудиторское мнение о ней. Ответственность за прочую информацию несет руководство. Годовой отчет, предположительно, будет нам предоставлен после даты настоящего аудиторского отчета.

Наше мнение о консолидированной финансовой отчетности не распространяется на прочую информацию, и мы не будем предоставлять вывода, выражающего уверенность в какой-либо форме в отношении данной информации.

В связи с проведением нами аудита консолидированной финансовой отчетности наша обязанность заключается в ознакомлении с указанной выше прочей информацией, когда она будет нам предоставлена, и рассмотрении при этом вопроса, имеются ли существенные несоответствия между прочей информацией и консолидированной финансовой отчетностью или нашими знаниями, полученными в ходе аудита, и не содержит ли прочая информация иных существенных искажений.



Ответственность руководства и комитета по аудиту Совета директоров за консолидированную финансовую отчетность

Руководство несет ответственность за подготовку и достоверное представление указанной консолидированной финансовой отчетности в соответствии с МСФО и за систему внутреннего контроля, которую руководство считает необходимой для подготовки консолидированной финансовой отчетности, не содержащей существенных искажений вследствие недобросовестных действий или ошибок.

При подготовке консолидированной финансовой отчетности руководство несет ответственность за оценку способности Группы продолжать непрерывно свою деятельность, за раскрытие в соответствующих случаях сведений, относящихся к непрерывности деятельности, и за составление отчетности на основе допущения о непрерывности деятельности, за исключением случаев, когда руководство намеревается ликвидировать Группу, прекратить ее деятельность или когда у него нет реальной альтернативы таким действиям.

Комитет по аудиту Совета директоров несет ответственность за надзор за процессом подготовки финансовой отчетности Группы.

Ответственность аудитора за аудит консолидированной финансовой отчетности

Наши цели заключаются в получении разумной уверенности в том, что консолидированная финансовая отчетность в целом не содержит существенных искажений вследствие недобросовестных действий или ошибок, и в выпуске аудиторского отчета, содержащего наше мнение. Разумная уверенность представляет собой высокую степень уверенности, но не является гарантией того, что аудит, проведенный в соответствии с Международными стандартами аудита, всегда выявит существенное искажение при его наличии. Искажения могут быть результатом недобросовестных действий или ошибок и считаются существенными, если можно обоснованно предположить, что по отдельности или в совокупности они могли бы повлиять на экономические решения пользователей, принимаемые на основе этой консолидированной финансовой отчетности.

В рамках аудита, проводимого в соответствии с Международными стандартами аудита, мы применяем профессиональное суждение и сохраняем профессиональный скептицизм на протяжении всего аудита. Кроме того, мы выполняем следующее:

- ▶ выявляем и оцениваем риски существенного искажения консолидированной финансовой отчетности вследствие недобросовестных действий или ошибок; разрабатываем и проводим аудиторские процедуры в ответ на эти риски; получаем аудиторские доказательства, являющиеся достаточными и надлежащими, чтобы служить основанием для выражения нашего мнения. Риск необнаружения существенного искажения в результате недобросовестных действий выше, чем риск необнаружения существенного искажения в результате ошибок, так как недобросовестные действия могут включать сговор, подлог, умышленный пропуск, искаженное представление информации или действия в обход системы внутреннего контроля;
- ▶ получаем понимание системы внутреннего контроля, имеющей значение для аудита, с целью разработки аудиторских процедур, соответствующих обстоятельствам, но не с целью выражения мнения об эффективности системы внутреннего контроля Группы;



