

# Kcell



## REDUCING THE DIGITAL INEQUALITY

**2021**  
ANNUAL REPORT



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# 2021



# Kcell

Our Company is one of the leading provider of mobile telecommunications services in Kazakhstan, including internet access within the ecosystem and mobile applications, as well as convergent IT solutions in the field of Internet of Things (IoT). The Company is represented in the Kazakhstan market by two brands: Kcell, the target audience of which is corporate clients, including government agencies, and Activ, which is aimed at mass-market subscribers.

Kcell JSC makes a significant contribution to economic growth and improves the quality of life of tens of millions of citizens within Kazakhstan by providing innovative services and solutions. Kcell's extensive high-quality mobile communication network covers almost the entire territory of the republic, focusing on products and services in the field of data transmission that are of high value to digital users.

## REDUCING THE DIGITAL INEQUALITY



Scan the QR code to get a link to additional information





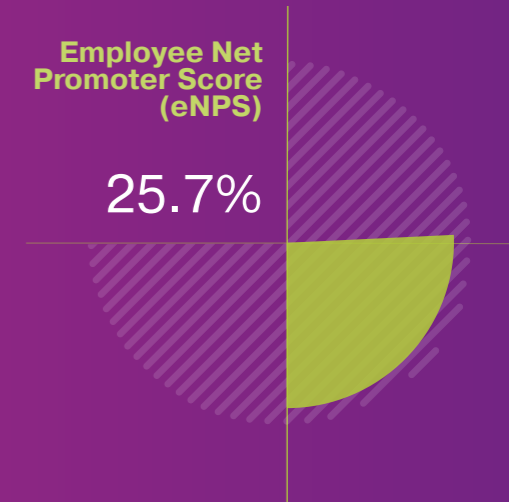
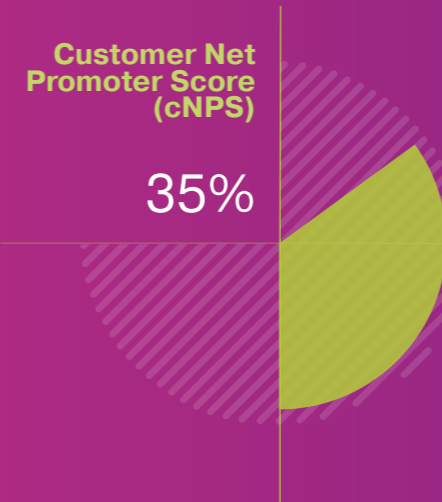
We provide  
**We provide high quality and achieve high results!**

Our business model is built on a solid foundation that moves with the times, offering innovative modern solutions. The Company maintains the highest standards of service and maintains attractive rates for all consumers of digital content.



## 2021 Highlights

The Company is growing by double digits, a significant achievement that we are proud of.



**Total Revenue**

+12.3%  
**196,189**  
million KZT

in comparison with 2020 –  
KZT 174,684 million

**Sales of Devices**

+12.7%  
**TO 39,026**  
million KZT

in comparison with 2020 –  
KZT 34,634 million

**Free Cash Flow**

+48.6%  
**42,895**  
million KZT

in comparison with 2020 –  
KZT 28,865 million

**Service Revenue**

+10.7%  
**TO 155,054**  
million KZT

in comparison with 2020 –  
KZT 140,049 million

**Net Revenue**

+84.9%  
**32,506**  
million KZT

in comparison with 2020 r. –  
KZT 17,578 million

**Total subscribers**

**7,961**  
thousand users

in comparison with 2020 –  
8,055 thousand users

**EBITDA\***

+14.1%  
**TO 82,340**  
million KZT

in comparison with 2020 –  
KZT 72,147 million

\*excluding non-recurring expenses

**ARPU\***

+10.8%  
**1.614**  
for a subscriber

in comparison with 2020 r. –  
1,457 KZT

\*average revenue per user

The subscriber churn rate decreased due to measures that enhanced the quality of the subscriber base, specifically the introduction of new technologies and the general efforts of the Company's employees geared toward improving the services offered and the quality of service.

## COMPANY OVERVIEW

**We have all possibilities to ensure the Company's efficient operation and stable growth!**

**KZT billion**

was invested in the network in 2021

**35.6**

### Products and Services

Kcell provides the full spectrum of mobile telecommunication products and services to both individuals and organisations. Alongside voice, SMS, and data transmission services, the Company offers mobile access to the internet and other related services, including mobile content, various OTT services under the Mobi brand (TV, Music, Kino, Press, Bookmate) and unique mobile financial services (OGO Finance). Paying more attention to smartphone sales provides the Company with the opportunity to expand the range of services offered and to better meet the needs of its customers.

The Company operates one of the most modern, technologically advanced, and extensive mobile networks in the Republic of Kazakhstan and holds perpetual licenses to operate on 2G, 3G, and 4G/LTE frequencies. The coverage area of 4G/LTE network already covers 67.5% of the population of the country and provides a high quality of services. It is the high quality of our 4G/LTE network that helps Kcell to maintain its leadership in the mobile communications market in Kazakhstan.

The Company occupies a leading position in the B2B market through the development and implementation of vertical infrastructure solutions and innovative technologies.

### Our Brands

The Kcell and Activ brands have proven themselves in the highly competitive telecommunications markets due to their quality of customer service. The clear multi-brand architecture of Kcell improves business efficiency in the B2C segment through optimal pricing for packaged services, customer base profitability management, and network quality.

## Points of growth in 2021

### Integration of Networks with the Kazakhtelecom Group of Companies

By the end of 2021, as part of the network integration project with the Kazakhtelecom Group of companies, 2,204 sites were merged in 37 cities across Kazakhstan. We are successfully developing our joint projects with our majority shareholder Kazakhtelecom JSC, thanks to efficient operational synergies, significant improvement in data transfer speed, and network coverage compared to competitors.

### Implementation of the National Project 250+

In confirmation of the words of the head of state on the need to eliminate the digital inequality in Kazakhstan, the main stage of work on the implementation of Project 250+ to provide rural settlements with a population of 250 people and more with broadband mobile internet has been completed through the joint efforts of mobile operators. During the two years of the national project implementation, Kcell connected 1,423 rural settlements with a population of 250 people or more to mobile broadband internet, of which 433 settlements were connected under the program. The villagers received access to broadband mobile internet, thanks to which the residents can use the online services of government agencies, banking services, online education services, medical services, etc. Thus, the boundaries of the digital inequality between the city and the countryside are being erased. Project 250+ will become one of the drivers for the development of the country's economy.

### 5G Launch in Turkestan

In December 2021, Kcell launched a new-generation 5G network in the city of Turkestan. Eight outdoor stations were installed in strategically important locations and touristic sites, including city administration buildings, the congress hall, the Turkestan Arena stadium, the central bus station, the Farab central library, and the Youth Palace. This is the first launch of a new-generation network in Kazakhstan covering the entire area of the city.

**We**

- develop and offer unique business solutions for corporate clients!

- have launched the next-generation technology: 5G!



## Coverage Map

Kcell is a national Kazakhstan operator for the provision of digital telecommunications services: mobile communications and convergent services of fixed communications (FMC), data transmission and internet access, financial services, digital services and mobile applications, IT solutions in the field of system integration, machine-to-machine interaction, and collection and processing of big data and cloud computing.

● 2G ● 3G ● 4G ○ 5G



+ TARIFF PLAN

Kcell is the leading operator in Kazakhstan for the provision of smartphone and tariff services.

# Kcell



3G coverage  
**85%**

2G 3G 4G 5G

Population coverage with 4G/LTE standard  
**67.5%**

LTE traffic from total mobile traffic  
**76.9%**

Today, Kcell is the largest digital ecosystem in Kazakhstan with a clear competitive advantage. It also provides mobile financial services, mobile TV, online movies, music, books, and magazines, as well as the development of unique business solutions for corporate clients.



## Sale of Devices

Despite global smartphone shortages and supply constraints, the Company achieved a strong revenue growth of 12.7% in 2021. The contract phone sales service with the new release of the iPhone 13 broke all records and became the most successful service of all time. In addition, the introduction of the trade-in service allowed Apple device owners to return their old devices and buy new ones on even more favorable terms, since the cost of redeeming old devices counted as an advance payment toward buying a new one.

## Net Promoter Score

The customer Net Promoter Score (cNPS) increased to 35%. The Company has also embarked on a course of positive changes and continues to improve the quality of life of its employees. In 2021, Kcell increased the level of the employee Net Promoter Score (eNPS) by 15 percentage points. Each member of the Kcell team demonstrates professionalism and commitment to the tasks set by the Company. This allows us to provide society with the latest technologies and quality services.

## OGO Finance Product Line

OGO Finance was launched by Kcell in partnership with the partner bank and international payment system Mastercard. The product line consists of a digital co-branded card (OGO Card), a bank deposit system (OGO Deposit), and unsecured loan credit (OGO Credit).

Using a mobile application, Kcell subscribers can instantly open a full-fledged debit multi-currency card online, top up the card from their mobile phone balance for free, and also participate in the OGO Bonus loyalty program—with a reward for non-cash payments up to 10% of the amount of purchases.

In just one year, the Company managed to catch up with a five-year gap from competitors in this market segment. During this time, the first full-fledged Neobank was launched in Kazakhstan. And in 2021, a record indicator for the volume of payments in the entire history of the development of the MFS since 2016 was reached.

## Super App Kcell/Activ

In 2021, Kcell launched a super application that linked the telecom, fintech, e-commerce, and entertainment services of the operator into a single ecosystem. Super app users have access to:

- » payment for travel in public transport;
- » payment of utility services;
- » opening an OGO-card;
- » online-store;
- » personal account;
- » and other services.



# Kcell

In December 2021, the Kcell Super App entered the top of the AppStore and GooglePlay in terms of number of downloads, exceeding

4,000,000 installations

The date of establishment of Kcell in the form of GSM (GSM) Kazakhstan Limited Liability Partnership of Kazakhtelecom JSC as a mobile operator in the Republic of Kazakhstan.

- » Kcell became the first mobile operator in the Republic of Kazakhstan with internet access from mobile devices.
- » Launch of multimedia messaging (MMS).

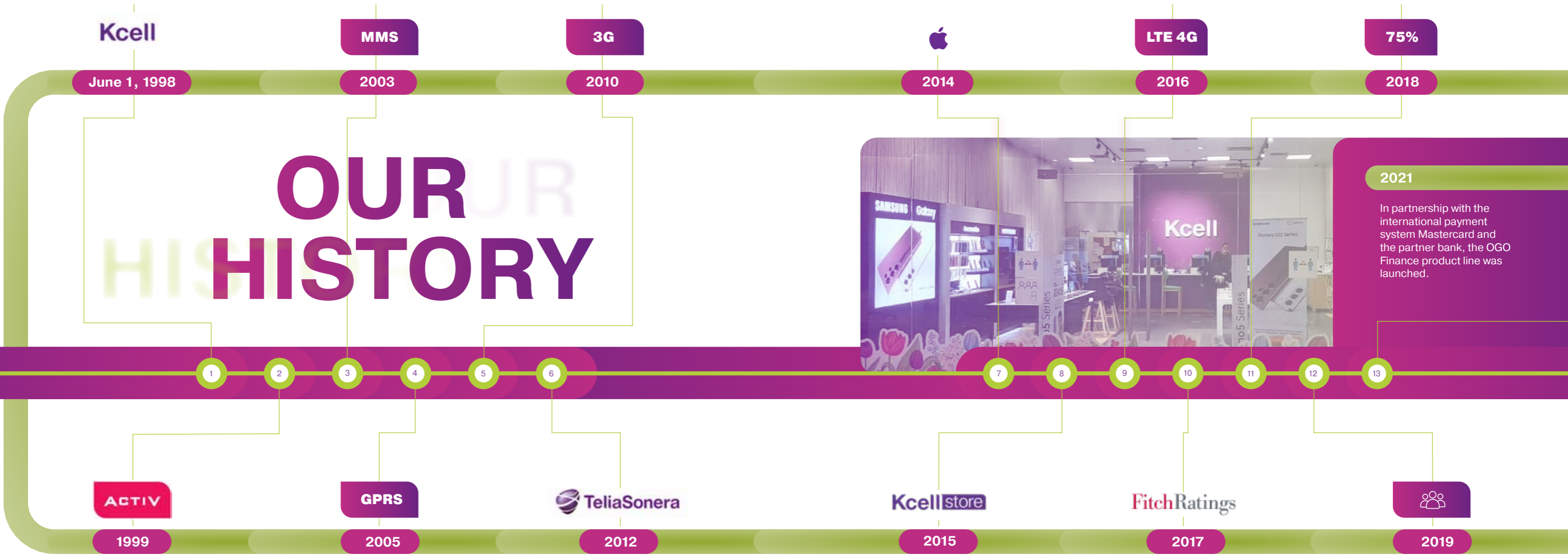
In December 2010, the Company received the right to operate a 3G network and began to provide 3G services in Nur-Sultan and Almaty cities.

- » Kcell became the first official iPhone distributor in Kazakhstan by signing a contract with Apple and launched sales throughout the country.
- » In September 2014, the Company started a large-scale rebranding of the Activ trademark.

- » The Company purchased radio frequencies for the organisation of mobile communications of the LTE standard, which resulted in the launch of a LTE/4G network.

- » In December 2018, Telia and Fintur sold a 75% stake in Kcell to Kazakhtelecom JSC.

# OUR HISTORY



Obtaining a license to provide communication services of GSM standard.

- » Official launch of a mobile communications network under the Kcell trademark.
- » In September 1999, another brand was also introduced: **Activ**.

- » In September 2005, Kcell became the first cellular operator in Kazakhstan to provide GPRS roaming services.

- » The Company was re-registered as Kcell Joint Stock Company.
- » Successful completion of the initial public offering of global depository receipts (GDRs) on the London Stock Exchange and ordinary shares on the Kazakhstan Stock Exchange.
- » In February 2012, Kazakhtelecom JSC sold 49% of its shares in Kcell to SoneraHolding B.V., a subsidiary of TeliaSonera.

- » In March 2015, the first Kcell-branded store opened in Almaty, with a unique innovative concept that allowed for a significant improvement in the quality of customer service.

- » The international rating agency Fitch has assigned the Company a long-term issuer default rating of "BB" with a stable outlook.

- » Election of a new composition of the Kcell board of directors with a predominance of independent members, which determined a new strategic development plan and appointed the management responsible for its implementation.

## 2021

In partnership with the international payment system Mastercard and the partner bank, the OGO Finance product line was launched.



## STATEMENT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS



# Sustained Growth in Unstable Times

**Dear Shareholders!**

Today we are summing up the results of 2021, which has become a test of our ability to adapt and respond to changes in the external environment, which were unprecedented in the past year.

I can state that thanks to stress resistance, ability to mobilize, and quickly solve problems, Kcell managed to maintain not only its industry position, but also positive development dynamics even during the tragic events of January 2022, which we experienced together with the whole country.

The memory of these events will remain in each of us for a long time. The subscriber service center and offices of our Company were attacked. However, we have done everything possible so that our subscribers have the opportunity to stay in touch with relatives and friends. Since the introduction of the state of emergency, the Kcell team has been working around the clock to promptly respond and provide communication to our subscribers. We quickly restored all our infrastructure and services and provided significant support to our customers during this difficult period. Throughout all of this, our main focus was on team investment and building the right culture, because it's through a solid foundation that we can withstand even the most insuperable circumstances.

It is safe to say that 2021 has been a very successful year for Kcell. Most of our plans became a reality, and the Company ended the year with a 12.3% increase in total revenue to KZT 196,189 million. The main drivers of growth were a smart approach to promoting additional services to our subscribers,

offering new OTT products and mobile financial services, launching updated mobile applications and websites for the convenience of using the Company's services, as well as the use of rich packages by subscribers, including a range of additional services.

In addition, the penetration of bundle offers is growing due to the active promotion through the main channels of communication and a focus on meeting specific consumer needs. In the field of mobile financial services, in the third quarter we launched a profitable product family of OGO Finance, which includes OGO Bonus, OGO Card, and OGO Deposit. The new financial product was launched jointly with the partner bank and international payment system Mastercard and is designed to improve our services in a qualitative manner and provide more profitable services to our subscribers.

In the enterprise segment (B2B), we continue to implement bold infrastructure projects. Kcell became the first mobile operator in the country to build a private LTE network, and the obtained results showed that the Company is moving in the right direction, as subscribers have appreciated the advantages of LTE technology. Within the framework of interaction in the group of companies of National Wealth Fund Samruk-Kazyna JSC, joint projects have already been launched on private LTE networks and telemetry in the energy sector.

This result is an excellent foundation for further strengthening of our position in the market and achieving the goals set in the Company's five-year development strategy, which aims to make Kcell a fully digital operator with a diversified portfolio of products and services. Kcell's strategy hinges on

the happiness of "three pillars": customers, employees, and shareholders.

For example, through the introduction of digital tools for customer experience and investments in the network, the customer Net Promoter Score (cNPS) will increase. Through recruiting the best employees, engineering-to-IT retraining programs, and lucrative salary offers, Kcell aims to increase the employee Net Promoter Score (eNPS) and build the strongest team in the market. The result of these efforts should result in additional revenue, which will affect the amount of dividend payments to shareholders. And in all three areas in 2021, we have already achieved significant success. The cNPS increased by 35% and the eNPS by 15 percentage points. As for dividends, the board of directors recommended paying dividends to shareholders in the total amount of KZT 21.5 billion (66% of net profit), which is 4.5 billion more than last year. Earnings per share is KZT 107.5, which is 22% higher than in 2020. The rest of the profit will be directed to investments in the network, large-scale work to improve the quality of communication, and the development of new products and digitalisation.

The latter aspect is especially important in terms of Kcell's contribution to the sustainable development of not only the Company itself but the entire country of Kazakhstan. The most important social aspect of digitalisation is, of course, ensuring equal access to information for various, sometimes vulnerable, social groups. Improving society's digital literacy is an integral part of Kcell's strategic vision in the field of sustainable development and a tool for achieving the UN

Sustainable Development Goals. An example of such a project is the implementation of Project 250+. In 2021, 213 settlements across the country with a population of over 250 people were covered, of which 110 were in excess of obligations. Villagers received access to broadband mobile internet, allowing them to use the online services of government agencies, banking services, online education, medical services, etc.

We see great opportunities in the field of sustainable development, environmental protection, and combating climate change through energy-saving projects. In 2021, we developed a plan that includes activities and initiatives on energy efficiency, waste management, and the formation of environmental awareness among employees. In addition, we have installed a unique base station in the area of Charyn Canyon. This is the first site powered by wind and solar electricity.

The January events showed that it is necessary to strengthen ourselves in the field of implementing the principles of sustainable development in all business processes. Therefore, Kcell's activities will continue to take into account the basic principles of responsible business conduct and development of innovative potential, which opens up new opportunities for economic and environmental growth and the social well-being of all stakeholders.

**Kind regards,  
Alexey Buyanov  
Chairman of the Board of Directors**






# 1



## STRATEGIC REVIEW

STATEMENT OF THE CHAIRMAN OF THE MANAGEMENT BOARD, CHIEF EXECUTIVE OFFICER

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STATEMENT OF THE CHAIRMAN OF THE MANAGEMENT BOARD,  
CHIEF EXECUTIVE OFFICER

# Successful Transformation Based on the Right Priorities

## Dear Shareholders, Customers, and Partners!

In 2021, we started with a project to transform the Company and implement a new five-year strategy. The high financial and operational performance achieved in 2021 confirms the correctness of the chosen direction of development and strategic priorities. Year-on-year, the growth of total revenue amounted to 12.3%, and service revenue to 10.7%.

Twenty twenty-one also became the year of an “evolutionary revolution” for the Mobile Financial Services (MFS) business line. In the 4<sup>th</sup> quarter, we launched the first full-fledged Neobank in Kazakhstan and reached a record high in terms of payments in the entire history of the development of the MFS since 2016. The OGO Bonus program was embraced by more than 80,000 active subscribers, and we managed to catch up with a five-year gap from competitors in this market segment in just one year.

Last year, the Company launched its own super app, and by the end of that year it became the top app in the AppStore and Google Play in terms of the number of downloads, surpassing four million installations and overtaking some messengers and social networks.

Despite the global shortage of smartphones and supply chain constraints, we achieved a strong device revenue growth of 12.7% in 2021. We want to become something more than just a telecom operator for our customers. Now we hold the lead in the number of sold devices in the market, but this is not the limit! Sales of contract phones have been opened up to everyone, not just Kcell subscribers.

Due to strong revenue growth, and coupled with our ongoing cost optimisation efforts, EBITDA excluding non-recurring items increased by 14.1% during the year. The free cash flow for 2021 increased by 48.6% and amounted to KZT 42,895 million. The generated cash flow will be used to finance our capital-intensive projects, investments in infrastructure, and technological improvement.

In April 2021, we took further steps to improve our operational efficiency. The Company entered into an agreement with Nexign JSC on the Nexign Converged Business Support System billing platform. This will allow us to implement a unified billing system, optimize operating costs, speed up the launch of the Company’s products to the market, and provide opportunities for monetisation of new products and services.

We also improved the conditions of our debt portfolio in 2021 by entering into a general loan agreement with First Heartland Jusan Bank JSC for a total credit limit of KZT 60,500 million.

One of the most significant events for the Company was the successful launch of the first full-fledged 5G network in Turkestan, which covers the entire city. This is truly unprecedented for Kazakhstan, especially considering that it has occurred against the backdrop of a constant increase in the number of subscribers using 5G-enabled devices.

In 2021, as part of the national Project 250+, Kcell did a great job of expanding the coverage of mobile broadband internet access and improving the quality of communication in remote rural areas of the Republic of Kazakhstan. We are especially proud of this project, as we believe that it will forever change the lives of Kazakhstanis and become a driver for powerful economic growth. This is an important social project implemented in the interests of the rural population of Kazakhstan. In addition, this project is in line with our five-year development strategy to become a fully digital operator. That’s why we worked with full dedication and exceeded our obligations to install base stations in remote villages across

the country. I believe that this project will make a significant contribution to the development of the country’s economy. The successful implementation of Project 250+ became possible thanks to the support of the state, as well as Kazakhtelecom. In 2020 and 2021, Kcell provided mobile broadband internet access to 671 rural settlements in Kazakhstan with a population of over 250 people.

We continue working on the implementation of the new strategy, which focuses on Kcell maintaining its leadership position in all business areas in the market and using all synergy opportunities within the group of Kazakhtelecom JSC. We see strong financial and operational opportunities in further initiatives of network and infrastructure using. We will continue to take advantage of the synergy with Kazakhtelecom JSC, drawing in the market knowledge and best practices of our controlling shareholder, which is the largest telecommunications operator in Kazakhstan.

Kind regards,  
**Yuriy Kharlamov**  
Chairman of the Management Board,  
Chief Executive Officer

Kcell



# Key Events of 2021

» The principal debt and coupon interest were paid to bondholders (ISIN KZ2C00004208). As of the register fixation date (January 15, 2021), 21,754 thousand bonds were placed with a nominal value of KZT 1 thousand, with a coupon rate of 11.5%. The total amount of payment on the principal debt amounted to KZT 21,754 million. The total coupon payment amounted to KZT 1,251 million.

» Termination of the global depository receipts (GDR) program and voluntary delisting on the London Stock Exchange (LSE) and Astana International Exchange (AIX). The Company's common shares continue to be traded on the Kazakhstan Stock Exchange (KASE).

» An agreement on the implementation of the Nexign Converged BSS billing platform was signed with Nexign JSC. The transition to a unified billing system for servicing subscribers will allow Kcell to become a fully digital operator and

take a leading position in Kazakhstan's telecommunications market. The Company will be able to optimize operating costs for the operation of several billing systems, as well as accelerate the introduction of products to the market and expand the opportunities for monetisation of new types of services. Modernisation and consolidation of the systems will also expand the capabilities of self-service services by 20-30%, which will reduce the load on contact centers and subscriber offices.

» The Company declared on the conclusion of an additional agreement with SB "Bank of China in Kazakhstan" JSC to increase the amount of the credit line from KZT 11 billion to KZT 13 billion until 2024.

The EGM was held with the agenda on amending the Kcell JSC charter and the formation of the counting commission. Changes in the composition of the Kcell JSC board of directors also occurred: Makhat Rashit Mukaramovich and Popov Vladimir Gennadiyevich, independent members of the board of directors, were notified of their resignation by the members of board on September 21, 2021.

The Company's board of directors approved the attraction of external financing and entering to a major transaction with First Heartland Jusan Bank JSC for a total credit limit of KZT 60.5 billion. The credit line will allow the refinancing existing loans and will support the implementation of the five-year development strategy of the mobile operator.

» The Company fully repaid the principal debt and accrued interest in the amount of KZT 12 billion on loans from Halyk Bank of Kazakhstan JSC and SB Alfa-Bank JSC. The amount of the loan to the Eurasian Development Bank, KZT 6.5 billion, was also fully repaid.

Naizabekov Timur Kurmangazyevich, an independent director of Kcell JSC's board of directors, and Ramazanov Yermek Turzhigitovich were elected members of the board. Also, the board of directors decided to elect Nurpeissova Dina Kozhakhmetovna, chief financial officer, to Kcell JSC's management board.

» The strategic agreement was signed with Ericsson with the intention of accelerating the development of 5G technologies in the Republic of Kazakhstan. As part of the agreement, the companies opened a new milestone in the development of advanced technologies in the country: the first pre-commercial 5G zone in Turkestan.

» Fitch Ratings has assigned a long-term issuer default rating (IDR) of "BB+" to Kcell, and with a "Stable" outlook.

» The government of the Republic of Kazakhstan approved amendments to the rules for the provision of frequency bands, radio frequencies, operation of radio electronic facilities, and high-frequency devices. As such, the Company is entitled to receive state subsidies in the form of a 90% reduction of the annual fee for the use of radio frequencies from January 1, 2020 to December 31, 2024.

# 2021

January

February

April

May

June

August

September

October

November

December

Kcell JSC's board of directors decided to appoint Yuriy Kharlamov as chairman of the Company's management board and chief executive officer.

An extraordinary general meeting (EGM) of the Company's shareholders was held with the agenda for the election of members of the board of directors. Saudabayev Serik Bolatovich and Khudayberdiev Timur Telmanovich, representatives of the shareholder of Kazakhtelecom JSC, were elected to the current board of directors of Kcell JSC.

At the annual general meeting of shareholders (AGM), a decision was made to pay dividends for 2020 in the amount of 100% of the consolidated net income of KZT 17,578 million or KZT 87.89 per share.

A meeting of the Company's board of directors was held with the agenda on the change in the composition of the management board of Kcell JSC.

The Company provided information on the change in the composition of the shareholders. The composition of the shareholders owning 5% or more of shares of Kcell JSC: 1) Kazakhtelecom JSC – 51% of shares; 2) Pioneer Technologies S.A.R.L. – 14.87% of shares; 3) First Heartland Jusan Bank JSC – 9.08% of shares; 4) Unified Accumulative Pension Fund JSC – 7.06%.

# BUSINESS MODEL

The basis of Kcell's success is a business model built on a solid foundation of productive solutions. By making good use of its asset base and competitive advantages and offering state-of-the-art innovative solutions, the Company strives to create and maintain the greatest value for all its shareholders. The main focus on investing in the team and building the right culture in the Company creates a solid foundation that will allow us to more readily withstand even the most difficult circumstances.



## Resources

### People

Kcell always attracts talented working professionals, creates comfortable working conditions, and tries to develop and retain employees, which explains why the Company is one of the best employers in Kazakhstan. A positive and motivating work environment, concern for the quality of life of employees and their families, career opportunities, and financial prospects make Kcell a desirable place of work for both young and experienced professionals.

### Network

Kcell is actively expanding its coverage to provide high-quality services in Kazakhstan. The Company uses one of the most modern, technologically advanced, and extensive mobile networks in the country, with unlimited licenses to operate on 2G, 3G, and 4G/LTE frequencies. In 2021, the successful launch of the first full-fledged 5G network in Turkestan became one of the most significant events in the Company's history, providing us with more advanced methods of delivering our services.

### Technologies

In Kazakhstan, Kcell is the largest digital ecosystem with a clear competitive advantage. These additional services are of incontestable value to our customers: financial services, mobile TV, online movies, music, books and magazines, and other useful services. We also take pride in developing unique business solutions for corporate clients.

### Brands

Across years of productive operations, the Kcell and Activ brands have proven themselves in the highly competitive telecommunications markets in the B2B and B2C segments and are known for their high quality of service and concern for customer comfort.

### Natural Resources

The Company pays great attention to environmental care. We comply with all requirements for the environment's protection, mainly by balancing our operations with their impact on the environment. The Company contributes to local and global sustainability by using, developing, and promoting resource-efficient and environmentally friendly services.

### Finances

Stable revenue growth is ensured through the introduction of innovative tariffs and a smart approach toward promoting additional services for subscribers, new OTT services, and mobile financial services. Financial growth is also promoted by the development of the application package, with more functionality and by allowing customers to manage their accounts, with respect to their individual requirements. The new financial product is designed to qualitatively improve our services and provide even more profitable services to our subscribers.



## Operating Model

We are successfully continuing the digital transformation of our Company through our commitment to innovation and value, in accordance with which we offer customers the most advanced solutions of the 21<sup>st</sup> century. This is made possible thanks to the quality of Kcell's fast growing network, competitive brands, products, and services in the field of data processing and transmission, as well as the efforts of our dedicated employees.

CLIENT-ORIENTED SOLUTIONS



OPTIMAL PRICE-VALUE RATIO

### Strategy

Our strategy is based on the implementation of the transformation and strategy of the digital player, which has significant potential to create value for our customers, employees, and shareholders.

[Read more on page 22](#)

### Sustainable Development

Investments in sustainable development play a crucial role in ensuring that the business model ensures the development of the Company and at the same time brings benefits to society.

[Read more on page 34](#)

### Risk Management

The risk management program, developed in accordance with the Organisational Risk Management Guidelines of the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fully integrated into the Company's business planning and control processes.

[Read more on page 41](#)

### Corporate Governance

By maintaining the highest standards of ethical behavior with all of our stakeholders, we develop a culture of responsible business.

[Read more on page 48](#)

We are attentive to the needs and requirements of our customers!



## Created Value

1 PEOPLE

2 NETWORK

3 BRANDS

4 PRODUCTS AND SERVICES AIMED AT DATA TRANSMISSION



### FOR CUSTOMERS

The Company's priority is to provide the highest quality services in the field of telecommunications. We are constantly improving the quality, spectrum of services, and customer experience for Kcell and Activ subscribers and remain a reliable partner for our retail and corporate clients.

Subscriber base is **7,961** million people



### FOR SHAREHOLDERS

The Company is confidently fulfilling its obligations to ensure sustainable maximum value for shareholders in the long term, including through a transparent dividend policy.

Dividends paid for 2020 **17,578** KZT million\*



### FOR EMPLOYEES

There are 2,120 employees in Kcell, with compensation packages that reflect the Company's principles of equality and meet the requirements of the local market; employees are also eligible for comprehensive benefits.

Growth of eNPS (employees Net Promoter Score) **+ 15** percentage points\*\*

\*\* +25.7% in January 2022 vs. +10.7% in August 2021

We create all conditions for the fruitful growth of our employees!

We are building a world-class ecosystem!



# STRATEGY

## I STAGE 2021–2023

### Business stabilisation and building enablers (contributory factors) building

- » Attracting and retaining quality customers
- » Understanding and satisfying customer needs
- » Realisation of B2B potential
- » Improving operational efficiency
- » The best place for employees to work

## II STAGE 2024+

### Building an innovative digital operator

- » Digital value proposition
- » Advanced analytics
- » Digitalisation of customer experience
- » Flexible organisation of the Company



### Expected Results

Implementing the transformation and strategy of the digital player has a significant potential to create value for all involved persons:

- » **Happy Customers** – Constant contact with customers and understanding of their needs help to develop mobile services. The introduction of digital customer experience tools and investments in the network increases the cNPS.  
**Result:** Significant improvement in quality, spectrum of services, and customer experience for Kcell/Activ subscribers.
- » **Happy Employees** – Attracting the best employees, programs for reprofiling engineering to IT professions and lucrative salary offers. Kcell strives to increase the eNPS and build the strongest team in the market.  
**Result:** Increased employee engagement and satisfaction, development of local competencies in the

advanced areas of the digital economy (AI, IoT, DevOps, etc.). Each member of the Kcell team demonstrates professionalism and commitment to the tasks set by the Company. This allows us providing the society with the latest technologies and quality services.

- » **Happy Shareholders** – A significant increase in income and EBITDA. Potential for evaluating shareholder value at the digital player level.  
**Result:** We create and maintain the greatest value for shareholders.

The basis for the further success of the Company is a five-year development strategy aimed at becoming a fully digital operator with a diversified portfolio of products and services.

## Strategic Objectives of the First Stage

### ATTRACTING AND RETAINING QUALITY CUSTOMERS

- » Products meeting the needs of target customer segments
- » Enrichment and bundling (packaged offers) of relevant digital services and facilities into products based on customer needs
- » Leadership in providing a wide spectrum of products (incl. devices)
- » New lines of business
- » Advanced perception of network quality

### UNDERSTANDING AND SATISFYING CUSTOMER NEEDS

- » Customer base using up-to-date tariff plans and products
- » Proactive development of the subscriber base and customer behavior patterns by meeting the needs with the help of CVM (Customer Value Management)
- » Online service for all key customer routes and transactions

### REALISATION OF B2B POTENTIAL

- » Partner products customized to the needs of corporate clients with personalized service (key account managers)
- » User-friendly products tailored to SMB customers with an advanced digital customer journey

### IMPROVING OPERATIONAL EFFICIENCY

- » Increased employee productivity
- » Optimal structure and cost level
- » High level of simplicity and process automation

### THE BEST PLACE FOR EMPLOYEES TO WORK

- » Decision-making institution based on flexible interaction practices and an increased level of authority of employees
- » Ambitious, achievable business objectives for each area and division through quarterly planning
- » Cross-functional teams interacting effectively across critical business areas
- » Leading employer of telecom talents in the market



# We keep our promises and meet the expectations of all stakeholders!

# MARKET REVIEW

The global market is expected to reach **\$370.63 billion in 2025**, with an average annual growth rate of **7%**.

## World Market of Telecommunication Services

According to GlobeNewswire, the global satellite and telecommunications service provider market increased from \$273.57 billion in 2020 to \$282.58 billion in 2021 at a compound annual growth rate (CAGR) of 3.3%.

The growth is mainly due to changes in the way companies operate. The recovery from the COVID-19 crisis has also played a role in this growth. The decline in 2020 was driven by measures to contain the spread of the virus, including social distancing, transfer of employees to a remote work format, and business shutdowns. However, in 2021, many restrictive measures were lifted, and the work of operators recovered to a greater extent.

Digitalisation drives the use of wireless technologies and equipment. The growing data traffic, the rise of public Wi-Fi, and the development of 4G and 5G technologies promote the increase in the use of wireless equipment in developed and developing countries. In addition, many companies move from traditional systems such as fixed-line technologies to more advanced wireless and mobile technologies.

## Main Trends of the Telecommunications Market in 2021

Communication technologies are the main driver for the development of a number of key sectors of the economy, such as trade, energy, finance, insurance, and education. Telecom is becoming a key segment of the economy, providing business processes in all sectors, from finance to agriculture. In addition, the industry has become one of the few beneficiaries of quarantine restrictions during the pandemic, as it was able to withstand the increased load on networks.

Among the main trends in the development of the telecommunications market, one can single out the growth in the number of subscribers of mobile communications and

mobile internet, which is due to the active development of innovative technologies against the backdrop of globalisation processes, as well as an increase in the level of multimedia content of the market.

The factors slowing down the development of the telecommunications sector include: an oligopoly in the telecommunications market; a high level of regulation of the sector by the state; provision of services to customers that they do not need; high capital costs for the modernisation of the telecommunications infrastructure; and significant differences in the potential for development of segments of the telecommunications market in different countries for both economic and legal reasons.

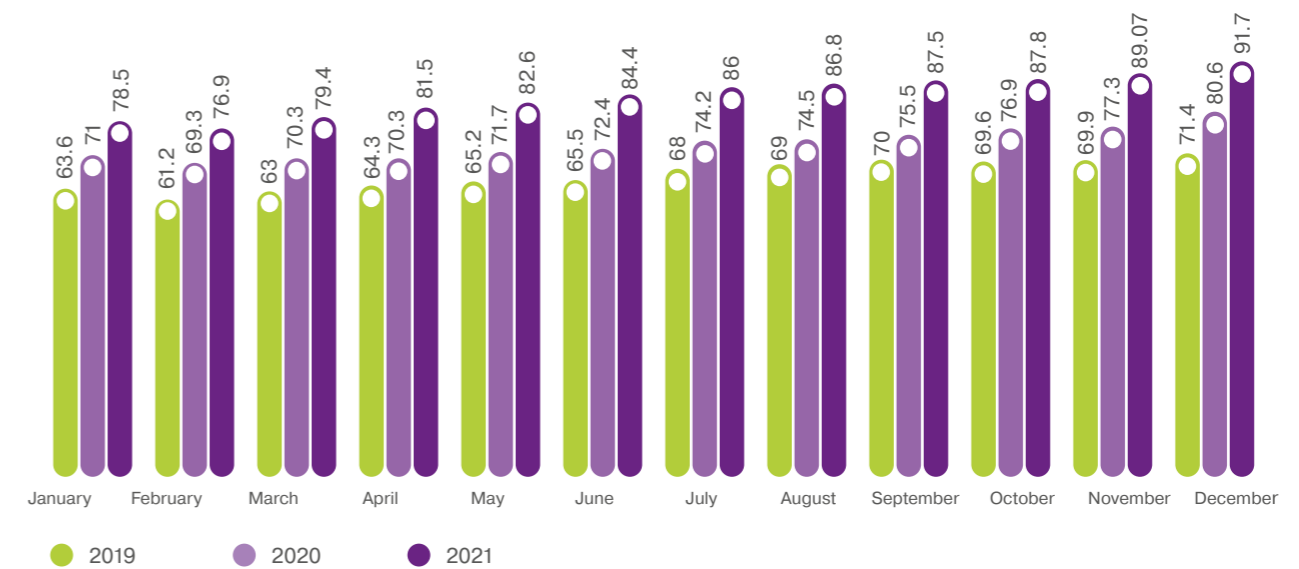
## Situation in Kazakhstan

The market in Kazakhstan for telecommunication services is represented by three major mobile operators: Kcell, Beeline, and Tele2/Altel. All operators in this fierce market are making every effort to introduce new products, improve service, expand networks, and frequency range. The emergence of innovative technologies contributes to increasing income in the industry.

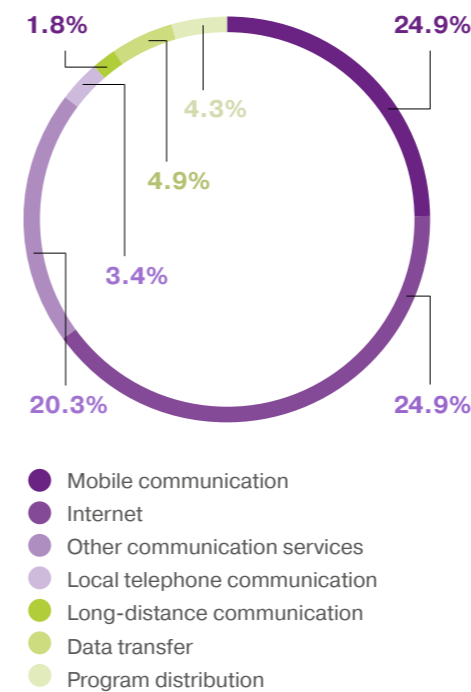
In recent years, all players in the Kazakhtan telecommunications market have shown steady growth, which is likely to continue into the future. It is expected that by 2025 the use of 2G networks will come to naught, and that the volume of 3G networks will also be significantly reduced. The successful launch of Kcell's first full-fledged 5G network in Turkestan in 2021 allows us to predict that the majority of mobile connections by 2029 will be carried out through 5G networks.

**Income from Communication Services in Kazakhstan in January-December 2021.** In 2021, telecommunications operators earned more than KZT 1 trillion.

Revenues of the telecommunications sector in Kazakhstan on a monthly basis for 2019-2021 (in billion tenge)



Structure of income from communication services in Kazakhstan in 2021 (in percentages)



## Communication Services, 2021

According to the Bureau of National Statistics of the Republic of Kazakhstan, the volume of the telecommunications market increased by 14.4% from January-December 2021 compared to the same period in 2020, reaching KZT 1.0121 trillion.

The volume of long-distance and international telephone communication amounted to KZT 18.8 billion (12.2% less than the volume of the same period in 2020); internet services to KZT 405.5 billion (20.1% more); and cellular services to KZT 251.6 billion (7.2% more).

As before, the largest shares in the total volume of communication services are accounted for by the internet, mobile communications, and other telecommunications services. The "Big Three" operators — Kcell, Beeline, and Tele2/Altel — concentrate more than 85.4% of the entire telecommunications market of the republic.

## Main Components of the Telecommunications Market in Kazakhstan

Type of services	Unit of measurement	2020	2021	%
Revenue from long-distance and international telephone communications	KZT in billions	1.62	<b>1.47</b>	-9.3%
Revenue from telephone communications	KZT in billions	2.88	<b>3.41</b>	-5.6%
Internet services	KZT in billions	47.93	<b>38.1</b>	25.8%
Cable Infrastructure, Wireless and Satellite Programs	KZT in billions	3.50	<b>3.80</b>	8.6%
Mobile services	KZT in billions	33.26	<b>21.60</b>	5.4%
Other telecommunications services	KZT in billions	16.50	<b>19.60</b>	18.8%



# PERFORMANCE REVIEW

Kcell successfully implements all spheres of the five-year strategy. The strong financial and operational performance achieved despite external challenges in 2021 confirms the correctness of the chosen development direction and strategic priorities.

**Common subscriber base.** Slight decrease compared to 2020 – by 1.2%

	2019	2020	2021
Subscriber base	8,275	8,055	<b>7,961</b>

**Average revenue per client** increased by 10.7%. The main drivers of ARPU growth are growth in service revenue, growth in the penetration of packaged offers, and growth in sales of contract smartphones.

	2019	2020	2021
Average revenue per ARPU user	1,334	1,457	<b>1,614</b>

**The data traffic** increased by 36.8% compared to 2020. One of the main reasons is the transfer of a significant part of the life of most Kazakhstanis online and the transition to a remote format of work and education. Additionally, the growth in sales of smartphones affects the increase in the level of penetration of smartphones in the network, which in turn entails an increase in the consumption of the data traffic.

	2019	2020	2021
Data traffic, PB	322.5	453.5	<b>621.0</b>
Average data traffic per user, GB	6.2	8.4	<b>11.2</b>

**Coverage indicators.** Steady growth from year to year by an average of 2.5 percentage points.

The Company continues to focus its main efforts on improving operating performance and increasing the overall quality of customer service, including through increased 4G penetration and improvement of digital services.

	2019	2020	2021
4G/LTE Coverage	62.2%	65.1%	<b>67.5%</b>
3G Coverage	80.5%	83.8%	<b>85.0%</b>

**Packaged offer penetration** is up 6.3 percentage points year-on-year compared to 2020, due to active promotion of offers through the key communication channels and focus on meeting specific customer needs.

	2019	2020	2021
Penetration of packaged tariff plans	54.2%	62.3%	<b>68.6%</b>

**The subscriber churn rate** is declining due to measures to improve the quality of the subscriber base and increase contract sales, which, in turn, positively affect the LTV lifetime value.

	2019	2020	2021
Subscriber churn rate	44.5%	34.1%	<b>27.7%</b>

## B2C Segment Overview

Twenty twenty-one became a year of “evolutionary revolution” for the Mobile Financial Services (hereafter referred to as the MFS) business area. This is the result of the implementation of the strategy approved at the end of 2020.

Main directions:

- » building the first **Neobank** in Kazakhstan following the example of the best world practices;
- » creation of a loyalty program based on the experience and expertise of the international payment systems;
- » and wider involvement of Kcell subscribers in the use of MFS to increase such indicators as NPS and MultiPlay (use of several services of a telecom operator)

B2C main indicators	Units of measurement	2020	2021	2021 compared to 2020, %
Mobile financial services	KZT in billions	18	36	100%
Active users of MFS	thous. subscribers	226	237	4.9%
Active users of OTT	thous. subscribers	376	693	84.3%
Transactions and payments from mobile phone balance	million	9.8	18.2	85.7%

## Payment in Google Play Market

In April 2021, thanks to integration with Halyk Bank, one of the largest banks in the country, and the European payment integrator BOKU, subscribers of Kcell telecom operator were given the opportunity to pay for any available content in the Google Play Market using direct carrier billing (DCB) technology. The monthly volume of purchases made by subscribers from the balance of a mobile phone in the Google Play Market is more than KZT 100 million. The number of subscribers who made such transactions during a given month increased by more than 30 times during the year, which was also stimulated by the high amount of remuneration in the form of cashback.

## Loyalty Program

In July 2021, one of the best loyalty programs, OGO Bonus, was launched. Within its framework, subscribers of Kcell telecom operator were given the opportunity to open a bonus account in the super application, receive rewards for payments made from their mobile phone balance in the amount of up to 90% of the amount, and withdraw accumulated bonuses to the phone balance, share with family and friends, or use them for repayment. The average monthly figure is 85%, which is several times higher than the figures for similar loyalty programs not only in Kazakhstan, but also in other countries from around the world.

In 2021, more than 500 million bonuses were credited to subscribers, and the number of bonus accounts exceeded 100,000. According to forecasts, in 2022, the number of bonus accounts will grow at a rate similar to the penetration of the super app, and will reach 300,000.

MFS turnover has doubled, from KZT 18 billion in 2020 to 36 billion in 2021. There is a quarterly increase in the active user base. So, and only in the 4<sup>th</sup> quarter of 2021, the MFS base of Kcell exceeded 400 thousand and grew by 15% compared to 2020.