- ▶ оцениваем надлежащий характер применяемой учетной политики и обоснованность определенных руководством бухгалтерских оценок и раскрытия соответствующей информации;
- ▶ делаем вывод о правомерности применения руководством допущения о непрерывности деятельности, и, на основании полученных аудиторских доказательств, вывод о том, имеется ли существенная неопределенность в связи с событиями или условиями, которые могут вызвать значительные сомнения в способности Группы продолжать непрерывно свою деятельность. Если мы приходим к выводу о наличии существенной неопределенности, мы должны привлечь внимание в нашем аудиторском отчете к соответствующему раскрытию информации в консолидированной финансовой отчетности или, если такое раскрытие информации является ненадлежащим, модифицировать наше мнение. Наши выводы основаны на аудиторских доказательствах, полученных до даты нашего аудиторского отчета. Однако будущие события или условия могут привести к тому, что Группа утратит способность продолжать непрерывно свою деятельность;
- ▶ проводим оценку представления консолидированной финансовой отчетности в целом, ее структуры и содержания, включая раскрытие информации, а также того, представляет ли консолидированная финансовая отчетность лежащие в ее основе операции и события так, чтобы было обеспечено их достоверное представление;
- ▶ получаем достаточные надлежащие аудиторские доказательства в отношении финансовой информации организаций и хозяйственной деятельности внутри Группы, чтобы выразить мнение о консолидированной финансовой отчетности. Мы отвечаем за общее руководство, контроль и проведение аудита Группы. Мы являемся единолично ответственными за наше аудиторское мнение.

Мы осуществляем информационное взаимодействие с комитетом по аудиту Совета директоров, доводя до его сведения, помимо прочего, информацию о запланированном объеме и сроках аудита, а также о существенных замечаниях по результатам аудита, в том числе о значительных недостатках системы внутреннего контроля, если мы выявляем таковые в процессе аудита.

Мы также предоставляем комитету по аудиту Совета директоров, заявление о том, что мы соблюдали все соответствующие этические требования в отношении независимости и информировали его обо всех взаимоотношениях и прочих вопросах, которые можно обоснованно считать оказывающими влияние на независимость аудитора, а в необходимых случаях - о соответствующих мерах предосторожности.



Из тех вопросов, которые мы довели до сведения комитета по аудиту Совета директоров, мы определяем вопросы, которые были наиболее значимыми для аудита консолидированной финансовой отчетности за текущий период и которые, следовательно, являются ключевыми вопросами аудита. Мы описываем эти вопросы в нашем аудиторском отчете, кроме случаев, когда публичное раскрытие информации об этих вопросах запрещено законом или нормативным актом, или когда в крайне редких случаях мы приходим к выводу о том, что информация о каком-либо вопросе не должна быть сообщена в нашем отчете, так как можно обоснованно предположить, что отрицательные последствия сообщения такой информации превысят общественно значимую пользу от ее сообщения.

Руководитель, ответственный за проведение аудита, по результатам которого выпущен настоящий аудиторский отчет независимого аудитора, – Пол Кон.

ТОО «Эрнст энд Янг»

Пол Кон
Партнер по аудиту


Рустамжан Саттаров
Аудитор

Квалификационное свидетельство аудитора
№ МФ-0000060 от 6 января 2012 года

050060, Республика Казахстан, г. Алматы
пр. Аль-Фараби, 77/7, здание «Есентай Тауэр»

19 апреля 2019 года


Динара Малаева
И.о. Генерального директора
ТОО «Эрнст энд Янг»

Государственная лицензия на занятие
аудиторской деятельностью на
территории Республики Казахстан
серии МФЮ-2 № 0000003, выданная
Министерством финансов Республики
Казахстан 15 июля 2005 года

Kazakhtelecom JSC

Consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

<i>In thousands of tenge</i>	Note	2018 Revised*	2017**
Assets			
Non-current assets			
Property and equipment	8	390,309,113	259,021,612
Intangible assets	9	176,542,542	15,592,544
Advances paid for non-current assets		765,088	39,678
Investments in associates	10	77,669,224	69,246,140
Deferred tax assets	39	246,884	104,614
Costs to obtain a contract		1,037,984	–
Costs to fulfil a contract		107,539	–
Other non-current assets	14	3,194,682	2,453,521
Other non-current financial assets	13	9,649,734	9,457,306
		659,522,790	355,915,415
Current assets			
Inventories	15	8,402,436	3,014,872
Trade receivables	16	52,173,348	32,094,228
Advances paid	17	1,416,363	538,756
Indemnification assets	5	10,913,899	–
Corporate income tax prepaid		1,849	7,269
Costs to obtain a contract		420,604	–
Costs to fulfil a contract		115,285	–
Other current assets	19	10,392,954	1,624,022
Other current financial assets	18	4,685,111	62,133,687
Cash and cash equivalents	20	45,350,092	15,985,943
		133,871,941	115,398,777
Total assets		793,394,731	471,314,192

The accounting policies and notes on pages 8 to 85 are an integral part of these consolidated financial statements.