Compared to similar indicators for bank cards in Kazakhstan, the growth of Kcell’s mobile financial services demonstrates comparable dynamics, as the number of transactions made on payments from the mobile phone balance increased by 84%, from 9.8 million in 2020 to 18.2 million in 2021.

The OGO Finance product family includes OGO Bonus, OGO Card, and OGO Deposit and is designed to qualitatively improve our services and provide more profitable services to Kcell subscribers.

In 2021, the cashback campaign with Visa QR was launched, and today Kcell is the only mobile operator in Kazakhstan that provides contactless payment services using a QR code in the Visa QR network around the world.



**In July, we launched a bonus loyalty program in the Super App with a reward of up to 90% of the transaction amount. Today we have almost 100,000 active bonus accounts, and more than 85% of accrued bonuses are reused within a month.”**



**“The main achievement of mobile financial services is that Kcell closed the five-year gap from similar services of competitors in one year. We see a growing need to use Neobank, fully digitized financial services.”**

## B2B Segment Review

Kcell JSC presents a wide range of smart solutions for business in the Kazakhstan market. The use of smart solutions opens up new opportunities for infrastructure management and the systematisation and optimisation of business processes and business information tasks. It also helps to reduce costs and, as a result, increases business profitability.

### Business solutions provided by the Company in the Kazakhstan market:



**Private LTE** – a dedicated secure network designed to solve production problems



**Push-to-Talk** – a solution for providing intra-production communication based on the private LTE network



**Automonitoring** – a comprehensive solution for the effective management of remote objects (vehicles and special equipment)



**Ecomonitoring** – a solution for monitoring atmospheric emissions at mining and metallurgical facilities, as well as controlling the indoor microclimate and compliance with sanitary and epidemiological rules and regulations



**Access control and management system** – a comprehensive solution aimed at managing access to a given territory



**Production automation systems** – comprehensive solutions aimed at increasing the level of efficiency and mobility of employees and facilitating their work



**Video analytics** – a solution for automated data acquisition based on the analysis of a sequence of images coming from video cameras

## Private LTE for Industrial Enterprises

The maximum automation of production processes is an important task for mining companies around the world. For these purposes, the capabilities of a full-fledged technological wireless communication network, private LTE is also used.

Kcell became the first operator to launch commercial private LTE networks. One of the networks was put into commercial operation in September 2020 at the Aktogay mine of KAZ Minerals Group, one of the companies engaged in the extraction and processing of copper at the site.

Private LTE is an excellent buffer state for the implementation of digitalisation in mining enterprises and mines. The client receives a private dedicated radio network with high bandwidth and protection from external influences. It integrates autonomous networks for the digitalisation of the mining industry and provides an opportunity to automate the technological processes of mining and mining-and-processing enterprises, which, in turn, helps to increase labor productivity and reduce the number of accidents at work.

In 2021, a second private LTE network was launched at several ERG group sites. It is used to implement the global ERG project and includes several dozen base stations operating on LTE technology.



# FINANCIAL REVIEW

## Revenue

	2019	2020	2021
Total revenue, KZT in millions	156,657	174,684	<b>196,189</b>

Growth in **total revenue** by 12.3% or by KZT 12,105 million in 2021

Increase in **service revenue** by 10.7% compared to 2020 – KZT 140,049 million

	2019	2020	2021
Service revenue, KZT in millions	137,564	140,049	<b>155,054</b>

Growth in **sales of mobile devices** by 12.7% or by KZT 4,392 million compared to 2020 – KZT 34,634 million. Despite the global shortage of smartphones and the limited supply, it was possible to achieve a significant increase in the revenue from sales of devices.

	2019	2020	2021
Revenue from handset sales, KZT in millions	19,091	34,634	<b>39,026</b>

The expansion of the portfolio of offers through new digital services and solutions, which led to an increase in revenue in **data-processing services and services for voice and other services** segments by an average of 10%. These results are driven by the introduction of new OTT products (internet video services) and mobile financial services, and the launch of updated mobile applications and websites to improve the ease of use of the Company's services.

	2019	2020	2021
Voice and other services, KZT in millions	78,689	73,851	<b>78,060</b>
Data services, KZT in millions	51,430	58,446	<b>67,971</b>

## Expenses

**Cost of sales** increased by almost 5% or by KZT 6,734 million compared to 2020 – KZT 119,133 million, mainly due to the growth in handset sales.

	2019	2020	2021
Cost of sales, KZT in millions	108,928	119,133	125,867

**Sales and marketing expenses.** Increase of 58% compared to 2020.

	2019	2020	2021
Sales and marketing expenses, KZT in millions	2,887	1,965	<b>3,106</b>

**General and administrative expenses.** Increase of 36% or KZT 3,891 million compared to 2020 – KZT 10,426 million

	2019	2020	2021
General and administrative expenses, KZT in millions	8,925	10,426	<b>14,137</b>

**Financing expenses** decreased by 17.9% and amounted to KZT 7,765 million compared to 2020 – KZT 9,453 million.

	2019	2020	2021
Financing expenses, KZT in millions	10,479	9,453	<b>7,765</b>

## Earnings, financial position and cash flows

**EBITDA** increased by 14.1% or by KZT 10,193 million compared to 2020 – KZT 72,147 million, due to the growth of service revenue and cost optimisation.

	2019	2020	2021
EBITDA (income before income tax, interest and depreciation), KZT in millions	64,364	72,147	<b>82,340</b>

As a result of outrunning revenue growth, **gross profit** (operating profit, excluding non-recurring expenses) increased by 25.1% and amounted to KZT 51,338 million, compared to 2020 – KZT 41,023 million.

	2019	2020	2021
Operating profit excluding non-recurring expense, KZT in millions	33,661	41,023	51,338

**Free cash flow** (the amount of cash flow from operating activities minus the amount for capital expenditures) increased by 48.6% and amounted to KZT 42,895 million compared to 2020 – KZT 28,865 million

	2019	2020	2021
Free cash flow, KZT in millions	16,443	28,865	42,895



**Net profit** increased by 84.9% and amounted to KZT 32,506 million compared to 2020 – KZT 17,578 million

	2019	2020	2021
Net income for the reporting year, KZT in millions	10,015	17,578	<b>32,506</b>

The **CAPEX-to-revenue ratio** amounted to 19.4%, up four percentage points compared to 2020, reflecting the continued high level of investment in the development of the network (More on investment projects on page 30).

In 2021, the amount of investment in the development of the network amounted to about KZT 36 billion.

	2019	2020	2021
Capital expenditures (CAPEX), KZT in millions	20,200	26,842	38,052
CAPEX-to-sales ratio %	12.9%	15.4%	19.4%

**Earnings per share** increased by almost 50% compared to 2020

	2019	2020	2021
Earnings per share, KZT	50.1	87.9	162.5

## INNOVATIONS AND INVESTMENT PROJECTS

In 2021, the Company continued to solve the tasks of developing the digitalisation area.

### 250+ The first infrastructure project of the republican scale with the participation of three operators

The implementation of the national Project 250+ to provide rural settlements with a population of over 250 people with broadband mobile internet was worked out jointly with the akimats and approved back in 2020. In 2021, the first stage of the project's implementation was completed due to the joint efforts of Kazakhstan's mobile operators.

Project 250+ provides for the connection of 1,600 villages in Kazakhstan with a total population of 1 million people to 3G and 4G standards from all three operators, which allows residents of remote settlements of the Republic of Kazakhstan to access broadband mobile internet, and therefore the opportunity to use digital government services, as well as internet banking, telemedicine, online education programs, etc. Thus, thanks to the project, the digital inequality between rural and urban areas is erased and new opportunities are opened up for residents of remote areas.

By the end of 2021 (for the period 2020-2021), Kcell launched 1,423 sites. In the middle of 2021, the FOCL RS (fiber-optic networks in rural settlements) project was also implemented, according to which, in rural areas where FOCLs are connected, mobile broadband access (MBBA) will be activated using LTE technology in two bands, which means additional capacity to increase the data transfer rate.

In 2021, the Company provided 190 villages with the internet, and installation is also planned in 20 villages. The total number of Kcell subscribers who received access to the internet amounted to about 670,000 people.

### Work Beyond Obligations

Kcell is actively working to expand the coverage of MBBA and improve the quality of communication beyond the obligations. For 2020-2021 base stations beyond obligations were activated in more than 240 rural settlements (RS). In 2021, LTE was activated in five RSs, which led to the deployment of LTE network in 249 villages of the country as part of the FOCL RS project.

### Integration Project. Multi-Operator Basic Network

This project will allow Kcell to increase carrying capacity and minimize the capital investment required to build and maintain a cellular network.

In 2021, the construction and upgrade of the LTE network in MOCN technology by Mobile-Telecom Service LLP (MTS is the united company Tele2/ALTEL) launched and is currently ongoing. This network makes it possible to share MTS equipment and frequencies of both operators now that Kcell JSC concluded its network-sharing agreement with Kar-Tel LLP (Beeline brand). After agreeing to the agreement on November 12, 2020, the companies began switching and completed the first phase (35 out of 36 cities, except Ayaguz). In most cities, there is a significant increase in both the average data rate and the amount of data transferred.

### Launch of 5G Network in Turkestan

In 2021, Kcell faced the task of launching the first 5G network in Kazakhstan. Turkestan was chosen as the site, where it was planned to provide uninterrupted 5G coverage to the business and cultural centers of the city. The project included the launch of nine new stations by updating the existing ones. All equipment was purchased, delivered, and installed in the shortest possible time. On December 9, 2021, the Company held a presentation and grand opening of the 5G network. The speed of 1400-1500 Mbit/s demonstrated during the event was in line with the stakeholders' expectations from the 5G network.

# 5G

Many foreign guests have already managed to test and evaluate the operation of the 5G network in the building of the international airport in Turkestan. Since the official launch, the traffic has almost quadrupled, due to the fact that more and more mobile device manufacturers have activated the functionality of using 5G for Kcell subscribers. The certification with Samsung and Apple lasted more than 2 months.

At the moment, there is a systematic increase in the number of devices supporting the fifth-generation network. According to the latest data, already 6% of subscribers can use the 5G network. The number of subscribers is expected to grow as the software of mobile devices is updated.



Coverage card «250+»

# 250+

The first infrastructure project of the republican scale with the participation of three operators



# Kcell

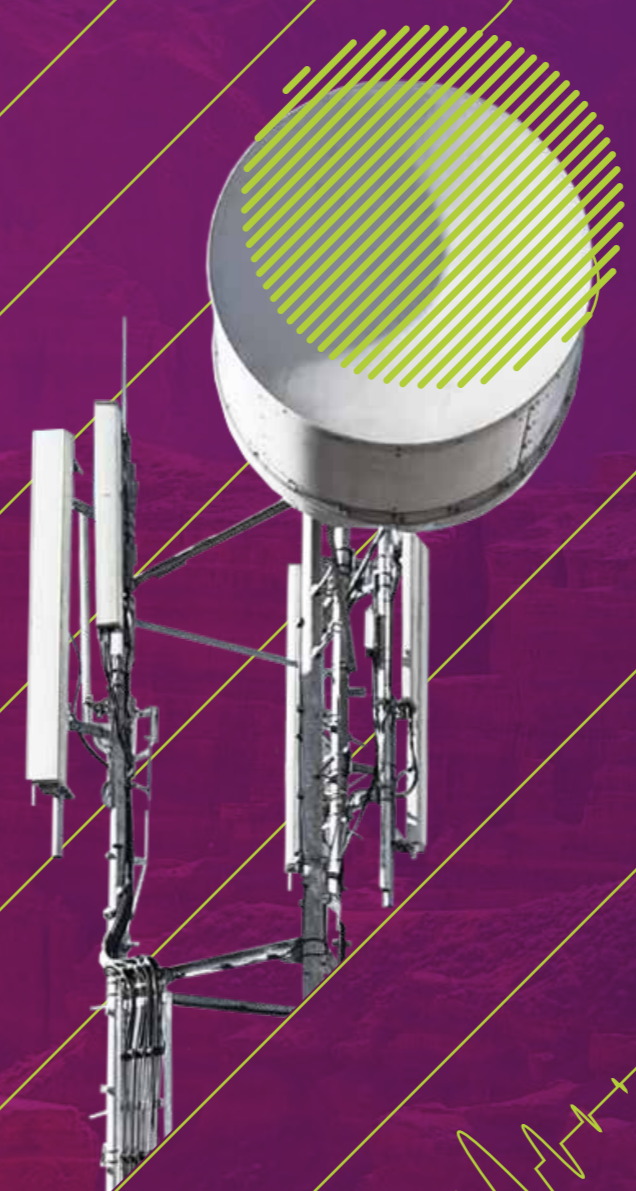


The main goal of Project 250+ is providing state and social institutions in rural areas with broadband access services so that villagers receive internet with “urban parameters”





# 2



## SUSTAINABILITY REPORT

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# Sustainable Development Management

Our approach to sustainable development ensures accountability and responsibility with regard to the long-term impact of activities. It includes all aspects of the Company's activities and impact on society and the environment, which is an integral part of our business model, strategy, and philosophy. As one of the leading telecommunications companies in Kazakhstan, in which Kazakhtelecom JSC is the controlling shareholder, Kcell takes its responsibility as a corporate citizen as seriously as possible. High ethical standards are observed at all stages of doing business and in our relationships with all stakeholders, including investors, customers, employees, business partners, suppliers, other organisations, and the public in whole.

The company's quality of corporate governance directly affects not only the success of the organisation's strategy, but also the efficiency and effectiveness of sustainable development initiatives. Kcell builds and maintains an effective corporate governance system in accordance with all requirements and international best practices, striving to take into account the interests of a wide range of stakeholders.

## Commitment to the UN Sustainable Development Goals

One of Kcell's strategic priorities is commitment to the principles of sustainable development. The Company supports the current UN sustainable development agenda until 2030 and shares the Sustainable Development Goals adopted by the UN General Assembly in 2015. The Company's desire to make a positive contribution to the achievement of the Sustainable Development Goals is based on the following approaches: transparency in its activities; more efficient interaction with key stakeholders; focus on improving the quality of its services; and reducing the negative impact and strengthening the positive impact on environmental, social, and economic aspects.

Kcell invests and focuses on achieving several Sustainable Development Goals that are most relevant for the telecommunications industry and the specifics of the Company's activities, as well as for the implementation of the strategic directions of the Company's development, in accordance with the approved strategy.

### We focus on 10 of the 17 Global Sustainable Development Goals



# Strategy for Sustainable Development

Implementing the principles of sustainable development in all our business processes is an important task for our Company. Sustainable development issues are integrated into the Company's strategy, which is integral to the growth of Kcell's business in the long term. It is important for us to build stable and mutually beneficial relationships with all stakeholders.



## Reducing the digital inequality

Ensuring equal access to information and educational programs for various, including vulnerable, social groups is an important and integral social aspect of digitalisation. That's why a significant part of Kcell's strategic vision in the field of sustainable development, and a tool for achieving the UN Sustainable Development Goals, is increasing the digital literacy of society and reducing inequality in this area.

The main driving force and the basis for the continuity of operational processes is our highly qualified personnel. For us, the safety and well-being of our employees is always a constant priority. We continue to actively invest in the professional development and training of our employees, offering up-to-date training programs to improve their skills and competencies.



## Partnership/collaboration

Within the framework of the chosen strategy, we continue to seek new partnerships and cooperation with all interested parties, realizing that the result of this cooperation will be the systematic development of our business, the business of our partners, and, in general, the socio-economic development of the state and the improvement of the quality of life of society.



## Innovations

Our initiatives to implement digital technologies to solve society's urgent problems need to be constantly developed and improved. Relying on the best practices and global trends in the telecommunications sector, Kcell is trying to find the most efficient solutions that can be used to achieve systemic improvements and have a significant social effect.



## Reduction of environmental impact

As a rule, companies in the telecommunications industry do not have a significant negative impact on the environment. However, Kcell approaches issues in this area with extreme responsibility and, accordingly, supports initiatives that can contribute to the solution of local and global environmental problems. We focus on improving the energy efficiency of our own facilities, developing appropriate digital solutions for customers, and increasing the information content of the disclosure of environmental performance parameters.



### Priority directions in the field of sustainable development

Environment	Society	Corporate governance
Energy consumption and energy efficiency	Compensation of employees and remuneration system	Development strategy
Environmental protection and reduction of negative impact on the environment	Social package for employees	Shareholder rights
Waste management	Personnel training and development	High standards of corporate governance
	Increasing the level of personnel involvement	Gender equality
	Personnel turnover management	Risk management system
	Ensuring safety and labor protection	
	Reducing the digital inequality	

## ETHICAL BUSINESS

**Kcell's attitude toward sustainability issues is governed by ethical norms and standards of legal and regulatory compliance, which guarantees the use of a systematic approach by the Company to the implementation and monitoring of and compliance with regulatory requirements in all areas of business:**

**Responsible work with suppliers.** Kcell brought its procurement regulations in line with the requirements of Kazakhtelecom JSC's unified procurement system. The procurement regulations were developed in accordance with subclause 40 of clause two of article 12 of the Procedure for Procurement by the National Welfare Fund Samruk-Kazyna Joint Stock Company. The purposes of the document are: to provide a unified approach to the Company's procurement; creation of conditions for the timely and complete satisfaction of the Company's needs for goods, works, and services—the cost, quality, and reliability of which meet the requirements; efficient use of funds; ensuring transparency of the procurement procedure; and observance of the principle of non-disclosure of confidential information.

**Protection of personal data of customers.** We are committed to maintaining the privacy and security of our customers' personal data. In accordance with our privacy policy, Kcell establishes clear principles and standards on the basis of which the Company fulfills its obligations to ensure confidentiality.

**Fight against bribery and corruption.** All aspects of Kcell's activities are based on the principles of combating bribery and corruption. The Company strictly follows the principle of zero tolerance for corruption and implements effective measures to prevent, detect, and eliminate any form of questionable business practices.

## Program for the Implementation of Initiatives in the Field of Sustainable Development

One of the main tools for integrating the principles of sustainable development into the activities of companies is the implementation of various initiatives in the field of sustainable development. Kcell, as one of the leading telecommunications operators in Kazakhstan, takes into account the environmental and social considerations associated with its operations. When identifying sustainability initiatives, we considered a wide range of relevant topics, including the Company's development strategy and business model, as well as important topics relating to the sustainable development of the Company, but also for stakeholders.

**Kcell has identified initiatives in the field of sustainable development:**

1. Ensuring economic performance by improving revenue and EBITDA. Potential for evaluating shareholder value at the digital player level.
2. Improving the efficiency of the corporate management system.
3. Reducing the digital inequality and significantly improving the quality, spectrum of services, and customer experience for subscribers.
4. Increasing employee engagement and satisfaction.
5. Development of local competencies in the advanced areas of the digital economy.
6. High ethical standards and anti-corruption policies.
7. Socially responsible partnership.
8. Protection of personal data of customers.
9. Occupational health and safety.
10. Reducing the Company's impact on the environment.

# Social Aspects of Sustainable Development

In the modern world of technological and socio-economic development of society, digital technologies play a crucial role. And a key competence center in this area is for companies in the telecommunications sector to assume all responsibility.

Thus, in 2020 and 2021, with the COVID-19 pandemic necessitating that countries make all sorts of adjustments to life and business, the effective and uninterrupted provision of communication services and the introduction of new digital solutions became especially important for the social and economic stability of states. The remote work format, online learning, access to social services deployed by the state and business to support the population—all this was facilitated with telecommunication technologies. And Kcell remained at the forefront of efforts to improve remote working conditions and provide emergency services in 2021. A lot of that depended on the smooth operation of our networks, from ordering food and medicines to telemedicine and monitoring the situation with the disease.

Kcell rose up to a difficult challenge, and it became an additional incentive for the Company to accelerate the implementation of the network expansion and modernisation projects aimed at increasing the availability of our services even in the most remote areas of the country. Investments in infrastructure development climbed to a five-year high. And we entered 2021 fully armed, ready to provide our customers with the highest quality services and continuing to actively develop our projects.

### Society support during the pandemic

- » Free voice communication and internet traffic for doctors
- » Free access to over 400 remote learning websites: online libraries, entertainment, film and TV services, and mobile applications for online-banking
- » Bonus minutes and free roaming internet for subscribers abroad
- » Application for paying bills without leaving home
- » Providing connected devices and tools to continue learning online as part of education support with the ministry of education
- » Specially designed applications to make it easier to work from home and connect to the network

## Membership in Associations and Participation in Socially Significant Projects

Kcell is a member of various business associations in Kazakhstan, such as the National Chamber of Entrepreneurs of the RK "Atameken," ALE "National Association Big Data," ALE "Union of Information Technology Producers." We take an active part in various projects within these associations, as well as sponsor conferences and events held by these organisations as part of the creation of a digital ecosystem that will become the basis for maximizing the full potential of entrepreneurship development in Kazakhstan.

Kcell is an active participant in the implementation of the Digital Kazakhstan program, which aims to improve access to public services and reduce the costs associated with their provision and receipt by digitalizing such services:

**The 250+ National Project** is an initiative under the Digital Kazakhstan program aimed at providing high-speed internet access to residents of rural areas with a population of over 250 people.

**5G in Turkestan** – The 5G network launch in Turkestan makes it possible to implement new scenarios in urban management, digitalisation of transport infrastructure, and implementation of the Smart City project. This project is designed to make the life of citizens safer and more convenient. Zones of free access to 5G networks will also become an additional incentive to increase the flow of tourists to this beautiful ancient city, which is an important task for us in the long term.

# Personal Management

Kcell prioritizes building and developing an effective and successful team of professionals. The Company is not only one of the leading communication providers in the Republic of Kazakhstan, but also an attractive employer for both young and experienced job seekers.

## Basic principles of the personnel management in the Company:

- » meritocracy: the search for people with certain abilities can be carried out by testing with educational materials, studying the level of experience and other types of assessments, or a combination of these assessments;
- » strategic planning of human resources, as well as taking into account business needs and labor market conditions;
- » motivating remuneration, taking into account the results of the performance evaluation, and personal contribution of an employee;
- » focus on personnel development according to the 70:20:10 principle on the promotion of employees with potential;

- » integration of HR processes with other corporate processes.

## Composition and Structure of the Personnel

At the end of 2021, the Company employed 2,120 employees. The slight reduction in the number of personnel is due to the restructuring of the Company through the transformation and revision of current business processes.

### Dynamics of the number of the regular personnel

	2019	2020	2021
Number of personnel, persons	1,950	2,249	2,120



## Personnel structure in 2021

Indicator	Total (per.)	including by gender groups		including by age groups		
		men	women	up to 30 years	30-50 years	over 50 years
<b>Total personnel</b>	<b>2,335</b>	1,106	1,229	801	1,446	88
<b>Permanent*</b>	<b>2,120</b>	<b>1,007</b>	<b>1,113</b>	<b>662</b>	<b>1,370</b>	<b>88</b>
management	327	195	132	25	287	15
specialists	1,737	756	981	631	1,053	53
workers	56	56		6	30	20
<b>Temporary*</b>	<b>215</b>	<b>99</b>	<b>116</b>	<b>139</b>	<b>76</b>	
management	4	4		1	3	
specialists	211	95	116	138	73	

\*Permanent employees in the amount of 2,120 and temporary employees in the amount of 215 (employed for the duration of a certain job, or, in other words, freelance, or to replace a temporarily absent employee).

## Number of employees by regions, 2021

TOTAL	2,120 persons
Aktau	29
Aktobe	43
Almaty	1,176
Atyrau	53
Zhanaozen	6
Zhezkazgan	1
Zhetysai	1
Karaganda	45
Kokshetau	24
Kostanay	23
Kyzylorda	23
Nur-Sultan	186
Pavlodar	28
Petropavlovsk	19
Saryagash	5
Semey	25
Taldykorgan	17
Taraz	27
Temirtau	1
Turkestan	15
Uralsk	27
Ust-Kamenogorsk	22
Shymkent	324

## Remuneration and Personnel Motivation

In order to determine the level of happiness and increase the level of motivation and well-being of employees, a happiness job survey was conducted in 2021 to measure

### Remuneration of employees by the results of 2021

Category of workers	Category of workers	Average remuneration including bonuses and allowances	Average remuneration of women	Average remuneration of men	Ratio
Management	874,295	1,295,302	1,117,075	1,410,157	79%
Specialists	308,315	376,177	347,474	410,992	85%
Workers	146,850	159,087	–	159,087	0%

## Social Support for Employees

Employees are supported in the following cases:

- » one-time financial assistance in connection with the death of an employee or a close relative of an employee;
- » one-time financial assistance to employees, who have disabled children in their care;
- » one-time financial assistance to employees with disabilities;
- » financial assistance to minor children of the Company's deceased employees;
- » female employees who have worked at the Company for more than three years are provided with financial assistance in connection to maternity leave, minus the state social payment.

## Personnel Turnover

The reduction in staff was part of the necessary changes in the structure of the Company and its elements to improve business efficiency, this restructuring and optimisation of business processes led to an increase in the indicator in 2021.

Indicator	2019	2020	2021
Personnel turnover, %	23%	21%	37%

### Personnel turnover by gender groups by the results of 2021\*

Показатель	Мужчины	Женщины
Personnel turnover, %	44%	31%

\*Calculation of % based on the number of employees by gender groups.

### Personnel turnover by age groups by the results of 2021\*

Indicator	up to 30 years	30-50 years	Over 50 years
Personnel turnover, %	62%	29%	26%

\*Calculation of % based on the number of employees by age groups.

employee satisfaction and loyalty. In 2021, 82% of employees participated in the survey, while at the beginning of 2022 the number of participants increased to 93%. For 2021, the happiness index increased by 15.2%, and the employee Net Promoter Score (eNPS) increased by 15 points.

The number of employees who took childcare leave in 2021 is 272, of which 263 are women and nine are men. The number of employees who returned to work in the reporting period (2021) after the end of childcare leave is 157 persons.

In order to improve the well-being of employees, the Company calculated the optimal balance between employees' personal lives and their office lives, as well as defined the rules for working meetings and introduced a culture of gratitude and recognition of the employee's achievements.



## Personnel Performance Management

In order to improve personnel performance, as well as to encourage, retain, and stimulate the best employees, Kcell has a system of comprehensive employee performance analysis, or KPI. The Company's system of material incentives is designed to optimize employee work processes. Employee incentive plans in the form of bonus payments are reviewed and approved by the Company's top management.

**Kcell Business Award Program.** Based on the fulfillment of quantitative and qualitative indicators for the reporting period, depending on the approved programs for positions, monthly/quarterly functional motivational programs are calculated in the Kcell Business bonus program.

**A once-a-year annual bonus based on the KPI card results** is calculated based on the KPI card results, consisting of corporate KPIs, KPIs of departments, and individual KPIs, the share of which depends on the position of an employee, except for employees participating in the Kcell Business bonus program.

Starting in 2022, the employee satisfaction indicator will become a key performance indicator for Kcell executives, which will in turn motivate financial decisions moving forward.

## Training and Professional Development

The continuous professional development and professional growth of employees are important conditions for business development. The following approaches were used during employee training in 2021:

- A) Internal training, which resulted in the training of 231 employees. Focus on the front line and on creating favorable conditions for new employees, both for the first and second lines, and for all Kcell employees.
- B) At the request of employees, open training formats were developed and conducted in the form of internal webinars from Kcell training partners: finance for non-financiers, Excel, time management, the art of being on time, goal setting, motivation pitchfork, developing super memory and emotional competence, and stress resistance skills (in total, webinars were attended by 1,200 people).
- C) Carrying out internal expertise through the transfer of knowledge and training of internal candidates for positions in related departments. A mentoring program was launched, which trained 37 internal mentors. And as part of the School of Digital Talents program for internal candidates for IT positions, 13 people were trained. Internal school mentors and 39 candidates are ready to study at the school.
- D) Professional development through external expertise at the request of employees and legal requirements (150 employees were trained in the 2<sup>nd</sup> half of 2021).

### 2021 trainings by departments:



Indicator (internal training)	By all employees	By gender groups	
		Women	Men
Average number of hours of training that employees of the organisation completed during the reporting period	32	32	32
Number of employees trained	687	389	298
Number of employees for whom qualification and performance assessment was carried out for career development during 2021	348	187	161
Share of employees who have passed the assessment to the total number	51%	48%	54%

## Recruitment and Adaptation of Personnel

The search and recruitment of Company employees is carried out in accordance with Kcell JSC's updated rules for the recruitment of personnel. In personnel recruiting, we are focused on the principles of fairness and transparency of the criteria for assessing candidates and the compliance of the criteria for assessing the position for which the selection is made; timeliness and efficiency of the selection process in accordance with the business needs; and maximum compliance of candidates with the requirements.

For an efficient process of integrating new employees into the work environment, the Company has developed and implemented an adaptation program: an initial training program for mono-brand specialists and call center operators.

### Number of employees recruited in 2021

Indicator	Value (per.)
Number of employees recruited per year	<b>831</b>
Ratio to total headcount	<b>36.95%</b>
including by gender groups:	
men	<b>447</b>
women	<b>384</b>
including by age groups:	
up to 30 years	<b>517</b>
30-50 years	<b>307</b>
over 50 years	<b>7</b>

## Occupational Health and Safety

We pay great attention to occupational health and safety issues. We have important tasks to achieve in order to prevent accidents, minimize risks, and ensure the safe professional activities of employees.

Registration and investigation of accidents related to work activities at Kcell are carried out in accordance with the internal regulations of the Company and the labor code of the Republic of Kazakhstan.

Equipment repair and maintenance services are carried out under contract for transformer substations and power lines. This reduces the likelihood of accidents and, accordingly, diesel generator sets will be started up less frequently. Based on 2021 results, the Company registered one accident (traffic accident) related to production activities.



# Environmental Aspects of Sustainable Development

The telecommunications sector does not belong to companies that are significant environmental polluters, but Kcell, being a responsible company, pays great attention to environmental issues and reduces its impact in the regions where it operates. In 2021, the Company developed a plan that includes activities and initiatives on energy efficiency, waste management, and the formation of environmental awareness among its employees.

## Energy Consumption and Energy Efficiency

One of the main resources consumed by the Company is electricity. And it is in this area that we see the opportunity to make the greatest contribution to protecting the environment and combating climate change.

In 2021, work was carried out to turn off unused equipment in data centers in order to reduce the consumption of electricity. When diesel generator units are switched on, fuel consumption is reduced. There are plans to replace precision air conditioners with improved ones, which would increase efficiency factor and reduce electricity consumption. Compared to 2019 and 2020, resource consumption did not increase significantly in 2021.

### Energy consumption

Type of energy	Unit of measurement	Energy consumption, tons of equivalent fuel (t.o.e.)		
		2019	2020	2021
Diesel	l	130,587	145,914	179,669
Gasoline	l	826,752	772,595	776,744
<b>Total</b>		<b>957,339</b>	<b>918,509</b>	<b>956,413</b>

## Kcell develops digital infrastructure based on green energy

Striving to reduce the consumption of energy resources and use alternative power sources, the Company installed a unique base station in the area of Charyn Canyon. It is the first site operating efficiently and reliably from wind and solar power, minimizing operating costs.

## Water Consumption

The Company's activities do not have a significant impact on water intake. However, we are committed to the rational use of water. In the production process for the provision of telecommunications services, the Company's divisions do not reuse water, which is required exclusively for sanitary and household needs. The installed water metering devices are kept in a technically correct condition. The total volume of water used by the Company in the reporting period amounted to 23,804.78 m<sup>3</sup> — that is, 16% less than in 2020 (28,473 m<sup>3</sup>).

## Emissions of greenhouse gases and other pollutants into the atmosphere for 2021

	Consumption	Units of measurement	Calculation units for conversion to conditional tonnes	Actual emissions for the reporting period (tonnes)
gasoline	594,631	l	1,370	434.04
diesel	8,659	l	1,300	6.66
<b>Total</b>	<b>603,289</b>	<b>l</b>		<b>440.70</b>

## Waste Management

In the course of the Company's activities, waste mostly takes the form of household waste and is mainly generated by decommissioned equipment. Municipal waste is removed by a specialized, licensed organisation. The write-off and transfer of disposal and recycling of telecommunications and office equipment are carried out in accordance with the organisation's standard "rules for the disassembling and disposal of decommissioned telecommunication equipment." Decommissioned equipment, cables, and office equipment are transferred to a specialized organisation that has a license for the collection, storage, and disposal of non-ferrous and ferrous metals. The operational service decides on the further use of the spare parts from the equipment.

**"Green Office."** Kcell continues to comply with the rules of the "Green Office." As such, in 2021, an electronic document management system was introduced, which makes it possible to reduce paper consumption by 30% and, accordingly, save electricity. All orders, internal regulations, and incoming and outgoing correspondence are now signed with electronic signatures. The Company also reviews archival documents twice a year, as a result of which documents subject to disposal are transferred for processing. In 2022, plans are in place to start a project to sort household waste in offices.

## Environmental Protection

The Company complies with all stipulated requirements of the legislation of the Republic of Kazakhstan in terms of the environmental code. We strive to achieve sustainable development by minimizing damage to the environment and making rational use of natural resources. In order to minimize the negative impact on the environment, Kcell invests in modernisation of autonomous systems and switches them to more environmentally friendly types of fuel, carries out obligatory land restoration during installation of base stations and equipment, strives to use environmentally friendly materials and technologies during repair works, and organizes voluntary environmental actions and events. The Company has implemented an environmental management system in accordance with the requirements of the ISO 14001 international standard.





# 3



## CORPORATE GOVERNANCE REPORT

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# CORPORATE GOVERNANCE REPORT

Kcell's corporate governance is based on the principles of sustainable development, fairness, honesty, responsibility, transparency, professionalism, and high competence. The application of these principles ensures the observance and protection of the rights and interests of all shareholders, increases the efficiency and market value of Kcell JSC, and stimulates the growth of the financial stability and profitability of the Company.

In 2021, an updated corporate governance code was approved to bring it into line with the corporate governance code of the National Welfare Fund Samruk-Kazyna. The need for its implementation was due to editorial changes to exclude reference to depository receipts and regular requirements of the London Stock Exchange, as it was decided during the Company's extraordinary general meeting of shareholders to delist depository receipts from the LSE and AIX and terminate the depository program (Appendix: Minutes of the Extraordinary General Meeting of Shareholders No.17 dated April 9, 2021).

The Company also complies with the rules of the Kazakhstan Stock Exchange (KASE), which regulate the activities of joint stock companies and the circulation of securities.

### Corporate Governance Code of Kcell Joint Stock Company

The best international practice in the field of corporate governance became the basis of the corporate governance guidelines for companies of the National Welfare Fund Samruk-Kazyna. All companies of the National Welfare Fund Samruk-Kazyna apply these general rules and recommendations on corporate governance issues.

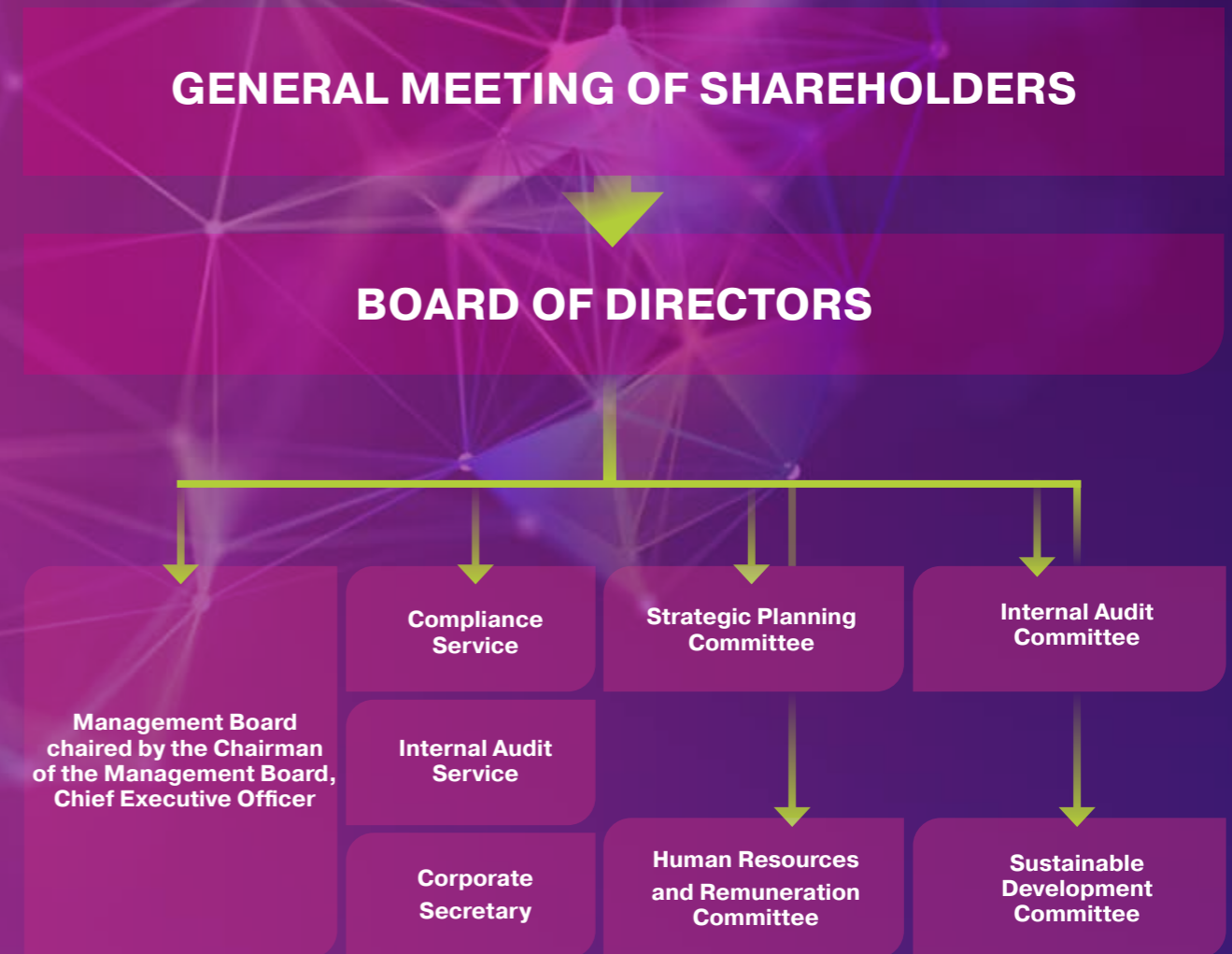
#### Corporate Governance Principles

Protection of the rights and interests of shareholders	Kcell's corporate governance principles guarantee the protection and observance of the rights and legitimate interests of shareholders and contribute to the conduct of efficient activities, helping to increase welfare, and maintain the financial stability and profitability of the Company.
Effective management of the Company by the board of directors	The purpose of the board of directors is to increase the market value of the Company while simultaneously following the principles of the strictest observance and satisfaction of the interests of shareholders. Kcell is aware of the need for a manager represented by the chairman of the board, who is responsible for the day-to-day management of the activities of the board and, together with other members of the board, effectively resolves issues that arise in the process of managing the Company.
Transparency and objectivity of disclosure of information about the Company's activities	The Company strives to ensure maximum transparency by disclosing reliable information to shareholders and other stakeholders in a timely and accurate manner, including information about its financial position, economic performance, efficiency, ownership structure, and management system.
Legality and ethics	Kcell operates in strict accordance with the legislation and generally accepted standards of business ethics, as well as the charter, corporate governance code, regulations on the board of directors, listing rules, and contractual obligations.
Efficient dividend policy	The Company pays dividends in accordance with its dividend policy, legislation, the charter, and relevant decisions of the general meeting of shareholders. When deciding on the distribution of dividends, they are paid in accordance with the law.
Efficient personnel policy	The Company guarantees the rights of its employees in accordance with the law and the Kcell code of ethics and conduct. The Company develops partnerships with its personnel to address social issues and regulate working conditions.
Sustainable development	Recognizing the importance of its impact on the economy, environment, and social development in the country, the Company strives to ensure its sustainable development in the long term, while balancing the interests of shareholders and improving its performance in the future.
Settlement of corporate disputes and conflicts of interest	Members of the board of directors and the management board, together with ordinary Kcell employees, conscientiously and reasonably approach the performance of their professional duties and show a due degree of care and discretion while acting in the interests of Kcell and its shareholders and avoiding conflicts of interest. Company officers immediately report any arisen conflict of interest to the corporate secretary of the Company.

In its activities, Kcell relies on the following policies:

- Regulations on the Kcell JSC Board of Directors
- Dividend policy
- Financial management policy (second version)
- Insurance policy
- Risk management policy
- Communication policy
- Recruitment policy
- Insider information policy
- Insider trading policy
- Kcell JSC security regulations (second version)
- Privacy policy
- Policy on freedom of expression in telecommunications
- Occupational health and safety policy
- Supplier code of conduct
- Personnel policy
- Environmental policy
- Anti-competitive conduct policy
- Enterprise risk management policy
- Electromagnetic field policy
- Code of ethics and conduct
- Anti-corruption policy
- Rules for evaluating the activities of the board of directors and its committees, the chairman, members of the board of directors, and the corporate secretary

#### Corporate Governance Structure





## BOARD OF DIRECTORS

The Kcell JSC charter establishes the duties of the board of directors and the management board, and the chairman of the management board is the chief executive officer. According to the charter, the board of directors is responsible for the overall management of the activities of Kcell JSC. The board of directors develops strategies, approves the Company's development plans, and is responsible for making decisions: on the establishment of branches and representative offices of Kcell; on the acquisition or alienation by the Company of 10 or more percent of the shares of other legal entities; on the conclusion of major transactions and transactions with related parties; and on the approval of annual budgets. The board of directors is also responsible for resolving other issues related to the exclusive competence of the board in accordance with the Company charter and the law of the Republic of Kazakhstan on joint stock companies.

The status, operating procedure, and competence of the Kcell board of directors, the procedure for convening and holding its meetings, formalizing decisions, as well as the responsibility of the members of the board of directors are determined by the regulations on the Kcell JSC board of directors.

The board of directors:

- » determines the Company's development strategy (directions and results), establishes and monitors the key performance indicators of the development plan;
- » organizes and supervises the effective functioning of the risk management and internal control systems by involving the internal audit service for these purposes;
- » approves and monitors the implementation of key strategic projects within the competence of the board of directors;
- » pays special attention to the issues of election, remuneration, succession planning, and supervision of the activities of the management board and its members, as well as corporate governance and ethics;
- » and ensures the formation of an appropriate system in the field of sustainable development and its implementation together with the management board.

### Membership in the Board of Directors

Members of the Board of Directors are elected at the General Meeting of Shareholders (GM), where their term of office is also determined.

At the time of writing this report, directors Buyanov A.N., Inkarbekova D.Zh., Yessekeyev K.B., Turlov T.R. were elected at the Extraordinary General Meeting of Shareholders (EGM), which took place before the reporting period, on January 25, 2019.

At the EGM on January 15, 2020, Jere Calmes was elected as an independent director of Kcell JSC.

At the EGM held on February 26, 2021, Khudaiberdiyev T.T. and Saudabaev S.B. were elected to the board of directors as representatives of Kazakhtelecom JSC.

On September 21, 2021, independent directors Makhat R.M. and Popov V.G. (elected to the board of directors on January 25, 2019) terminated their powers ahead of schedule.

Naizabekov T.K. and Ramazanov Ye.T. were elected to the board of directors at the EGM on December 6, 2021 as independent directors.

As of January 1, 2022, five of nine members of the board were independent directors, including its chairman. Three directors of the remaining four represented the interests of the controlling shareholder, Kazakhtelecom JSC, and the fourth acted as a representative of another shareholder, Freedom Finance JSC.

The composition of the board of directors during the reporting period:

- » Buyanov Alexey Nikolayevich (independent director)
- » Inkarbekova Dinara Zholshybekovna (independent director)
- » Jere Calmes (independent director)
- » Yessekeyev Kuanyshbek Bakhytbekovich (representative of the shareholder Kazakhtelecom JSC)
- » Turlov Timur Ruslanovich (representative of the shareholder Freedom Finance JSC)
- » Khudaiberdiyev Timur Telmanovich (representative of the shareholder Kazakhtelecom JSC)
- » Saudabayev Serik Bolatovich (representative of the shareholder Kazakhtelecom JSC)
- » Naizabekov Timur Kurmangazyevich (independent director)
- » Ramazanov Yermek Turzhigitovich (independent director)

As of December 31, 2021, Timur Turlov owned 1,385,632 shares of Kcell JSC. Other members of the board of directors do not own shares of the Company.



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## Board of Directors

### Alexey Buyanov

**Chairman of the Board of Directors**

From January 25, 2019 to present – Chairman of the board of directors and independent director of Kcell JSC. Independent director of Kazakhtelecom JSC and director of Bengala Investments.

From 2002 to 2014 – Senior vice president and chief financial officer, was a member of the management board of Sistema OJSC, an investment fund whose shares are listed on the London Stock Exchange.

From 2014 to 2016 – Managing director and head of the investment committee at Redline Capital Management S.A.

Graduated from the Moscow Institute of Physics and Technology (MIPT) with a degree in applied physics and mathematics, a graduate of the Oxford Fintech Program at Said Business School, the University of Oxford.

### Dinara Inkarbekova

**Independent Director**

From January 25, 2019 to present – Independent director of Kcell JSC. He also holds the position of CEO of Sigma Advisors.

From 2010 to 2014 – General manager at AKSAI - BMC.

From 2015 to 2016 – Senior adviser at Deloitte TCF.

From 2016 to 2017 – CFO at Estate Management Company.

She holds a bachelor's degree from Turan University (Kazakhstan) with a degree in jurisprudence, a bachelor's degree from Narxoz University (Kazakhstan) with a degree in finance, and an MBA in economics and strategic research from Kazakhstan Institute of Management, Economics and Forecasting.

### Jere Calmes

**Independent Director**

From January 15, 2020 to present – Member of the board of directors of Kcell JSC.