Kazakhtelecom JSC

Consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

<i>In thousands of tenge</i>	Note	2018 Revised *	2017**
Equity			
Shares outstanding	21	12,136,529	12,136,529
Treasury shares	21	(6,464,374)	(6,464,374)
Foreign currency translation reserve	21	(15,157)	(6,354)
Other reserves	21	1,820,479	1,820,479
Retained earnings		373,429,312	351,621,657
		380,906,789	359,107,937
Non-controlling interests		33,934,146	—
Total equity		414,840,935	359,107,937
Non-current liabilities			
Borrowings: non-current portion	22	135,838,411	24,967,690
Finance lease liabilities	23	15,975,306	7,681,118
Other non-current financial liabilities	25	993,705	260,431
Deferred tax liabilities	39	38,897,126	19,040,850
Employee benefit obligations	24	14,471,353	11,940,014
Debt component of preferred shares	21	874,244	874,244
Contract liabilities	26	5,699,301	—
Other non-current liabilities	26	1,444,530	5,361,847
		214,193,976	70,126,194
Current liabilities			
Borrowings: current portion	22	57,614,129	2,357,864
Financial lease liabilities: current portion	23	6,754,019	3,920,719
Other current financial liabilities	28	18,853,954	13,356,061
Employee benefit obligations: current portion	24	1,334,417	992,170
Trade payables	27	42,147,405	13,506,545
Current corporate income tax payable		3,319,656	91,891
Contract liabilities	29	12,667,725	—
Advances received		—	3,033,151
Obligation to pay a fine for termination of the contract	5	14,551,865	—
Other current liabilities	29	7,116,650	4,821,660
		164,359,820	42,080,061
Total liabilities		378,553,796	112,206,255
Total equity and liabilities		793,394,731	471,314,192

* Certain amounts shown here do not correspond to the consolidated financial statements for the year ended 31 December 2018 which were authorized for issue on 15 March 2019, and reflect adjustments made, refer to Note 4.

* The Group has initially applied IFRS 15 and IFRS 9 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 3.

Chairman of the Management Board

Yessekeyev K.B.

Chief financial officer

Uzbekov A.A.

Chief accountant

Suleimanov Y.E.

The accounting policies and notes on pages 8 to 85 are an integral part of these consolidated financial statements.

Kazakhtelecom JSC

Consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**For the year ended 31 December 2018**

<i>In thousands of tenge</i>	Note	2018	2017*
Revenue from contracts with customer	30	216,542,790	203,057,540
Compensation for provision of universal services in rural areas	31	6,183,581	7,167,685
		222,726,371	210,225,225
Cost of sales	32	(154,015,612)	(151,676,716)
Gross profit		68,710,759	58,548,509
General and administrative expenses	33	(23,311,666)	(21,452,350)
Impairment losses on financial assets	42	(3,907,083)	–
Selling expenses	34	(4,387,521)	(3,802,172)
Operating profit		37,104,489	33,293,987
Share in profits of associates	10	7,860,084	1,098,368
Finance costs	36	(7,349,641)	(7,825,754)
Finance income	36	3,067,029	4,125,054
Net foreign exchange gain loss	37	10,591,474	(633,942)
Gain on disposal of property and equipment		321,632	311,074
Other income	38	4,358,724	4,427,650
Other expenses	38	(1,962,895)	(1,859,771)
Profit before tax		53,990,896	32,936,666
Income tax expenses	39	(11,107,580)	(8,218,845)
Profit for the year		42,883,316	24,717,821
Profit attributable to:			
Equity holders of the Parent		43,067,365	24,717,821
Non-controlling interests		(184,049)	–

The accounting policies and notes on pages 8 to 85 are an integral part of these consolidated financial statements.