Over 20 years of experience in the telecommunications and wholesale and retail industry, with a special focus on emerging markets.

From December 2016 to June 2019 – CEO of the Russian division of Metro Cash & Carry.

He has held various senior positions in the telecommunications sector, including the positions of deputy CEO of Tele2, CEO of Tele2 Russia, COO of the Italian mobile operator Wind Telecomunicazioni, executing vice president and managing director of the Moscow office of VEON OJSC, as well as director customer services and credit control of the mobile operator Orange Egypt.

He holds a bachelor's degree in political science and economics from Bates University (Maine, USA) and completed the Executive Development Program (EDP) at Wharton School of Business.



BAY



CAY



### Kuanyshbek Yessekeyev

Representative of shareholder Kazakhtelecom JSC

From January 25, 2019 to present – Member of the board of directors of Kcell JSC.

From 2010 to present – Chairman of the management board and member of the board of directors of Kazakhtelecom JSC.

Graduated from the Kazakh State National University named after Al-Farabi (Kazakhstan) with a degree in applied mathematics. PhD in mathematics, holds a diploma from Kazakh State Academy of Management (Kazakhstan) with a degree in management and completed the executive MBA program at Hult International Business School (UK).



### Serik Saudabayev

Representative of shareholder Kazakhtelecom JSC

From February 26, 2021 to present – Member of the board of directors of Kcell JSC. Chairman of the management board and member of the board of directors of Kazpost JSC, member of the board of directors of Kazakhtelecom JSC.

Over 10 years, he headed the division in charge of the communication assets of Samruk-Kazyna JSC.

In 1999, he graduated from Almaty State University named after Abay with a degree in jurisprudence. A lawyer, in 2006 he graduated from the State University of Economics named after Ryskulov with a degree in economics.



### Timur Khudaiberdiyev

Representative of shareholder Kazakhtelecom JSC

From February 26, 2021 to present – Member of the board of directors of Kcell JSC.

From 2019 to present – Member of the management board of Kazakhtelecom JSC, chief director for business provision and support, CEO of Telecom Komplekt.

Over 15 years of managerial experience in the banking and corporate sectors, as well as in various commercial structures.

Graduated from the Law Institute of the Academy of the Ministry of Internal Affairs of the Republic of Kazakhstan with a degree in radio engineering, as well as Moscow School of Management Skolkovo with an executive MBA (joint program with Hong Kong University of Technologies).



### Timur Turlov

Representative of shareholder Freedom Finance JSC

From January 25, 2019 to present – Member of the board of directors of Kcell JSC.

General director of IC Freedom Finance LLC, advisor to the chairman of the management board of Freedom Finance JSC, director of FFIN Brokerage Service, independent director in the board of directors of FFINEU Investments, chairman of the supervisory board of FFIN Bank LLC, chairman of the board of directors of Freedom Finance JSC, chairman of the board of directors of life insurance company "Freedom Finance Life" JSC, chairman of the board of directors of insurance company "Freedom Finance Insurance" JSC.

He holds a bachelor's degree in economics and management from Russian State Technological University named after Tsiolkovsky.



### Naizabekov Timur

Independent Director

From December 6, 2021 to present – Member of the board of directors of Kcell JSC and currently the independent director of Kazakhtelecom JSC.

He previously held various senior positions in financial sector companies.

He has a bachelor's degree in mathematics and information systems in business from KazNU named after Al-Farabi, MSc in finance from the University of International Business, and a master of science in management (management and finance) from University College London (UCL).



### Ramazanov Yermek

Independent Director

From December 6, 2021 to present – Independent director of Kcell JSC.

He has extensive experience in the telecommunications industry. He previously worked in the civil service and was an independent director of telecommunications companies.

He graduated from Kyzylorda Institute of Engineers of Agro-Industrial Production named after Zhakhayev with a degree in economics, has a master's degree in business administration from the European University (Geneva), as well as a master's degree in business administration from Kazakh Economic University name after Ryskulov.

#### Membership in the Committees of the Board of Directors

● Chairman of the Committee  
 ▲ Internal Audit Committee  
 ♣ Sustainable Development Committee

■ Human Resources and Remuneration Committee  
 ● Strategic Planning Committee



## Committees of the Board of Directors

The following committees have been established to consider important issues and prepare recommendations for the Kcell JSC board of directors:

- » Strategic Planning Committee
- » Human Resources and Remuneration Committee
- » Internal Audit Committee
- » Sustainable development Committee.

The committees are established and operate in accordance with the legislation of Kazakhstan on joint stock companies and the regulations on the relevant committees approved by the board of directors.

The board of directors may create other committees at its own discretion. Each committee is chaired by an independent director. According to the legislation, committees must consist of members of the board of directors who have the necessary competence to serve in the relevant committee. All committees are advisory bodies of the board of directors.

Committee's name	Role	Chairman and members
<b>Strategic Planning Committee</b>	<p>It makes recommendations to the board of directors on strategic development issues.</p> <p>In 2021, the committee held seven in-person meetings in accordance with the agendas of the meetings. The committee considered 13 issues and provided relevant recommendations to the board of directors of the Company.</p> <p>During the reporting period, the meetings of the committee considered all issues related to activities within the competence of the committee.</p>	<p>Composition of the committee:</p> <p>From January 1 to September 21, 2021</p> <p>Rashit Makhat (Chairman)</p> <p>Alexey Buyanov</p> <p>Kuanyshbek Yessekeyev</p> <p>Timur Turlov</p> <p>Jere Calmes</p> <p>In accordance with clause 6.4 of the regulations on the Strategic Planning Committee of the board of directors of Kcell JSC: "In the absence of the chairman of the committee at any of its meetings, one of the members of the committee temporarily acts as chairman. He is elected by open voting by a simple majority of votes of the total number of members of the committee present at the meeting".</p> <p>From September 21, 2021, the members of the committee elected the chairman of the meeting of the committee.</p>
<b>Human Resources and Remuneration Committee</b>	<p>It makes recommendations to the board of directors on issues of qualification requirements for employees, on the appointment and dismissal of certain employees, on bonus payments and wages for executives, as well as on internal documents, according to which the performance, need for training, and motivation of personnel are assessed.</p> <p>In 2021, the committee held nine in-person meetings in accordance with the agendas of the meetings. The committee considered 24 issues and provided relevant recommendations to the board of directors of the Company.</p> <p>During the reporting period, the meetings of the committee considered all issues related to activities within the competence of the committee.</p>	<p>In 2021, the Company's board of directors changed the composition of the committee.</p> <p>The composition of the committee from January 1 to September 21, 2021</p> <p>Rashit Makhat (Chairman)</p> <p>Alexey Buyanov</p> <p>Timur Turlov</p> <p>From September 21, 2021, the powers of independent director Makhat Rashit Mukaramovich were prematurely terminated on his initiative in the manner provided for in clause four of article 55 of the law of the Republic of Kazakhstan "On Joint Stock Companies."</p> <p>In this regard, on October 29, 2021, by the decision of the board of directors of the Company (Minutes No. 2021/10/10-BoD), a new composition of the committee was elected:</p> <p>Dinara Inkarbekova (Chairman)</p> <p>Alexey Buyanov</p> <p>Timur Turlov</p>

Committee's name	Role	Chairman and members
<b>Internal Audit Committee</b>	<p>It makes recommendations to the board of directors regarding financial reporting, internal controls and risk management, and internal and external audit.</p> <p>In 2021, the committee held seven in-person meetings in accordance with the agendas of the meetings. The committee considered 30 issues and provided appropriate recommendations to the board of directors of the Company.</p> <p>During the reporting period, the meetings of the committee considered all issues related to activities within the competence of the committee.</p>	<p>In 2021, the board of directors of the Company changed the composition of the committee.</p> <p>The composition of the committee from January 1 to September 21, 2021</p> <p>Dinara Inkarbekova (Chairman)</p> <p>Jere Calmes</p> <p>Vladimir Popov</p> <p>From September 21, 2021, the powers of independent director Popov Vladimir Gennadiyevich were prematurely terminated on his initiative in the manner provided for in clause four of article 55 of the law of the Republic of Kazakhstan "On Joint Stock Companies."</p> <p>In this regard, on October 29, 2021, by the decision of the board of directors of the Company (minutes no. 2021/10/10-BoD), a new composition of the committee was elected:</p> <p>Dinara Inkarbekova (Chairman)</p> <p>Jere Calmes</p> <p>Alexey Buyanov</p>
<b>Sustainable Development Committee</b>	<p>It makes recommendations to the board of directors on issues of internal documentation related to social responsibility and sustainable development; improving the sustainable development strategy; development and implementation of the Company's policies and procedures related to environmental and social sustainability issues, including, but not limited to, human rights, environmental protection, social responsibility and compliance with business ethics requirements, taking into account the requirements of applicable law and internal documents of the Company.</p> <p>In 2020, the committee held three in-person meetings in accordance with the agendas of the meetings. The committee considered seven issues and provided appropriate recommendations to the board of directors of the Company.</p> <p>During the reporting period, the meetings of the committee considered all issues related to activities within the competence of the committee.</p>	<p>In 2021, the board of directors of the Company changed the composition of the committee.</p> <p>The composition of the committee from January 1 to September 21, 2021</p> <p>Vladimir Popov (Chairman)</p> <p>Alexey Buyanov</p> <p>Jere Calmes</p> <p>From September 21, 2021, the powers of independent director Popov Vladimir Gennadiyevich were prematurely terminated on his initiative in the manner provided for in clause four of article 55 of the law of the Republic of Kazakhstan "On Joint Stock Companies."</p> <p>In this regard, on October 29, 2021, by the decision of the board of directors of the Company (minutes no. 2021/10/10-BoD), a new composition of the committee was elected:</p> <p>Dinara Inkarbekova (Chairman)</p> <p>Timur Khudaiberdiyev</p> <p>Jere Calmes</p>

## Activities of the Board of Directors

In 2021, the board of directors held 11 meetings, all held in person. According to the Company's charter, members of the board of directors or any committee of the board of directors, as well as experts, may participate in a meeting of the board of directors or such committee by means of a conference call by telephone or other means of communication allowing all participants in the meeting to hear and speak to each other effectively interacting.

The special platform used by Kcell provides comprehensive protection of the management process and organisation of work, and also helps to improve information exchange in the board of directors and increase the efficiency of its functioning.

## The activities of the Board of Directors in 2021 covered the following areas:

- » amendments to the charter;
- » consideration of business, commercial, operational and legal issues, as well as the approval of related decisions;
- » approval of major transactions;
- » election and approval of the terms of employment contracts for members of the management board and executive bodies of subsidiaries of Kcell JSC;
- » preliminary approval of the annual financial statements for 2020 and approval of quarterly reports;
- » convening the annual general meeting of shareholders in 2021 and formulating proposals for the payment of dividends;
- » approval of related party transactions;
- » approval of the amount of the auditor's remuneration for audit services provided in 2021;
- » approval of the new corporate governance code;
- » approval of amendments to the terms of loan agreements;
- » and consideration of the composition of the committees of the board of directors.

### Procedures, rules, and regulations of the council for 2022 are as follows:

- » consideration of business, commercial, operational, and legal issues, as well as the approval of related decisions;
- » approval of major transactions;
- » election and approval of the terms of employment contracts of members of the management board;
- » preliminary approval of the annual financial statements for 2021 and approval of quarterly reports;
- » convening the annual general meeting of shareholders in 2022 and formulating proposals for the payment of dividends;
- » and other issues related to the competence of the board of directors.

Six meetings of the board of directors are planned for 2022, at which regular issues related to financial results, risk reviews, and reports of the management board and committees of the board of directors will be considered. In addition, extraordinary meetings will be held if it is necessary to obtain approvals on issues not included in the agenda of regular meetings.

### Accountability and Efficiency

The board of directors is responsible for the preparation of the annual report and financial statements. Its members believe that the 2021 annual report and financial statements, taken together, are accurate, balanced, understandable, and contain the information necessary for shareholders to assess the situation in the Company, its performance, business model, and strategy. The fundamentals and long-term goals of effective operation of Kcell JSC, and the business model and strategies for achieving the Company's goals are described in the strategic report.

The board of directors assessed the prospects for Kcell JSC for 2022—i.e., the period during which the main risks faced by the Company can be accurately assessed and mitigated. Based on this assessment, the board of directors has reasonable grounds to expect that Kcell will be able to continue its activities and fulfill its obligations in a timely manner during the period under review.

The board of directors has made a thorough assessment of the main risks facing the Company, including those that may pose a threat to its business model, operating performance, solvency, or liquidity. These risks and an explanation for their management and mitigation are described in the risk management section.

The board of directors monitors the operation of the risk management and internal control systems of Kcell JSC and have assessed the effectiveness of these systems throughout the year. This assessment covered all significant controls, including financial, operational and regulatory ones.

### Assessment of the Activities of the Board of Directors

The regulations on the board of directors of Kcell JSC contain a number of rules regarding the assessment of the activities of the board. In order to implement them, on February 17, 2022, the board approved the rules for assessing the activities of the board and its committees, the chairman, members of the board and the corporate secretary of Kcell JSC (hereinafter referred to as the rules).

The rules are developed in accordance with the legislation of the Republic of Kazakhstan, the charter, the corporate governance code, and other internal documents of Kcell JSC, as well as with the methodological recommendations of Samruk-Kazyna JSC.

A self-assessment of the activities of the board of directors and its committees, the chairman, members of the board of directors and the corporate secretary of Kcell JSC for 2021 is currently carried out. The results will be considered at the meeting of the board of directors of the Company in April 2022.

### Internal Audit Committee

In 2021, the internal audit committee held seven in-person meetings in accordance with the agendas of the meetings.

Since its establishment in 2013, the internal audit committee of Kcell JSC has been monitoring and analyzing the effectiveness of its activities.

The committee regularly considers issues of the Company's internal audit service: on annual audit planning, on quarterly and annual reports of the service, as well as on special audits of the service.

The committee holds meetings with the external auditor on the Company's financial results on a quarterly basis.

The committee also reviews the Company's risk matrix and a plan to mitigate their negative impact on a quarterly basis.

The committee is responsible for preparing recommendations to the general meeting of shareholders on the appointment, re-election, and dismissal of the external auditor. On May 29, 2019, the participants of the annual general meeting of shareholders approved Ernst & Young LLP as the new external auditor of Kcell JSC for 2019-2021, which replaced Deloitte, which had been providing similar services since 2014. In order to maintain its independence, Kcell JSC does not engage Ernst & Young LLP to provide the Company with non-audit services; a similar practice was previously applied to Deloitte.

### Human Resources and Remuneration Committee

In 2021, the Human Resources and Remuneration Committee held nine in-person meetings in accordance with the agendas of the meetings.

The committee considered and provided recommendations to the board of directors on the following issues:

- » election of members of the management board;
- » election of the corporate secretary;
- » personnel issues of the compliance control service;
- » organisational structure;
- » and determination of key performance indicators of the Company's executives.

In addition, the committee carried out work to consider candidates for the position of independent director of Kcell JSC.

### Strategic Planning Committee

In 2021, the Strategic Planning Committee held seven in-person meetings in accordance with the agendas of the meetings.

The committee considered and provided recommendations to the board of directors on the following issues:

- » development strategy of the Company;
- » development plan;
- » transformation plan;
- » and strategic projects of the Company.

### Sustainable Development Committee

In 2021, the Sustainable Development Committee held three in-person meetings in accordance with the agendas of the meetings.

The committee regularly reviewed the reports of the compliance service, as well as documents regulating the activities of the compliance service. In accordance with the amendments to the charter approved by the EGM on September 23, 2021, the compliance service is accountable to the board of directors.

The committee quarterly considered information about the Company's activities under quarantine restrictions.

### Remuneration for Members of the Board of Directors

The Company pays remuneration to independent members of the board of directors in accordance with the current remuneration policy.

The annual pre-tax remuneration of independent directors was approved at the general meeting of shareholders in 2019.

#### Pre-tax remuneration of Independent Directors

**USD 75,000**  
Fixed annual remuneration

**USD 25,000**  
Additional annual remuneration for the performance of the functions of the chairman of the board of directors

#### Annual remuneration

**USD 15,000**  
Additional remuneration for the performance of the functions of one of the committees

**Payment terms:** 50 percent of the fixed annual remuneration and additional annual remuneration for acting as the chairman of the board of directors or one of its committees are paid six months after the independent director takes office, and the remaining 50 percent one year after that. The total amount of remuneration paid to independent members of the board of directors in 2021 amounted to the equivalent of USD 397.9 thousand or KZT 170.3 million (before taxes).



## Shareholder Relations

The board of directors is in constant dialogue with the shareholders of Kcell JSC, including through representatives of Kazakhtelecom JSC and Freedom Finance JSC.

## Capital structure

The equity capital of the Company: the total authorized number of ordinary shares is 200,000,000 with a par value of KZT 169 per share, which are fully paid as of December 31, 2021.

### Share capital of the Company

	31 December 2021		31 December 2020	
	Share	Number of shares	Share	Number of shares
Kazakhtelecom JSC	51,00%	102.000,000	75.00%	150,000,000
PIONEER TECHNOLOGIES S.A.R.L.	14,87%	29.745,215	–	–
First Heartland Jusan Bank JSC	9,08%	18.167,753	–	–
Unified Accumulative Pension Fund JSC	7,07%	14.144,273	–	–
Raiffeisenbank JSC nominal holder	1,54%	3.070,664	11.60%	23,209,124
Other	16,44%	32.872,095	13.40%	26,790,876
	100,00%	200.000,000	100.00%	200,000,000

### Subsidiaries

	31 December 2021	31 December 2020
KazNetMedia LLP	100%	100%
KT-Telecom LLP	–	100%

On September 6, 2021, the Company sold 100% of the shares of its subsidiary KT-Telecom LLP to Kazakhtelecom JSC for KZT 103 thousand.

As of December 31, 2021, the Company is controlled by Kazakhtelecom JSC. In turn, Kazakhtelecom JSC is controlled by the government of the Republic of Kazakhstan through the National Welfare Fund Samruk-Kazyna (51% of the controlling shares of Kazakhtelecom JSC).

On September 30, 2021, Kazakhtelecom JSC sold 24% of the Company's shares on the Kazakhstan Stock Exchange.

# MANAGEMENT BOARD

The Kcell management board is a collective executive body responsible for managing the day-to-day activities of the Company. At the same time, the Company recognizes the need for a leadership role that the chief executive officer assumes, acting as a chairman of the management board.

The chief executive officer and management board of Kcell JSC is a highly professional group of experts with experience in the telecommunications, finance, marketing and information technologies.

The Company's charter details the duties of the chief executive officer to manage the day-to-day business activities of the Company with the support of the management board. These include all issues that are not within the exclusive competence

of the board of directors or the general meeting of shareholders (GM). In addition, the management board is responsible for the implementation of decisions taken by the general meeting of shareholders and the board of directors.

In its work, the board is guided by the principles of legality, honesty, conscientiousness, prudence, systematic approach, professionalism, and objectivity. Its members fully respect the interests of the shareholders and are fully accountable to the GM and the board of directors.

The amount of total remuneration and compensation paid to the management board of Kcell JSC in 2021 amounted to 633,583,404.60 tenge (before taxes).

During the reporting period, the management board of Kcell JSC included the following members:



### Yuri Kharlamov

**Chairman of the Management and Chief Executive Officer**

On February 6, 2021, he was elected by the board of directors as a chairman of the management board and chief executive officer of the Company.

He has 20 years of experience in the telecommunications sector in senior positions, including in the positions of chief executive officer and chief financial officer in such companies as Golden Telecom, Corbina Telecom, VimpelCom, and Svyaznoy.

He graduated from Moscow Institute of Electronic Technology with a degree in management and the University of Birmingham with a degree in finance. He holds an MBA degree from London Business School.



### Askar Yesserkegenov

**Chief Technical Officer**

On March 7, 2019, he was elected to the position of chief technical officer of Kcell JSC, and since June 19, 2019 he has been a member of the Company's management board.

He worked in Kazakhtelecom JSC for 16 years in various positions, including the position of managing director from September 2013 and chief commercial officer from September 2007. Previously, he worked for other telecommunications companies of the Republic of Kazakhstan within two years, and also for more than five years at Kazakhtelecom JSC (since 1996).

He graduated from Moscow Electrotechnical Institute of Communications (Russia) with a degree in radio engineering and completed a master's program in business administration from the International Academy of Business (Russia).



### Sevil Gassanova

**Chief Legal Officer**

On April 19, 2021, she was elected to the position of chief legal officer and is a member of the Company's management Board. Since May 2020, she has been an advisor to Kcell JSC.

She is qualified as an English solicitor and Kazakhstan lawyer with over 15 years of experience in international companies in the energy and construction sectors, including in Norton Rose, groups of companies SC Rosatom and PJSC Lukoil. She has a great experience in providing legal advice and participating in disputes in international arbitrations.

Associate member of the Royal Institute of Arbitrators, LLM degree from Stockholm University.



**Maria Averchenko**  
Chief Commercial Officer

On April 9, 2021, she was elected to the position of chief commercial officer of Kcell JSC and is a member of the Company's management board.

Over 17 years of experience in the telecommunications and banking sector, including the managerial one. From 2015 to 2017, she held the position of chief commercial officer of B2C at Vimpelcom Ltd (Moscow) and since 2017 the position of director of partnerships. Previously, she held senior positions at RTK (MTS retail chain) and Euroset.

She graduated from Krasnoyarsk State Technical University with a degree in computer and engineering graphics engineer.



**Dina Nurpeissova**  
Chief Financial Officer

On August 23, 2021, she was elected to the position of chief financial officer of Kcell JSC, and since December 8, 2021 she has been a member of the Company's management board.

Over 20 years of experience in management positions, including the telecommunications sector, including in the positions of director of the financial and administrative unit and chief financial officer in such companies as Veon Armenia CJSC, 2Day Telecom LLP, RG Brands JSC, etc.

She graduated from Almaty Technological University of Food and Light Industry with a degree in AIC Engineer-Economist.

## INTERNAL CONTROL AND INTERNAL AUDIT

In Kcell JSC, the competence of the bodies included in the system of control over the financial and economic activities of the Company is delimited, depending on their attitude to the processes of development, approval, application, and evaluation of the internal control system.

In order to exercise control over the financial and economic activities of the Company, including the evaluation of internal control, risk management, and the execution of documents in the field of corporate governance and consultation with regard to the improvement of the Company's activities, Kcell has an internal audit service. Its employees cannot be elected to the board of directors and the management board.

The internal audit service reports directly to the board of directors and provides it with information on the results of its activities. The internal audit service is supervised by the audit committee. The tasks and functions of the service, including its rights and responsibilities, are determined by the regulations on the internal audit service approved by the board of directors.

The audit committee preliminary assesses the efficiency of the activities of the internal audit service, makes recommendations to the board of directors for making an appropriate decision and is responsible for taking appropriate measures.

## RISK MANAGEMENT

Risk management is fully integrated into the Company's business planning and control processes, has established procedures and clear lines of accountability, and is regularly reviewed.

### Responsibility

The board of directors of the Company has overall responsibility for the risk structure to shareholders on risk management issues.

the need to identify and assess potential threats. It applies the best international practices and recommended management standards.

In the near future, Kcell plans to improve the existing risk management model in accordance with the recommendations of the controlling shareholder Kazakhtelecom JSC and COSO, using the best international practices in the field of risk management and internal control.

### Risk management system

The risk management system implemented in the Company ensures the continuity of business processes and satisfies

#### Basic principles of the risk management process:

### Integrity

assessing the risk in full

### Openness

ensuring accessibility and understanding of the process

### Structuring

defining a clear structure

### Awareness

dissemination of objective, accurate, and timely information

### Continuity

encouraging a continuous learning process

### Cyclicity

creating a constantly repeating cycle



## Principal risks

The COVID-19 pandemic made significant adjustments to business processes in 2020 and continued to affect the Company's operations in 2021.



## Strategic risks

Strategic risk is classified as the potential for losses due to changes or errors in defining and implementing business strategy and development of the Company; changes in the political or regional environment; and fluctuations in the market or customer behavior. The risk factors include increased price competition caused by the activities of other mobile operators or new legislation. Kcell seeks to mitigate these risks by protecting its leadership in "strong" regions and by offering competitive tariffs and products to increase its share at Kazakhstan market.



## Operational risks

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

The exceptions to this are information systems and technologies, which Kcell categorizes as high risk. Protecting

customer privacy and data management are vital parts of the service that the Company offers. Any data breach can be detrimental to a business in both the short and long term. In this regard, Kcell networks are supported by the latest information security systems, which provide for all measures and processes to reduce the threat of cyber attacks.



## Financial risks

The Company can be subject to financial volatility originating from various sources. The risk management system seeks to minimize potential adverse effects on performance of the Company stemming from fluctuations in financial markets as well as other macro and microeconomic factors.

Kcell does not use derivative financial instruments to hedge risk exposure. The Company has detailed policies covering specific areas of financial risk, including credit, foreign exchange, and interest rate risks.



## Credit risk

The Company's credit risk policy ensures that products and services are sold only to customers and distributors with appropriate credit histories. If corporate customers have independent credit ratings, these are applied. Otherwise, a risk-control assessment is undertaken of a potential customer's credit worthiness based on current financial position, credit history, and other factors. The management analyses and follows up outstanding trade receivables and overdue balances, and mobile services are disconnected if customers fail to settle their liabilities.

Kcell has no significant concentration of credit risk with a highly diversified customer portfolio, which includes a large number of both individuals and companies. While income could be affected by economic factors, the management sees no significant risk of loss. The Company has established relationships with several banks, which are considered to have minimal risk of default. The Republic of Kazakhstan itself is identified as an emerging market and carries certain inherent risks. These risks apply equally to the banks that hold the Company's cash, cash equivalents, and term deposits. In this regard, Kcell applies the principles of investing only in financial instruments with a high credit rating.



## Foreign exchange risk

Most of the Company's foreign exchange risk relates to the change of the tenge against the US dollar, although profit is less affected by this factor, despite the fact that the proceeds from the sale of a number of services, in particular roaming, are calculated in US dollars, and equipment, installations and inventories are also mainly purchased in this currency.

Given the undeveloped market for financial instruments in Kazakhstan, Kcell does not use derivative financial instruments to hedge its foreign exchange risk. The Company has a policy of matching assets and liabilities denominated in foreign currencies where possible and practicable.

## Legal risk

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



## Natural disaster or catastrophe risk

Natural disasters or catastrophes are defined as natural phenomena or processes that provoke catastrophic situations and are characterized by a sudden reduction in the population, the destruction of infrastructure and property, and/or death. Therefore, Kcell takes measures to minimize the occurrence of disasters such as fires, accidents, and incidents resulting from the lack of proper care for people. These include fire drills, fire alarm systems, regular vehicle servicing, preventive measures against seasonal illnesses, medical insurance, annual medical examinations for employees, diesel generators for use during power failures, deliveries of reserve water supplies to employees, and other preventive works.



# 4



## FINANCIAL STATEMENTS

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«Эрнст энд Янг» ЖШС  
Әл-Фараби д-лы, 77/7  
«Есентай Тауэр» ғимараты  
Алматы қ., 050060  
Қазақстан Республикасы  
Тел.: +7 727 258 5960  
Факс: +7 727 258 5961  
www.ey.com

ТОО «Эрнст энд Янг»  
пр. Аль-Фараби, 77/7  
здание «Есентай Тауэр»  
г. Алматы, 050060  
Республика Казахстан  
Тел.: +7 727 258 5960  
Факс: +7 727 258 5961

Ernst & Young LLP  
Al-Farabi ave., 77/7  
Esentai Tower  
Almaty, 050060  
Republic of Kazakhstan  
Tel.: +7 727 258 5960  
Fax: +7 727 258 5961

## Independent auditor's report

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

### Opinion

We have audited the consolidated financial statements of Kcell JSC and its subsidiaries (hereinafter, the Group), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### Basis for opinion

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

### Key audit matters

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



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

Key audit matter	How our audit addressed the key audit matter
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#### Revenue recognition

Recognition and measurement of revenue from provision of telecommunication services was one of the matters of most significance in our audit due to the risk of improper revenue recognition as the billing systems employed by the Group are complex and automated processes. In addition, effect of accounting treatment of changing tariff structures and multi-element arrangements on revenue could be significant.

The selection and application of revenue recognition policies, including the application of IFRS 15 *Revenue from contracts with customers*, involve a number of key judgements and estimates, and therefore revenue could be subject to misstatement, whether due to fraud or error, including untimely recognition.

The Group's disclosure of information in respect of the accounting policies on revenue recognition is included in Note 3 to the consolidated financial statements, and detailed revenue disclosures are included in Note 23 to the consolidated financial statements.

#### Accounting for leases in accordance with of IFRS 16 Leases

The Group has significant balances of right-of-use assets in the amount of 17 billion tenge and lease liabilities in the amount of 20 billion tenge.

We have considered the relevant IT systems and the design of controls, and tested the operating effectiveness of controls over capturing and recording data in billing systems related to revenue recognition; authorisation of changes and accounting treatment of tariff rates input to the billing systems; and calculation of amounts billed to the customers.

We performed analytical procedures, including monthly fluctuations analysis and analysis of changes in key drivers of revenue, and compared financial and non-financial data. We also analysed the timing of revenue recognition.

We analysed the key judgements and estimates, and the accounting policy for compliance with IFRS 15. We considered the disclosures related to revenue recognition in light of the requirements of IFRS 15.

We analysed the identified lease contracts and on a sample basis compared the input data used in the lease calculation with the lease contracts.



The accounting for right-of-use assets and lease liabilities in accordance with IFRS 16 *Leases* was one of the matters of most significance in our audit, as the balances recorded are material. In addition, the procedures of identification and processing all relevant data associated with the leases are complex and the measurement of the right-of-use assets and lease liabilities is based on assumptions such as discount rates and the lease terms, including termination and renewal options.

The Group's disclosure in respect of the accounting policies on lease recognition and measurement in accordance with IFRS 16 is included in Note 3 to the consolidated financial statements and detailed lease disclosures are included in Note 16 to the consolidated financial statements.

#### **Costs capitalization**

The Group capitalises significant internal labour costs and external costs in respect of major capital projects, including mobile network upgrades. There is risk in respect of valuation and allocation of assets, that costs which do not meet the criteria for capitalisation in accordance with IAS 16 *Property, plant and equipment* and IAS 38 *Intangible assets* are capitalised or that assets continue to be recognized as non-current assets despite no longer meeting the relevant capitalisation criteria.

Due to the relative size of the Group's mobile network related property and equipment and intangible assets in the consolidated statement of financial position and the area of judgment around the application of capitalization criteria, we considered this as one of the matters of most significance in our audit.

The Group's policy on the capitalisation of assets is included in Note 3 to the consolidated financial statements, and detailed property and equipment and intangible assets disclosures are included in Note 7 and Note 8, respectively, to the consolidated financial statements.

We analysed management assumptions, specifically the assumptions in relation to the discount rates and lease terms, including termination and renewal options. We recalculated the right-of-use assets and lease liabilities by type of lease contracts and compared with the management's calculations.

We considered the related disclosures provided in the Note 16 to the consolidated financial statements.

We obtained an understanding of the process around the property and equipment cycle and intangible assets cycle. We have considered the design and tested the operating effectiveness of related controls.

We analysed the appropriateness of costs capitalization policies of the Group.

As part of audit procedures in relation to each element of capitalised costs we tested supporting documents on a sample basis and obtained understanding of the nature of the costs capitalised. We assessed the timeliness of the transfer of assets from the constructions-in-progress to the property and equipment and intangibles assets. In addition, we analysed assets recognized as non-current assets for compliance with capitalisation criteria.

We considered the related disclosures provided in the Group's consolidated financial statements.



#### **Accounting for government grants**

In 2021 the Government approved the Rules for the assignment of frequency bands, radio frequencies, operation of radio-electronic means and high-frequency devices ("the Rules"), based on which the Group is eligible for government grant in the form of 90% reduction in the annual fee for use of radio frequencies from 1 January 2020 till 1 January 2025. As of 31 December 2021 amount of government grant received equal to 10,033 million tenge, of which 2,108 million tenge was released to the profit and loss for the year ended 31 December 2021. Grant is subject to conditions, namely financing of the projects related to broadband internet in rural and urban areas.

Management evaluates whether the relevant conditions attached to the grant are fulfilled at the balance sheet date and whether there is a reasonable assurance that the grant will be received in order to be recognized in accordance with IAS 20 *Accounting for government grants and disclosure of government assistance*.

We identified accounting for government grants as a key audit matter for our audit because amount of grant recognised is material to the consolidated financial statements, and recognition of grant and assessment of its recoverability are subject to significant judgement of the Management. The area of subjectivity and judgement include interpretation and satisfaction of conditions specified in the Rules and assessment of reasonable assurance that grant will be received.

The Group's policy on the recognition of the government grants is included in Note 3 to the consolidated financial statements, and detailed disclosures of government grants are included in Note 22 to the consolidated financial statements.

We obtained understanding over government grant recognition process.

We considered documentation relating to the government grant received and analysed the conditions attached to the respective Rules and respective application and approval procedures.

We evaluated the information which was the basis for the Management's judgement about whether the conditions attached to the grant have been met and whether reasonable assurance has been obtained that the grant will be received.

We performed analytical procedures in respect to the amounts of financing of the projects related to broadband internet in rural and urban areas, obtained understanding of the nature of the expenditures and compared amounts of such expenses on a sample basis with supporting documents.

We assessed the disclosures provided in the Note 22 to the Group's consolidated financial statements in respect of government grants.





### **Other information included in the Group's 2021 Annual report**

Other information consists of the information included in the Group's 2021 Annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2021 Annual report is expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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



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

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

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

We also provide the Audit committee of the Board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.



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

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

*Ernst & Young LLP*

Paul Cohn  
Audit Partner

Rustamzhan Sattarov  
Auditor / General Director  
Ernst & Young LLP

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

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

9 February 2022



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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

In millions of tenge	Notes	31 December 2021	31 December 2020
<b>Assets</b>			
<b>Non-current assets</b>			
Property and equipment	7	85,805	78,109
Intangible assets	8	42,284	39,730
Advances paid for non-current assets	7, 8	1,930	293
Right-of-use assets	16	16,943	20,804
Long-term trade receivables	9	4,148	2,421
Cost to obtain contracts		472	185
Deferred tax assets	29	1,720	1,937
<b>Total non-current assets</b>		<b>153,302</b>	<b>143,479</b>
<b>Current assets</b>			
Inventories	10	6,582	9,362
Trade receivables	9	19,541	17,823
Other current non-financial assets	11	8,321	3,063
Other current financial assets	12	538	245
Prepaid income tax		30	813
Financial assets at amortized cost	13	–	18,923
Cash and cash equivalents	14	51,402	23,023
<b>Total current assets</b>		<b>86,414</b>	<b>73,252</b>
<b>Total assets</b>		<b>239,716</b>	<b>216,731</b>
<b>Equity and liabilities</b>			
Share capital	6	33,800	33,800
Additional paid in capital	15	1,260	–
Retained earnings		63,211	48,283
<b>Total equity</b>		<b>98,271</b>	<b>82,083</b>
<b>Non-current liabilities</b>			
Borrowings: non-current portion	15	48,283	49,933
Long-term lease liabilities	16	15,185	19,447
Government grants: non-current portion	22	5,688	–
Asset retirement obligation	20	4,204	4,007
Financial guarantee obligation	18	–	563
<b>Total non-current liabilities</b>		<b>73,360</b>	<b>73,950</b>
<b>Current liabilities</b>			
Borrowings: current portion	15	11,699	23,354
Short-term lease liabilities	16	4,944	4,219
Government grant: current portion	22	2,237	–
Trade payables	17	35,705	22,353
Financial guarantee obligation	18	330	–
Contract liabilities	19	3,207	1,978
Provisions	21	3,817	4,502
Due to employees		4,347	3,691
Property tax payable		712	601



In millions of tenge	Notes	31 December 2021	31 December 2020
Income tax payable		1,087	–
<b>Total current liabilities</b>		<b>68,085</b>	60,698
<b>Total liabilities</b>		<b>141,445</b>	134,648
<b>Total equity and liabilities</b>		<b>239,716</b>	216,731

Chairman of the Management Board & Chief Executive Officer	_____	Yuri Kharlamov
Chief Financial Officer	_____	Dina Nurpeissova

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

In millions of tenge	Notes	2021	2020
Revenue from contracts with customers	23	194,081	174,684
Income from government grants	22	2,108	–
Cost of sales	24	(125,867)	(119,133)
<b>Gross profit</b>		<b>70,322</b>	55,551
General and administrative expenses	25	(14,137)	(10,426)
Selling expenses	26	(3,106)	(1,965)
Impairment of financial assets	9,12	(2,106)	(1,547)
Impairment of property and equipment and intangible assets	7, 8	(588)	(5,227)
Reversal of tax and related fines and penalties provision	21, 32	683	684
Provisions for legal claims	21	–	(4,386)
Other operating income	28	715	550
Other operating expenses	28	(1,298)	(408)
<b>Operating profit</b>		<b>50,485</b>	32,826
Finance costs	27	(10,326)	(11,753)
Finance income	27	2,561	2,300
Net foreign exchange gain		403	987
Other non-operating income		79	262
<b>Profit before tax</b>		<b>43,202</b>	24,622
Income tax expenses	29	(10,696)	(7,044)
<b>Profit for the year</b>		<b>32,506</b>	17,578
Other comprehensive income		–	–
<b>Total comprehensive income for the year, net of tax</b>		<b>32,506</b>	17,578
<b>Earnings per share</b>			
Basic and diluted, tenge	6	162.53	87.89

Chairman of the Management Board & Chief Executive Officer	_____	Yuri Kharlamov
Chief Financial Officer	_____	Dina Nurpeissova

The accounting policies and notes on pages 80 to 129 are an integral part of these consolidated financial statements.

The accounting policies and notes on pages 80 to 129 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

In millions of tenge	Share capital	Additional paid-in capital	Retained earnings	Total equity
<b>Balance at 1 January 2020</b>	33,800	–	40,297	74,097
		–		
Net profit for the year	–	–	17,578	17,578
Other comprehensive income	–	–	–	–
Total comprehensive income	–	–	17,578	17,578
		–		
Financial guarantee obligation (Note 18)	–	–	(592)	(592)
Dividends declared (Note 6)	–	–	(9,000)	(9,000)
<b>At 31 December 2020</b>	<b>33,800</b>	<b>–</b>	<b>48,283</b>	<b>82,083</b>
		–		
Net profit for the year	–	–	<b>32,506</b>	<b>32,506</b>
Other comprehensive income	–	–	–	–
<b>Total comprehensive income</b>	<b>–</b>	<b>–</b>	<b>32,506</b>	<b>32,506</b>
		–		
Discount on loan received from Shareholders (Note 6)	–	<b>1,260</b>	–	<b>1,260</b>
Dividends declared (Note 6)	–	–	<b>(17,578)</b>	<b>(17,578)</b>
<b>At 31 December 2021</b>	<b>33,800</b>	<b>1,260</b>	<b>63,211</b>	<b>98,271</b>

Chairman of the Management Board & Chief Executive Officer

Yuri Kharlamov

Chief Financial Officer

Dina Nurpeissova

The accounting policies and notes on pages 80 to 129 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

In millions of tenge	Notes	2021	2020
<b>Cash flows from operating activities</b>			
Profit before tax		<b>43,202</b>	24,622
<b>Adjustments for:</b>			
Impairment of financial assets	9,12	<b>2,106</b>	1,547
Impairment of property and equipment and intangible assets	7, 8	<b>588</b>	5,227
Finance costs	27	<b>10,326</b>	11,753
Depreciation of property and equipment and right of use assets	7, 16	<b>20,157</b>	19,792
Amortisation of intangible assets	8	<b>10,621</b>	11,010
Income from accounts payable write-off	28	<b>(211)</b>	(189)
Write-off of inventory to net realizable value	10	<b>179</b>	654
Loss on disposal of property and equipment	28	<b>1,134</b>	273
Finance income	27	<b>(2,561)</b>	(2,300)
Provisions for legal claims	21	–	4,386
Reversal of tax and related fines and penalties provision	32	<b>(683)</b>	(684)
Gain on cancellation of lease agreements		<b>(14)</b>	(21)
Income from government grants	22	<b>(2,108)</b>	–
Net foreign exchange gain		<b>(403)</b>	(987)
<b>Operating cash flows before changes in operating assets and liabilities</b>		<b>82,333</b>	75,083
Change in inventories		<b>2,601</b>	(3,272)
Change in trade receivables		<b>(5,075)</b>	(4,762)
Change in other current non-financial assets		<b>(5,255)</b>	4,254
Change in other current financial assets		<b>(522)</b>	1,129
Change in cost to obtain contracts		<b>(287)</b>	54
Change in trade payables		<b>5,645</b>	(1,708)
Change in other current financial liabilities		<b>(334)</b>	114
Change in contract liabilities		<b>1,229</b>	(2,171)
Change in taxes payable other than income tax		<b>9,145</b>	100
<b>Cash flows generated from operations</b>		<b>89,480</b>	68,821
Income tax paid		<b>(7,609)</b>	(7,378)
Interest received		<b>2,406</b>	1,719
Interest paid	31	<b>(10,221)</b>	(10,903)
<b>Net cash flows from operating activities</b>		<b>74,056</b>	52,259
<b>Cash flows from investing activities</b>			
Purchase of property and equipment		<b>(18,059)</b>	(12,142)
Purchase of intangible assets		<b>(13,102)</b>	(11,413)
Proceeds from disposal of property and equipment		<b>96</b>	161
Proceeds from redemption of financial assets at amortized cost	13	<b>158,631</b>	18,139
Proceeds from redemption of financial assets at fair value through other comprehensive income		–	5,385
Purchase of financial assets at amortised cost	13	<b>(140,018)</b>	(36,751)
<b>Net cash flows used in investing activities</b>		<b>(12,452)</b>	(36,621)

The accounting policies and notes on pages 80 to 129 are an integral part of these consolidated financial statements.



<b>Cash flows from financing activities</b>			
Proceeds from loans	31	62,500	27,000
Repayment of bonds issued	15	(21,754)	–
Repayment of loans	31	(52,500)	(16,130)
Repayment of principal portion of lease liabilities	31	(4,321)	(3,758)
Dividends paid	6	(17,578)	(9,000)
<b>Net cash flows used in financing activities</b>		<b>(33,653)</b>	<b>(1,888)</b>
<b>Net increase in cash and cash equivalents</b>		<b>27,951</b>	<b>13,750</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>			
		428	448
<b>held in foreign currency</b>		428	448
<b>Cash and cash equivalents at the beginning of the year</b>		23,023	8,825
<b>Cash and cash equivalents at the end of the year</b>	14	51,402	23,023

## NON-CASH TRANSACTIONS

In 2021 the Group received government grants in the total amount of 10,033 million tenge represented by 90% reduction in the annual fee for use of radio frequencies.

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

In 2021, the Group paid an amount of 15,961 million tenge for property and equipment purchased in prior year (2020: 11,032 million tenge). Property and equipment in the amount of 21,736 million was purchased in 2021 but not paid as at 31 December 2021 (2020: 15,961 million tenge).

Chairman of the Management Board & Chief Executive Officer

Yuri Kharlamov

Chief Financial Officer

Dina Nurpeissova

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

## 1. GENERAL INFORMATION

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

The Company’s registered address is Alimzhanova 51, Almaty, the Republic of Kazakhstan.

On 25 December 2010, the Committee of Communications, Informatisation and Information under the Ministry of Investments and Development of the Republic of Kazakhstan signed an addendum to the existing GSM license, which provided the Group with a right to operate a 3G network. In December 2010, the Group launched 3G services in Nur-Sultan and Almaty. As of 1 January 2015, the Group provided all locations with a population of over 10,000 people with mobile services using UMTS/WCDMA based on the terms of the addendum.

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

In 2016 the Group paid 26,000 million tenge for LTE radio frequencies. On 1 March 2016, the Group launched LTE in its network on the previously granted frequencies.

On 13 December 2012, the Company successfully completed its offering of Global Depositary Receipts at the London Stock Exchange and common shares at the Kazakhstan Stock Exchange. On 14 June 2021, the Group officially completed delisting of Global Depositary Receipts (GDR) on LSE and Astana International Exchange (AIX).

As at 31 December 2021 and 2020 the Company is controlled by Kazakhtelecom JSC (“Parent”). Kazakhtelecom JSC is controlled by the Government of the Republic of Kazakhstan through Sovereign Wealth Fund “Samruk-Kazyna” JSC (“Samruk-Kazyna”) which owns 51% of Kazakhtelecom’s controlling shares.

On 30 September 2021 Kazakhtelecom sold 24 % of shares of the Company on Kazakhstan Stock Exchange (KASE).

As at 31 December 2021 and 2020, the shareholders of the Company are presented as follow:

	31 December 2021	31 December 2020
Kazakhtelecom JSC	51.00%	75.00%
PIONEER TECHNOLOGIES S.A.R.L.	14.87%	–
First Heartland Jusan Bank JSC	9.08%	–
Single accumulative pension fund JSC	7.06%	–
Raiffeisenbank JSC	1.54%	11.60%
Other	16.45%	13.40%
	<b>100.00%</b>	<b>100.00%</b>

As at 31 December 2021 and 2020, the Company has the following principal subsidiaries:

	31 December 2021	31 December 2020
KazNet Media LLP	100%	100%
KT-Telecom LLP	–	100%

The accompanying consolidated financial statements include the financial statements of Kcell JSC and its subsidiary (further referred to as “the Group”). On 6 September 2021 the Company sold 100% shares in subsidiary KT-Telecom LLP to Kazakhtelecom JSC for consideration of 103 thousand tenge.

The consolidated financial statements were authorised for issue by the acting Chairman of the Management Board on 28 January 2021. The accounting policies and notes on pages 80 to 129 are an integral part of these consolidated financial statements.

The accounting policies and notes on pages 80 to 129 are an integral part of these consolidated financial statements.