Kazakhtelecom JSC

Consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

<i>In thousands of tenge</i>	Note	2018	2017*
Other comprehensive loss			
<i>Other comprehensive loss to be reclassified to profit or loss in subsequent periods (net of tax)</i>			
Foreign exchange differences from translation of financial statements of foreign subsidiaries		(8,803)	(4,397)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		(8,803)	(4,397)
<i>Other comprehensive loss not to be reclassified to profit or loss in subsequent periods (net of tax)</i>			
Actuarial losses on defined benefits plans, net of tax	24, 39	(2,512,956)	(5,037,715)
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		(2,512,956)	(5,037,715)
Other comprehensive loss for the year, net of tax		(2,521,759)	(5,042,112)
Total comprehensive income for the year, net of tax		40,361,557	19,675,709
Profit attributable to:			
Equity holders of the Parent		40,545,606	19,675,709
Non-controlling interests		(184,049)	—
		40,361,557	19,675,709
Earnings per share			
Basic and diluted, net profit for the year, tenge	21	3,914.04	2,250.11

* The Group has initially applied IFRS 15 and IFRS 9 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 3.

Chairman of the Management Board

Yessekeyev K.B.

Chief financial officer

Uzbekov A.A.

Chief accountant

Suleimanov Y.E.



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Kazakhtelecom JSC

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

In thousands of tenge	Attributable to equity holders of the Parent					Total	Non-controlling interests	Total equity
	Shares outstanding	Treasury shares	Foreign currency translation reserve	Other reserves	Retained earnings			
Note	21	21	21	21				
At 1 January 2017	12,136,529	(6,464,374)	(1,957)	1,820,479	336,306,933	343,797,610	–	343,797,610
Net profit for the year	–	–	–	–	24,717,821	24,717,821	–	24,717,821
Other comprehensive loss	–	–	(4,397)	–	(5,037,715)	(5,042,112)	–	(5,042,112)
Total comprehensive loss	–	–	(4,397)	–	19,680,106	19,675,709	–	19,675,709
Dividends (Note 21)	–	–	–	–	(4,365,382)	(4,365,382)	–	(4,365,382)
At 31 December 2017*	12,136,529	(6,464,374)	(6,354)	1,820,479	351,621,657	359,107,937	–	359,107,937
At 1 January 2018	12,136,529	(6,464,374)	(6,354)	1,820,479	351,621,657	359,107,937	–	359,107,937
Change in accounting policy due to application of IFRS 15 and IFRS 9 (Note 3)	–	–	–	–	(1,244,742)	(1,244,742)	–	(1,244,742)
At 1 January 2018 (restated)	12,136,529	(6,464,374)	(6,354)	1,820,479	350,376,915	357,863,195	–	357,863,195
Net loss for the year	–	–	–	–	43,067,365	43,067,365	(184,049)	42,883,316
Other comprehensive loss	–	–	(8,803)	–	(2,512,956)	(2,521,759)	–	(2,521,759)
Total comprehensive loss	–	–	(8,803)	–	40,554,409	40,545,606	(184,049)	40,361,557
Dividends (Note 21)	–	–	–	–	(17,502,012)	(17,502,012)	–	(17,502,012)
Non-controlling interests	–	–	–	–	–	–	34,118,195	34,118,195
At 31 December 2018	12,136,529	(6,464,374)	(15,157)	1,820,479	373,429,312	380,906,789	33,934,146	414,840,935

* The Group has initially applied IFRS 15 and IFRS 9 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 3.

Chairman of the Management Board

Yessekeyev K.B.

Chief financial officer

Uzbekov A.A.

Chief accountant

Suleimanov Y.E.

The accounting policies and notes on pages 8 to 85 are an integral part of these consolidated financial statements.