## 2. BASIS OF PREPARATION

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

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

### Going concern

The consolidated financial statements have been prepared on a going concern basis, which assumes continuation of the course of business, realisation of assets and settlement of liabilities in the normal course of business.

### Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2021. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

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

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

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### New and amended standards and interpretations

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021. The Group has not early adopted any standard, interpretation or amendment that has been issued but are not yet effective.

#### Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR).

The amendments include the following practical expedients:

- » A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest.
- » Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.
- » Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These amendments had no impact on the consolidated financial statements of the Group. The Group intends to use the practical expedients in future periods if they become applicable.

#### Covid-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases.

The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the COVID-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022.

The amendment applies to annual reporting periods beginning on or after 1 April 2021. However, the Group has not received COVID-19-related rent concessions but plans to apply the practical expedient if it becomes applicable within allowed period of application.

### Standards issued but not yet effective

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

#### IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

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



IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

#### Amendments to IAS 1 Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

#### Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 **Business Combinations – Reference to the Conceptual Framework**. The amendments are intended to replace a reference to the **Framework for the Preparation and Presentation of Financial Statements**, issued in 1989, with a reference to the **Conceptual Framework for Financial Reporting** issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the **Framework for the Preparation and Presentation of Financial Statements**.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

#### Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued **Property, Plant and Equipment – Proceeds before Intended Use**, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Standards issued but not yet effective (continued)

##### Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 (continued)

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

##### Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

##### IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 **First-time Adoption of International Financial Reporting Standards**. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

##### IFRS 9 Financial Instruments – Fees in the ‘10 per cent’ test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

##### IAS 41 Agriculture – Taxation in fair value measurements

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IAS 41 **Agriculture**. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 with earlier adoption permitted. This standard is not applicable to the Group.

### Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Group.

### Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 **Making Materiality Judgements**, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Group is currently assessing the impact of the amendments to determine the impact they will have on the Group's accounting policy disclosures.

### Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information

On 9 December 2021, the IASB issued an amendment to IFRS 17 **Insurance Contracts**, to add a transition option relating to comparative information presented on initial application of IFRS 17 and IFRS 9. This amendment follows from the Exposure Draft (ED) on Initial Application of IFRS 17 and IFRS 9 – **Comparative Information**, published in July 2021, and subsequent redeliberations based on feedback from stakeholders.

The IASB decided to introduce this transition option, a classification overlay for financial assets in the comparative period, in response to concerns raised by stakeholders regarding accounting mismatches that could arise between financial assets and insurance contract liabilities in the comparative information when IFRS 17 and IFRS 9 **Financial Instruments** are first applied in 2023.

The amendments are not expected to have a material impact on the Group.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Standards issued but not yet effective (continued)

#### Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

On 7 May 2021, the IASB issued Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12. The Board amended the standard to reduce diversity in the way that entities account for deferred tax on transactions and events, such as leases and decommissioning obligations, that lead to the initial recognition of both an asset and a liability.

The Amendments narrow the scope of the initial recognition exception under IAS 12 **Income Taxes**, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The Amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability. The Amendments apply to annual reporting periods beginning on or after 1 January 2023, with earlier application permitted.

The Group is currently assessing the impact of the amendments to determine the impact they will have on the Group's accounting policy disclosures.

### Foreign currency translation

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

### Transactions and balances

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

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

Foreign exchange rates are presented in the following table:

	31 December 2021	31 December 2020
US dollar	431.67	420.71
Euro	487.79	516.13
Russian rubles	5.77	5.65



### Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification.

An asset as current when it is:

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

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

### Fair value measurement

Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in the **Note 31**.

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

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

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

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

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

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

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

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

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Fair value measurement (continued)

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

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

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

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

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

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

#### Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Please refer to asset retirement obligation (**Note 20**) for further information about decommissioning provision recognised.

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

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

Land is not depreciated.

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

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

#### Construction-in-progress

Construction-in-progress represents property and equipment under construction and machinery and equipment awaiting installation and is recorded at cost. Construction-in-progress includes cost of construction and equipment and other direct costs. When

construction of such assets is completed or when the machinery and equipment are ready for their intended use, construction-in-progress is transferred to the appropriate category of depreciable assets. Construction-in-progress is not depreciated.

### Intangible assets

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

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

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

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

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

### Impairment of non-financial assets

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

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

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

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial assets

#### Initial recognition and measurement

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

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

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

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

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

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

#### Subsequent measurement

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

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

#### Financial assets at amortised cost (debt instruments)

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

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

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

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



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

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

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

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

### Derecognition

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

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

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

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

### Financial assets carried at amortised cost

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

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

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

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

## 3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial liabilities

#### Initial recognition and measurement

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

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

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

#### Subsequent measurement

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

#### Loans and borrowings

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

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

This category generally applies to interest-bearing loans and borrowings. Further details are contained in **Note 15**.

#### Financial guarantees

The Group has financial guarantee issued to the Parent. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. The financial guarantee obligation issued to the Parent is initially recognized though equity. Subsequently, the liability is measured at the higher of the amount of the loss allowance determined in accordance with IFRS 9 **Financial Instruments** and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with IFRS 15 **Revenue from Contracts with Customers**. Further details are contained in **Note 18**.

#### Trade and other accounts payable

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

### Derecognition

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

### Offsetting of financial instruments

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

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Leases

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

#### Group as a lessee

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

#### Right-of-use assets

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

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

	Years
Buildings and constructions	5-15

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

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

#### Lease liabilities

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

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

#### Short-term leases

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

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Inventories

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

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

#### Provisions

##### General

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

##### Decommissioning liability

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

#### Employee benefit

##### Social tax

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

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

##### Pension payments

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



### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

#### Revenue from contracts with customers

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

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

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

Data services include revenues from 3G and LTE internet, WAP services and other data services.

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

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

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

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

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

##### (i) Call out revenue

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

##### (ii) Interconnect revenues and costs

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

originated within the Group's network and terminated outside of the network. The Group recognises such costs when the services are provided.

##### (iii) Data revenue

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

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

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

##### (v) Roaming fees charged to other wireless operators

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

##### (vi) Value added services

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

#### Roaming discounts

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

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

#### Costs to obtain a contract

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

#### Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

#### Contract balances

##### Contract assets

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

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Contract balances (continued)

##### Trade receivables

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

##### Contract liabilities

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

#### Interest income

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

#### Dividends

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

#### Expense recognition

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

#### Borrowing costs

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

#### Taxes

##### Current income tax

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

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

##### Deferred tax

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

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

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

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

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

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

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

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

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

#### Contingent assets and liabilities

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

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

#### Related parties

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

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



## 4. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

» Financial instruments and financial risk management objectives and principles **Note 31**.

### Estimates and assumptions

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

### Judgements

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

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

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

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

#### Leases – estimating the incremental borrowing rate

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

## 4. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

### Judgements (continued)

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

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

In 2021 the Group started optimisation and modernisation of network, swapping from old end of life equipment, expansion of capacity and coverage of network according to approved investment plan and strategy of the Group in order to achieve strategic goals to strengthen and form leading positions in the telecommunication markets of the Republic of Kazakhstan. The Group plans to dismantle certain base stations on locations where there are base stations of both entities. Such business operation shall provide further savings on capital and operational expenditures and provide a better competitive position in the market. Therefore, in 2021, the Group reassessed the remaining useful lives of certain telecommunication equipment that is subject for dismantling earlier than initially planned or otherwise would not be used once integration process is finalized. The Group performed reassessment from 1 December 2021, which resulted in decrease in remaining useful life of those assets by 3 years on average. The change in the remaining useful lives resulted in a total increase in depreciation expenses for the year ended 31 December 2021 in the amount of 15 million tenge. The effect of change in estimate for 2022-2025 approximated to 750 million tenge.

#### Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model.

The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

#### Decommissioning liability

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

In 2021, Kazakhtelecom JSC together with its subsidiaries, Kcell JSC and MTS LLP developed network integration plan as mentioned above. In accordance with integration plan, the Group reassessed maturity of decommissioning of certain telecommunication base stations across Kazakhstan and reflected effect on asset retirement obligation estimation. Impacts are disclosed in **Note 20**.

#### Provision for expected credit losses

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

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

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in **Note 9**.

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

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

Thus, as at 31 December 2021 provision for expected credit losses was created in the amount of 6,651 million tenge (as at 31 December 2020: 9,964 million tenge) (**Notes 9**). Changes in the economy, industry or specific customer conditions would have impact to these allowances recorded in the consolidated financial statements.

#### Costs to obtain a contract

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

#### Contract liabilities

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

#### Deferred tax assets

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

As at 31 December 2021, net deferred tax assets of the Group were equal to 3,042 million tenge (at 31 December 2020: 1,937 million tenge). Further details are contained in **Note 29**.

#### Fair value measurement of financial instruments

When the fair value of financial instruments and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on data in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the fair value reported in the consolidated financial statements. For more details on the fair values refer to **Note 31**.

## 5. SEGMENT INFORMATION

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

The Group's Chairman of the Management Board has been determined as the chief operating decision-maker ("CODM"). The CODM reviews the Group's internal reporting in order to assess performance and allocate resources. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements

prepared in accordance with IFRS. Management has determined a single operating segment being mobile communication services based on these internal reports.

## 6. SHARE CAPITAL AND EARNINGS PER SHARE

Share capital of the Group is as follows:

	31 December 2021		31 December 2020	
	Share	Number of shares	Share	Number of shares
Kazakhtelecom JSC	51.00%	102,000,000	75.00%	150,000,000
PIONEER TECHNOLOGIES S.A.R.L	14.87%	29,745,215	–	–
First Heartland Jusan Bank JSC	9.08%	18,167,753	–	–
Single accumulative pension fund JSC	7.07%	14,144,273	–	–
Raiffeisenbank JSC	1.54%	3,070,664	11.60%	23,209,124
Other	16.44%	32,872,095	13.40%	26,790,876
	100.00%	200,000,000	100.00%	200,000,000

The total authorized number of ordinary shares is 200,000,000 shares with a par value of 169 tenge per share, all of which are issued and fully paid. In 2021 the Group obtained loans from First Heartland Jusan Bank JSC at interest rate lower than market rate and recognised discount in the amount of 1,260 million tenge as additional paid in capital (**Note 15**).

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

In millions of tenge	2021	2020
Profit for the year attributable to equity shareholders	32,506	17,578
Weighted average number of ordinary shares	200,000,000	200,000,000
<b>Earnings per share (Kazakhstani tenge), basic and diluted</b>	<b>162.53</b>	<b>87.89</b>

The Group has no dilutive or potentially dilutive securities outstanding.

During year ended 31 December 2021 and 2020, the Group declared and paid dividends in the amount of 17,578 million tenge and 9,000 million tenge, respectively. Dividends per share for the year ended 31 December 2021 were equal to 87.89 tenge (31 December 2020: 45 tenge).

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

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

According to the requirements of the Kazakhstan Stock Exchange ("KASE"), the Group has calculated its cost per ordinary share, which was calculated based on the number of ordinary shares outstanding at the reporting date. The cost per ordinary share as at 31 December 2021 and 2020 is presented below.

In millions of tenge	31 December 2021	31 December 2020
Net assets, excluding intangible assets	55,987	42,353
Number of ordinary shares in issue	200,000,000	200,000,000
<b>Cost of ordinary share, calculated in accordance with listing requirements of KASE (Kazakhstani tenge)</b>	<b>279.94</b>	<b>211.77</b>



## 7. PROPERTY AND EQUIPMENT

Movements of property and equipment in 2021 and 2020 were as follows:

In millions of tenge	Land	Buildings and construction	Machinery	Equipment, tools and installations	Assets under construction	Total
<b>Cost</b>						
<b>At 1 January 2020</b>	2,122	20,098	225,103	34,458	18,366	300,147
Additions	-	265	223	4,804	9,159	14,451
Provision for dismantling (Note 20)	-	-	1,899	-	-	1,899
Transfer between the groups	-	-	9,766	-	(9,766)	-
Disposals	-	-	(1,071)	(193)	(417)	(1,681)
Transfer to inventory	-	-	(23)	-	(84)	(107)
<b>At 31 December 2020</b>	2,122	20,363	235,897	39,069	17,258	314,709
Additions	-	130	117	1,676	22,525	24,448
Provision for dismantling (Note 20)	-	-	135	-	-	135
Transfer between the groups	-	-	9,529	-	(9,529)	-
Disposals	(13)	(143)	(4,729)	(10)	(1,013)	(5,908)
At 31 December 2021	2,109	20,350	240,949	40,735	29,241	333,384
<b>Accumulated depreciation and impairment</b>						
<b>At 1 January 2020</b>	-	(6,909)	(182,671)	(28,284)	-	(217,864)
Depreciation charge	-	(358)	(11,944)	(2,926)	-	(15,228)
Disposals	-	-	1,059	188	-	1,247
Impairment	-	(165)	(79)	-	(4,511)	(4,755)
<b>At 31 December 2020</b>	-	(7,432)	(193,635)	(31,022)	(4,511)	(236,600)
Depreciation charge	-	(361)	(11,933)	(3,204)	-	(15,498)
Disposals	-	114	4,554	10	-	4,678
Impairment	-	-	(73)	(85)	(1)	(159)
<b>At 31 December 2021</b>	-	(7,679)	(201,087)	(34,301)	(4,512)	(247,579)
<b>Net book value</b>						
<b>At 31 December 2020</b>	2,122	12,931	42,262	8,047	12,747	78,109
<b>At 31 December 2021</b>	2,109	12,671	39,862	6,434	24,729	85,805

## 7. PROPERTY AND EQUIPMENT (continued)

As at 31 December 2021 and 2020, assets under construction are represented by equipment for installation for base transmission stations, mobile switch servers and other telecommunication equipment and service works.

As of 31 December 2021, the Group made prepayments for certain property and equipment in the amount of 329 million tenge (31 December 2020: 293 million tenge).

As at 31 December 2021, the gross carrying value of property and equipment, which has been fully depreciated and still in use, was 173,272 million tenge (31 December 2020: 164,522 million tenge).

### Impairment test

The coronavirus (COVID-19) outbreak has affected many countries and resulted in significant volatility in financial and commodity markets around the world. There is already evidence that the virus has significantly impacted the global economy (Note 32). The Group's management analyzed external and internal sources of information, including the current and future impact of the COVID-19 pandemic on the Group and on macroeconomic environment, and did not observe any significant negative impacts on the Group's business, financial conditions and results of operations. During 2021, the Group did not identify impairment factors for all CGUs related with COVID-19 impact, except certain items of property and equipment as described below.

During 2021 the Group recognized an impairment loss in the amount of 158 million tenge (2020: 244 million tenge) for property and equipment and 1 million tenge for construction-in-progress (2020: 4,511 million tenge), which represented the write-down of certain assets to the recoverable amount as a result of technological obsolescence and damage. Loss was recognized in the consolidated statement of comprehensive income as an operating expense.

## 8. INTANGIBLE ASSETS

Movements of intangible assets for 2021 and 2020 were as follows:

In millions of tenge	Software and licenses	Intangible assets in development stage	Total
<b>Cost</b>			
<b>At 1 January 2020</b>	95,818	1,190	97,008
Additions	12,392	-	12,392
Transfers	718	(718)	-
Disposals	(906)	-	(906)
<b>At 31 December 2020</b>	108,022	472	108,494
Additions	13,604	-	13,604
Disposals	(2,640)	-	(2,640)
<b>At 31 December 2021</b>	118,986	472	119,458
<b>Accumulated amortisation and impairment</b>			
<b>At 1 January 2020</b>	(58,188)	-	(58,188)
Amortisation charge	(11,010)	-	(11,010)
Disposals	906	-	906
Impairment	-	(472)	(472)
<b>At 31 December 2020</b>	(68,292)	(472)	(68,764)
Amortisation charge	(10,621)	-	(10,621)
Disposals	2,640	-	2,640
Impairment	(429)	-	(429)
<b>At 31 December 2021</b>	(76,702)	(472)	(77,174)
<b>Net book value</b>			
<b>At 31 December 2020</b>	39,730	-	39,730
<b>At 31 December 2021</b>	42,284	-	42,284

As at 31 December 2021, the carrying amount of the 3G license was 1,333 million tenge (31 December 2020: 1,667 million tenge) and its remaining amortisation period was 4 years. As at 31 December 2021, the carrying amount of the 4G license was 15,744 million tenge (31 December 2020: 17,478 million tenge) and its remaining amortisation period was 9 years.

As of 31 December 2021, the Group made prepayments for certain intangible assets in the amount of 1,601 million tenge (31 December 2020: nil).

During 2021, the Group recognized an impairment loss of 429 million tenge, which represents part of billing system that was in non-operating condition (31 December 2020: 472 million tenge). Loss was recognized in the consolidated statement of comprehensive income as an operating expense.

As at 31 December 2021, the gross carrying value of intangible assets, which has been fully depreciated and still in use, was 42,175 million tenge (31 December 2020: 36,451 million tenge).

## 9. TRADE RECEIVABLES

As at 31 December 2021 and 2020, trade receivables comprised of the following:

In millions of tenge	31 December 2021	31 December 2020
Trade receivable from subscribers	25,052	27,412
Trade receivable from interconnect services	1,129	986
Trade receivables from roaming operators	173	170
Trade receivables from dealers and distributors	748	452
Trade receivables from related parties (Note 30)	3,238	1,188
Less: allowance for expected credit losses	(6,651)	(9,964)
	23,689	20,244
Less: long-term portion of trade receivable from subscribers	(4,148)	(2,421)
	19,541	17,823

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

In millions of tenge	2021	2020
Allowance for expected credit losses at the beginning of the year	(9,964)	(8,605)
Charge for the year	(1,914)	(1,547)
Write-offs for the year	1,117	188
Sales of trade receivables	4,110	-
Allowance for expected credit losses at the end of the year	(6,651)	(9,964)

On 18 and 19 February 2021 the Group sold overdue receivables with gross value in the amount of 4,548 million tenge and net book value in the amount of 438 million tenge for 438 million tenge.

Below is information as of 31 December 2021 and 2020 about the credit risk exposure on the Group's trade receivables using a provision matrix:

In millions of tenge	Total	Current	Days past due				
			1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	Over 180 days
31 December 2021							
Estimated total gross book value for default	30,340	20,212	1,825	903	580	922	5,898
Expected credit loss rate		0.1%	2%	13%	23%	49%	100%
Expected credit losses	6,651	23	41	118	136	454	5,879

## 9. TRADE RECEIVABLES (continued)

In millions of tenge	Total	Current	Days past due				
			1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	Over 180 days
31 December 2020							
Estimated total gross book value for default	30,208	17,761	1,574	467	271	543	9,592
Expected credit loss rate		0.1%	2%	12%	23%	53%	99%
Expected credit losses	9,964	17	25	55	62	289	9,516

As at 31 December 2021 and 2020 the Group's trade receivables were denominated in the following currencies:

In millions of tenge	31 December 2021	31 December 2020
Tenge	23,516	20,074
US dollars	173	170
	23,689	20,244

## 10. INVENTORIES

As at 31 December 2021 and 2020, inventories comprised:

In millions of tenge	31 December 2021	31 December 2020
Handsets and accessories (at lower of cost and net realizable value)	5,898	8,523
Start packages (at cost)	207	255
Marketing materials (at cost)	70	150
SIM-cards (at cost)	85	77
Other materials (at cost)	322	357
	6,582	9,362

During 2021, the Group recognised as an expense 179 million tenge (2020: 654 million tenge) for inventories carried at net realisable value. This is recognised in general and administrative expenses.

## 11. OTHER CURRENT NON-FINANCIAL ASSETS

As at 31 December 2021 and 2020, other current non-financial assets comprised of the following:

In millions of tenge	31 December 2021	31 December 2020
Advances paid	3,120	1,548
VAT recoverable	1,788	397
Prepaid taxes other than income taxes	2,535	710
Prepaid expenses	878	408
	8,321	3,063



## 12. OTHER CURRENT FINANCIAL ASSETS

As at 31 December 2021 and 2020, other current financial assets comprised of the following:

In millions of tenge	31 December 2021	31 December 2020
Other receivables	394	94
Due from employees	336	151
Less: allowance for expected credit losses due from employees	(192)	–
	538	245

As at 31 December 2021 and 2020, other current non-financial assets were fully denominated in tenge.

During year ended 31 December 2021 the Group has accrued allowance for amounts due from employees in the amount of 192 million tenge (2020: nil).

## 13. FINANCIAL ASSETS AT AMORTIZED COST

As at 31 December 2020 financial assets at amortized cost in the amount of 18,923 million tenge, represented by short-term discount notes of National Bank of the Republic of Kazakhstan (“NBRK”) denominated in tenge, were fully redeemed as of 31 December 2021. In 2021 and 2020, the Group acquired short term discount notes at purchase price 140,018 million tenge and 36,751 million tenge, respectively. In 2021 short term discount notes with nominal value in the amount of 158,631 million tenge and interest income in the amount of 1,369 million tenge was redeemed (2020: 18,139 million tenge and 761 million tenge, respectively).

The Group recognized the financial assets at amortized cost as the contractual cash flows are solely principal and interest and the financial assets are held within a business model for collecting contractual cash flows.

As at 31 December 2021 and 2020 financial assets at amortised cost comprised of the following:

In millions of tenge	Maturity date	Yield to maturity	Nominal value	31 December 2021	31 December 2020
NB RK Note	13 January 2021	8.92%	10,000	–	9,969
NB RK Note	15 January 2021	9.41%	4,000	–	3,984
NB RK Note	22 January 2021	9.85%	3,000	–	2,982
NB RK Note	22 January 2021	9.85%	2,000	–	1,988
				–	18,923

## 14. CASH AND CASH EQUIVALENTS

As at 31 December 2021 and 2020, cash and cash equivalents comprised of the following:

In millions of tenge	31 December 2021	31 December 2020
Bank deposits with original maturity of less than 90 days	45,018	8,782
Cash on current bank accounts	6,380	14,202
Cash on hand	4	39
	51,402	23,023

As of 31 December 2021, short-term bank deposits represent overnight deposits in tenge in Altyn Bank JSC at interest rate 8.9% in the amount of 20,000 million tenge, in Jusan Bank JSC at interest rate 8.69% in the amount of 11,000 million tenge, in Halyk bank JSC at interest rate 7.5% in the amount of 700 million tenge and deposit in USD in Halyk Bank JSC at interest rate 0.1% in the amount of 13,318 million tenge, respectively. As of 31 December 2020, short-term bank deposits represented overnight deposits in tenge in Altyn Bank JSC at interest rate 8.5% in the amount of 8,782 million tenge.