Kazakhtelecom JSC

Consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

<i>In thousands of tenge</i>	Note	2018	2017**
Operating activities			
Profit before tax for the period		53,990,896	32,936,666
Adjustment for:			
Depreciation of property and equipment	32, 33	35,546,828	40,096,546
Amortisation of intangible assets	32, 33	3,329,003	3,054,440
Loss from impairment of property and equipment and intangible assets	38	1,169,713	1,246,347
Change in deferred income		-	2,639,160
Unrealised foreign exchange (gain) / loss, net		(6,405,452)	1,447,704
Changes in employee benefit obligations		126,551	(585,721)
Impairment losses on financial assets	33, 42	3,907,083	882,403
Write-down of inventories to net realizable value	33	30,673	13,729
Share in profits of associates	10	(7,860,084)	(1,098,368)
Finance costs accrued	36	7,349,641	7,825,754
Finance income accrued	36	(3,067,029)	(4,125,054)
Gain on disposal of property and equipment		(321,632)	(311,074)
Changes in operating assets and liabilities			
Change in trade receivables		(5,602,091)	(7,940,071)
Change in inventories		262,303	1,455,123
Change in other current assets		(4,152,583)	1,295,230
Change in advances paid		888,909	(239,724)
Change in trade payables		(318,020)	1,432,917
Change in costs to obtain a contract and costs to fulfil a contract		(375,931)	-
Change in contract liabilities		906,894	-
Change in advances received		-	198,045
Changes in other current liabilities		283,619	1,274,880
Cash flows from operating activities		79,689,291	81,498,932
Income tax paid		(11,211,037)	(9,129,857)
Interest paid	42	(3,788,368)	(7,923,012)
Interest received		1,661,720	1,778,771
Net cash flows received from operating activities		66,351,606	66,224,834
Investing activities			
Purchase of property and equipment		(19,615,661)	(20,330,697)
Purchase of intangible assets		(2,875,572)	(652,798)
Proceeds from sale of property and equipment		1,534,246	696,344
Acquisition of subsidiary, net of cash received	5	(158,819,914)	-
Placement of deposits		(12,196,800)	(64,648,712)
Return of cash on deposits		74,525,196	49,519,792
Issuance of a covered bank guarantee	18	(7,411,000)	-
Issue of long-term loans to employees		(2,858,020)	(2,146,515)
Repayment of loans to employees		394,960	421,838
Investments in associates	10	(563,000)	(986,980)
Return of funds of covered bank guarantee	18	7,608,800	50
Financial aid repaid		-	2,000
Net cash inflow from subsidiary disposal (QazCloud LLP)	6	-	30,170
Net cash flows used in investing activities		(120,276,765)	(38,095,508)

The accounting policies and notes on pages 8 to 85 are an integral part of these consolidated financial statements.

Kazakhtelecom JSC

Consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

<i>In thousands of tenge</i>	Note	2018	2017**
Financing activities			
Borrowings received	42	100,000,000	—
Borrowings repaid	42	(2,029,593)	(28,009,799)
Dividends paid on common and preferred shares	21	(16,996,235)	(4,299,346)
Repayment of finance lease liabilities	42	(3,697,239)	(3,162,706)
Net cash flows received from / (used in) financing activities		77,276,933	(35,471,851)
Effect of exchange rate changes on cash and cash equivalents		6,519,140	(992,474)
Effect of changes in expected credit losses	20	(506,765)	—
Net change in cash and cash equivalents		29,364,149	(8,334,999)
Cash and cash equivalents, as at 1 January		15,985,943	24,320,942
Cash and cash equivalents, as at 31 December	20	45,350,092	15,985,943

* The Group has initially applied IFRS 15 and IFRS 9 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 3.

** Some of the amounts shown in this column are not consistent with the consolidated financial statements for the year 2017, as they reflect the adjustments made, as detailed in Note 4.

Disclosure of significant non-cash transactions is presented in Note 40.

Chairman of the Management Board

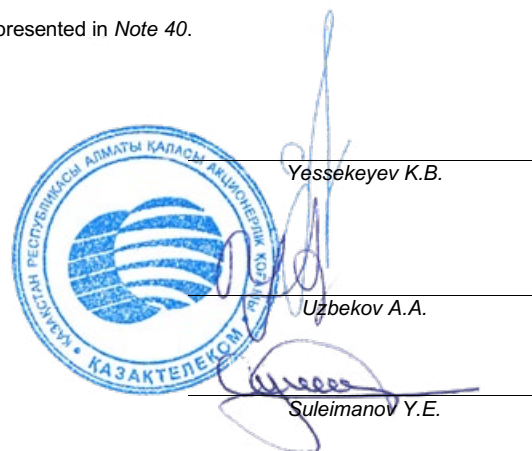
Yessekeyev K.B.

Chief financial officer

Uzbekov A.A.

Chief accountant

Suleimanov Y.E.



The accounting policies and notes on pages 8 to 85 are an integral part of these consolidated financial statements.



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