## 14. CASH AND CASH EQUIVALENTS (continued)

As at 31 December 2021 and 2020, cash and cash equivalents were denominated in various currencies as follows:

In millions of tenge	31 December 2021	31 December 2020
Tenge	34,133	9,398
US dollars	16,651	12,982
Euro	526	642
Russian roubles	91	–
Other	1	1
	51,402	23,023

## 15. BORROWINGS

As at 31 December 2021 and 2020, borrowings comprised of the following:

In millions of tenge	Currency	Effective interest rate	Maturity date	31 December 2021	31 December 2020
First Heartland Jusan Bank JSC (Note 30)	Tenge	11.70%	10 November 2024	39,871	–
Bank of China Kazakhstan JSC	Tenge	10.70%	20 August 2024	13,105	11,059
VTB Bank JSC	Tenge	11.90%	15 October 2023	7,006	6,005
Eurasian Development Bank JSC	Tenge	13.06%	20 June 2024	–	18,129
Halyk Bank of Kazakhstan JSC	Tenge	11.20%	21 April 2023	–	15,223
Bonds	Tenge	11.84%	16 January 2021	–	22,871
				59,982	73,287
Less: non-current portion				(48,283)	(49,933)
				11,699	23,354

Borrowings are repayable as follows:

In millions of tenge	31 December 2021	31 December 2020
<b>Current portion of borrowings</b>	<b>11,699</b>	<b>23,354</b>
Maturity between 1 and 2 years	7,000	10,972
Maturity between 2 and 5 years	41,283	38,961
Maturity over 5 years	–	–
<b>Total non-current portion of borrowings</b>	<b>48,283</b>	<b>49,933</b>

The Group’s borrowings are denominated in Kazakhstani tenge and represent unsecured loans and bonds. The borrowings have financial and non-financial covenants. Breaches in meeting the covenants would permit the banks to immediately call loans and borrowings. As at 31 December 2021 and 2020, there have been no breaches of the covenants. The Group has not entered into any hedging arrangements in respect of its interest rate exposures.

On 23 April 2020, the Group obtained loan in the amount of 15,000 million tenge within credit line agreement with Halyk Bank of Kazakhstan JSC with a maturity of 36 months and a fixed interest rate of 11.5% per annum. On 14 July 2020 interest rates of loan was decreased from 11.5% to 11.2% per annum under credit line agreement. The change in the interest rate from 11.5% to 11.2% does not represent a substantial modification as in accordance with IFRS 9 and thus, it did not lead to the derecognition of the original liability. The Group recognized finance income in the amount of 115 million tenge as a result of change in the interest rate. On 24 February 2021 the Group obtained two loans in the amount of 2,100 million tenge and 4,900 million tenge from Halyk Bank JSC within the same credit line agreement. On 11 November 2021, the Group fully repaid principal and interest in the amount of 22,000 million tenge and 2,358 million tenge, respectively, ahead of the schedule.

On 6 January 2021 the Group obtained a loan in the amount of 12,000 million tenge from Alfa Bank JSC with maturity till 5 January 2024 at interest rate 10.7% per annum. On 19 May 2021 the Group entered into an additional agreement to increase the credit limit from 14 billion tenge to 21 billion tenge, for a period until 19 May 2026, with an availability period until 19 May 2025 at interest rate of 10.7% per annum. On 11 November 2021 the Group fully repaid principal and interest in the amount of 12,000 million tenge and 1,102 million tenge, respectively, ahead of the schedule.

During 2019 and 2020, the Group obtained loan in the amount of 5,000 million and 6,000 million tenge, respectively, within credit line agreement with Bank of China Kazakhstan JSC with a repayment period of 36 months and a fixed interest rate of 10.5% per annum. On 14 October 2020 the Group has signed addendum to loan agreement with Bank of China JSC to decrease interest rate from 10.5% to 10.3% per annum under credit line agreement. The change in the interest rate does not represent a substantial modification in accordance with IFRS 9 and thus, it did not lead to the derecognition of the original liability. Consequently, in 2020 the Group recognized finance income in the amount of 33 million tenge as a result of change in the interest rate. The loan is secured by the financial guarantee provided by Kazakhtelecom JSC, the parent company. The Group considers the financial guarantee provided by the parent to be an integral part of the loan, and therefore does not recognize the guarantee received separately in its consolidated financial statements.

On 2 June 2021 the Group obtained additional tranche in the amount of 2,000 million tenge from Bank of China JSC within the same credit line agreement.

On 28 October 2020 the Group obtained loan in the amount of 6,000 million tenge within the credit line agreement with VTB Bank JSC with maturity till October 2023 at interest rate 10.7% per annum. On 31 March 2021 the Group signed an additional agreement with VTB Bank JSC to increase the amount of the credit line from 6,000 million tenge to 7,000 million tenge, and obtained 1,000 million tenge with a maturity until 15 October 2023 and an interest rate of 10.7% per annum.

On 20 May 2021 the Group has signed addendum to loan agreement with Eurasian Development Bank to decrease interest rate from 11.5% to 11.19% per annum under credit line agreement. The change in the interest rate does not represent a substantial modification in accordance with IFRS 9 and thus, it did not lead to the derecognition of the original liability. In 2021, the Group fully repaid principal amount of the loan obtained from Eurasian Development Bank in the amount of 18,500 million tenge and interest in the amount of 762 million tenge.

On 21 February 2019, the Group undertook a bond placement at the Kazakhstan Stock Exchange, in which bonds to the value of 17,025 million tenge were placed with investors at a yield of 11.5% per annum and on 16 January 2018 a bond placement with the value of 4,950 million tenge at a yield of 11.5% per annum. On 26 January 2021, in accordance with schedule, the Group fully repaid bonds in the amount of 23,005 million tenge, including the principal portion in the amount of 21,754 million tenge and accrued interest in the amount of 1,251 million tenge.

On 10 November 2021, the Group and First Heartland Jusan Bank JSC, one of the shareholders of the Company, signed a credit line agreement in the amount of 60,500 million tenge. On 11 November 2021 two tranches were received from First Heartland Jusan Bank JSC in the amount of 22,000 million tenge and 12,000 million tenge with an interest rate of 11% per annum and 10.7% per annum, respectively. Additionally, on 25 November 2021, third tranche was received from First Heartland Jusan Bank JSC in the amount of 6,500 million tenge with an interest rate of 11% per annum, with a maturity until 10 November 2024. At the date of initial recognition, the loan was recognized at fair value based on expected cash outflows at a market rate observable for similar instruments of 12.9% at the time the loan was issued. On initial recognition of all three tranches total discount in the amount of 1,260 million tenge was recognised within equity as the additional paid-in capital.

## 16. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Group's right of use assets are represented by buildings and constructions. Set out below are the carrying amounts of right-of-use assets and lease liabilities recognised and the movements during the year:

In millions of tenge	Total
<b>Cost</b>	
<b>At 1 January 2020</b>	29,133
Modification	161
Additions	491
Cancellation	(300)
<b>At 31 December 2020</b>	29,485
Modification	<b>814</b>
Additions	<b>77</b>
Cancellation	<b>(138)</b>
<b>At 31 December 2021</b>	<b>30,238</b>
<b>Accumulated depreciation</b>	
<b>At 1 January 2020</b>	(4,157)
Depreciation charge	(4,564)
Cancellation	40
<b>At 31 December 2020</b>	(8,681)
Depreciation charge	<b>(4,659)</b>
Cancellation	<b>45</b>
<b>At 31 December 2021</b>	<b>(13,295)</b>
<b>Net book value</b>	
<b>At 31 December 2020</b>	20,804
<b>At 31 December 2021</b>	<b>16,943</b>

Set out below are the carrying amounts of lease liabilities and the movements during the year:

In millions of tenge	31 December 2021	31 December 2020
<b>At the beginning of the year</b>	<b>23,666</b>	27,053
Interest expenses (Note 27)	<b>2,772</b>	3,150
Payments	<b>(7,093)</b>	(6,908)
Additions	<b>77</b>	491
Modifications	<b>814</b>	161
Cancellation	<b>(107)</b>	(281)
<b>At the end of the year</b>	<b>20,129</b>	23,666
Long-term lease liabilities	<b>15,185</b>	19,447
Short-term lease liabilities	<b>4,944</b>	4,219

The following are the amounts recognised in profit or loss:

In millions of tenge	2021	2020
Depreciation expense of right-of-use assets	<b>4,659</b>	4,564
Interest expense on lease liabilities	<b>2,772</b>	3,150
<b>Expenses related to short-term leases</b>	<b>45</b>	49
<b>Total amount recognised in profit or loss</b>	<b>7,476</b>	7,763

The Group had total cash outflows for leases of 7,138 million tenge in 2021 (2020: 6,957 million tenge).



## 17. TRADE PAYABLES

As at 31 December 2021 and 2020, trade payables comprised of the following:

In millions of tenge	31 December 2021	31 December 2020
Trade payables to third parties	32,603	21,259
Trade payables to related parties (Note 30)	3,102	1,094
	35,705	22,353

As at 31 December 2021 and 2020, the Group's trade payables were denominated in the following currencies:

In millions of tenge	31 December 2021	31 December 2020
Tenge	33,119	21,043
US dollars	1,460	1,304
Other currency	1,126	6
	35,705	22,353

## 18. FINANCIAL GUARANTEE OBLIGATION

On 27 November 2020 the Group issued the financial guarantee on loan agreement of Kazakhtelecom JSC obtained from Development Bank of Kazakhstan JSC in the amount of 18,266 million tenge. The financial guarantee has maturity till 19 December 2024. The Group initially recognised the financial guarantee at fair value in the amount of 592 million tenge through retained earnings in equity. As at 31 December 2021 and 2020, the Group measured financial guarantee obligation at the higher of the amount of the loss allowance determined in accordance with IFRS 9 **Financial Instruments** and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with IFRS 15 **Revenue from Contracts with Customers**. As of 31 December 2021, financial guarantee obligation equaled to 330 million tenge, which represents the initial amount less the cumulative amount of income recognised in accordance with IFRS 15 (31 December 2020: 563 million tenge).

## 19. CONTRACT LIABILITIES

As at 31 December 2021 and 2020, trade contract liabilities comprised of the following:

In millions of tenge	2021	2020
<b>Contract liabilities as at 1 January</b>	1,978	4,149
Deferred during the year	159,344	107,352
Recognised as revenue during the year	(158,115)	(109,523)
<b>Contract liabilities as at 31 December</b>	3,207	1,978

## 20. ASSET RETIREMENT OBLIGATION

### Decommissioning liabilities

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

## 20. ASSET RETIREMENT OBLIGATION (continued)

### Decommissioning liabilities (continued)

Movements in provision for decommissioning liabilities for the years ended 31 December 2021 and 2020 were as follows:

In millions of tenge	2021	2020
Provision for decommissioning liabilities as at 1 January	4,007	1,970
Change in estimate (Note 7)	135	1,899
Unwinding of discount (Note 27)	194	138
Provision for decommissioning liabilities as at 31 December	4,336	4,007
Current portion (Note 21)	132	–
non-current portion	4,204	4,007

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

	2021	2020
Discount rate	7.03%	6.83%
Inflation rate	5.5%	5.5%
Period of fulfillment of obligation	1-10 years	11 years

In 2021, the Group approved network integration project with Parents and MTS LLP, according which the Group plans to decommission certain assets in 2022-2025.

## 21. PROVISIONS

In 2020 the Group accrued certain amount of provision related to legal claims on contractual obligation and fines and penalties that Management considers as probable in the amount of 3,685 million tenge and 701 million tenge, respectively. Portion of provision of fines and penalties in the amount of 683 million tenge was reversed in 2021 due to finalisation of custom audit with actual amount of penalty in notice in the amount of 18 million tenge (Note 32).

In millions of tenge	31 December 2021	31 December 2020
Legal claims on contractual obligation	3,685	3,685
Asset retirement obligation: current portion (Note 20)	132	–
Provision of fines and penalties (Note 32)	–	701
Other provision	–	116
	3,817	4,502

Movements in provision for decommissioning liabilities for the years ended 31 December 2021 and 2020 were as follows:

In millions of tenge	2021	2020
<b>Provision as at 1 January</b>	4,502	188
Accrual of provisions for legal claim	–	4,386
Reclassification of short-term portion of decommissioning liabilities	132	–
Reversal of fines and penalties provision	(683)	–
Utilized during the year	(18)	–
Reversal of other provision (Note 28)	(116)	(72)
<b>Provision as at 31 December</b>	3,817	4,502

## 22. GOVERNMENT GRANTS

In millions of tenge	31 December 2021	31 December 2020
<b>Government grants as at 1 January</b>	–	–
Received during the period	10,033	–
Released to the statement of profit or loss	(2,108)	–
<b>Government grants as at 31 December</b>	7,925	–
Government grants current portion	2,237	–
Government grants non-current portion	5,688	–

In 2021 the Government approved the changes to the Rules for the assignment of frequency bands, radio frequencies, operation of radio-electronic means and high-frequency devices (“the Rules”), based on which the Group is eligible for government grants in form of 90% reduction in the annual fee for use of radio frequencies from 1 January 2020 till 1 January 2025. The government grants are subject to conditions, namely financing of the projects related to broadband internet in rural and urban areas. If the financing of the projects related to broadband internet is lower than the amount of the tax incentive received, the Group should pay the annual fee equal for use of radio frequencies to the amount of unfulfilled obligations to the authorities.

The funds released as a result of reduction in the annual fee for use of radio frequencies for 2020 and 2021 in the amount of 4,725 million tenge and 5,308 million tenge, respectively, were used by the Group for the purchase and construction of certain items of property and equipment (mainly base stations). Government grants related to assets are recognized as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset. As of 31 December 2021 the balance of deferred income recognized was equal to 7,925 million tenge, and part of the government grants released to the profit and loss over the period necessary to match the related depreciation charges equal to 2,108 million tenge.

As of 31 December 2021 there are no unfulfilled conditions or contingencies attached to these grants.

## 23. REVENUE FROM CONTRACTS WITH CUSTOMERS

In millions of tenge	2021	2020
Voice and other services	78,060	73,852
Data service	67,970	58,446
Sale of handsets	39,027	34,634
Value added services	9,024	7,752
	194,081	174,684
Over time	155,054	140,050
At a point of time	39,027	34,634
	194,081	174,684

## 24. COST OF SALES

In millions of tenge	2021	2020
Cost of SIM-card, scratch card and handsets sales	32,963	28,430
Depreciation and amortisation	26,078	27,377
Interconnect fees and expenses	18,231	19,163
Personnel costs	11,274	11,090
Transmission services	10,245	9,998
Repair and maintenance	8,163	7,065
Fees for use of frequency range	6,931	6,310
Electricity	3,777	2,939
Network sharing agreement	2,829	919
Mobile service tax	2,169	1,960
Security and safety	350	284
Materials	219	284
Rent expenses	45	49
Other	2,593	3,265
	125,867	119,133

## 25. GENERAL AND ADMINISTRATIVE EXPENSES

In millions of tenge	2021	2020
Personnel costs	4,542	3,633
Depreciation and amortisation	4,700	3,425
Consulting services	2,473	430
Taxes other than income tax	1,175	898
Repair and maintenance	335	405
Write-down of inventories to net realizable value	179	654
Business trips	99	55
Representative expenses	97	104
Trainings	55	12
Security and safety	32	108
Insurance	28	26
Inventories	25	45
Other	397	631
	14,137	10,426

## 26. SELLING EXPENSES

In millions of tenge	2021	2020
Marketing and advertising	2,426	1,361
Amortisation of cost to obtain a contract	285	253
Commissions for dealers and cash collection	192	42
Other	203	309
	3,106	1,965



**27. FINANCE COSTS / FINANCE INCOME**

In millions of tenge	2021	2020
<b>Finance costs</b>		
Interest expense on loans and bonds	7,158	8,386
Interest on lease liabilities (Note 16)	2,772	3,150
Unwinding of discount (provision for decommissioning liability) (Note 20)	194	138
Other	202	79
	<b>10,326</b>	11,753
<b>Finance income</b>		
Interest income on financial assets at amortised cost	1,058	1,072
Interest income on cash balances and deposit	979	817
Recognition of discount on long-term loans	–	148
Penalty income from late payments for contract phones	244	–
Unwinding of issued financial guarantee	233	29
Other	47	234
	<b>2,561</b>	2,300

**28. OTHER OPERATING INCOME/OTHER OPERATING EXPENSES**

In millions of tenge	2021	2020
<b>Other operating income</b>		
Income from frequency fee sharing	170	250
Income from accounts payable write-off	211	189
Income from reversal of provisions (Note 21)	116	72
Other	218	39
	<b>715</b>	550
<b>Other operating expenses</b>		
Frequency fee sharing expenses	135	–
Loss on disposal of property and equipment	1,134	273
Other	29	135
	<b>1,298</b>	408

**29. INCOME TAX EXPENSES**

In millions of tenge	2021	2020
Current income tax expense	(11,532)	(8,611)
Adjustments in respect of income tax of previous year	1,053	(175)
Deferred income tax benefit	(217)	1,742
	<b>(10,696)</b>	(7,044)

The Group are subject to taxation in the Republic of Kazakhstan. Tax rate for the Group and its subsidiary was 20% in 2021 and 2020.

**29. INCOME TAX EXPENSES (continued)**

A reconciliation of income tax expenses applicable to profit before taxation at the statutory rate, with the current corporate income tax expenses for the years ended 31 December 2021 and 2020 is set out below:

In millions of tenge	2021	2020
<b>Profit before taxation</b>	<b>43,202</b>	24,622
<b>Income tax at statutory income tax rate of 20%</b>	<b>8,640</b>	4,924
Non-taxable income	(436)	(351)
Non-deductible expenses	1,131	328
Legal disputes expenses	–	877
Impairment of construction-in-progress	–	997
Change in unrecognised tax loss carry forward	1,530	–
Recognition of tax loss carry forward	(192)	(234)
Adjustments in respect of income tax of previous year	(1,053)	175
Adjustments in respect of deferred income tax of previous year	1,076	328
<b>Total income tax expenses</b>	<b>10,696</b>	7,044

Non-taxable income is mainly represented by income from reversal of tax and related fines and penalties provision in the amount of 684 million tenge and interest income on NBRK notes in the amount of 1,058 million tenge. Non deductible expenses mainly represented by representative expenses, taxes at own expenses, and other expenses which are in accordance with Tax Code of the Republic of Kazakhstan are non-deductible.

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

In millions of tenge	Consolidated statement of financial position		Consolidated statement of comprehensive income	
	31 December 2021	31 December 2020	2021	2020
<b>Deferred tax assets</b>				
Expected credit losses	322	391	(69)	48
Accrued bonuses to employees	498	402	96	42
Tax loss carry forward	1,804	1,612	192	234
Lease liabilities	637	572	65	157
Provision for unused vacation	199	166	33	50
Asset retirement obligation	821	801	20	407
Deferred services	641	793	(152)	142
Other	142	148	(6)	15
Government grants	1,585	–	1,585	–
Unrecognised deferred tax assets	(1,530)	–	(1,530)	–
<b>Deferred tax assets</b>	<b>5,119</b>	4,885	<b>234</b>	1,095
<b>Deferred tax liabilities</b>				
Property and equipment and intangible asset	(3,351)	(2,854)	(497)	536
Other	(48)	(94)	46	111
<b>Deferred tax liabilities</b>	<b>(3,399)</b>	(2,948)	<b>(451)</b>	647
<b>Deferred tax assets, net</b>	<b>1,720</b>	1,937		
<b>Change in deferred tax assets/(liabilities), net</b>			<b>(217)</b>	1,742

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. In accordance with legislation of the Republic of Kazakhstan, tax losses may be deferred for 10 (ten) years from the date of their origination. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be utilised. During year ended 31 December 2021 the Group derecognised deferred tax assets related to tax loss carried forward in the amount of 1,530 million tenge.

As at 31 December 2021, the Group has not recognised deferred tax assets in relation to the temporary difference in the amount of 735 million tenge (as at 31 December 2020: 225 million tenge) related to investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not expect to reverse them in the foreseeable future.

### 30. RELATED PARTY DISCLOSURES

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

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

As at 31 December 2021, the Group recognized an allowance for expected credit losses in the amount of 143 million tenge in respect of receivables from related parties (31 December 2020: 56 million tenge).

Parent is controlled by the Government of the Republic of Kazakhstan through Sovereign Wealth Fund "Samruk-Kazyna" JSC ("Samruk-Kazyna") which owns 51% of Kazakhtelecom's controlling shares (Note 1). Governmental entities include entities under common control and associates of the Government of the Republic of Kazakhstan.

Related party transactions were made on terms agreed between parties that may not necessarily be at market rate. Sales and purchases with related parties during 2021 and 2020, and the balances with related parties as at 31 December 2021 and 2020, were as follows:

In millions of tenge	2021	2020
<b>Sales of goods and services</b>		
Entities of Samruk Kazyna group	197	210
Entities of Kazakhtelecom group	13,942	12,351
Government entities	251	1,244
<b>Purchases of goods and services</b>		
Entities of Samruk Kazyna group	447	445
Entities of Kazakhtelecom group	24,708	19,723
Government entities	92	77
<b>Finance expense</b>		
Other Shareholders	588	-
<b>In millions of tenge</b>	<b>31 December 2021</b>	<b>31 December 2020</b>
<b>Trade receivables (Note 9)</b>		
Entities of Samruk Kazyna group	36	43
Entities of Kazakhtelecom group	3,155	1,100
Government entities	47	45
	3,238	1,188
<b>Trade payables (Note 17)</b>		
Entities of Samruk Kazyna group	14	62
Entities of Kazakhtelecom group	3,050	1,018
Government entities	38	14
	3,102	1,094
<b>Borrowings (Note 15)</b>		
Other Shareholders	39,871	-
<b>Cash and deposit accounts</b>		
Other Shareholders	11,010	-

### 30. RELATED PARTY DISCLOSURES (continued)

#### Compensation to key management personnel

For the years ended 31 December 2021 and 2020, the total compensation to key management personnel included in the accompanying consolidated statement of comprehensive income under general and administrative expenses was 1,218 million tenge and 1,073 million tenge, respectively. Compensation to key management personnel consists of wages fixed in the employment agreement, as well as remuneration based on the performance for the year.

### 31. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES

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

#### Impairment losses on financial assets

Impairment losses on financial assets for the year ended 31 December 2021 and 2020, comprise accruing reserve on expected credit losses for trade and other receivables in amount of 2,106 million tenge and 1,547 million tenge, respectively (Note 9, 12).

#### Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. As at 31 December 2021 and 2020, the Group had no loans or borrowings with floating interest rates and was not subjected to the risk of changes in market interest rates.

#### Foreign currency risk

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

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

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

In millions of tenge	2021		2020	
	Increase/ (decrease) in exchange rate	Effect on profit before tax	Increase/ (decrease) in exchange rate	Effect on profit before tax
US dollars	13%	1,997	14%	1,659
	-10%	(1,536)	-11%	(1,303)

#### Credit risk

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

#### Trade receivables

Financial instruments in which the Group's credit risk is concentrated are primarily trade receivables. Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. The credit risk associated with trade receivables is limited due to the large number of the Group's customers and the continuous monitoring procedures for customers and other debtors.



An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than three years and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 9 and 12. The Group does not hold collateral as security.

### Financial instruments and cash deposits

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

In millions of tenge	Rating 2021	Rating 2020	Cash balance		Balance on deposit accounts	
			2021	2020	2021	2020
Citibank Kazakhstan JSC	BB-	BBB+	174	2,886	1	1
Jysan Bank JSC	B-	B-	10	-	11,000	-
Credit Suisse (Schweiz) AG	A+	A+	1,839	1,057	-	-
Halyk Bank Kazakhstan JSC	BB	BB	3,747	8,861	14,017	-
Altyn Bank JSC	BBB-	BBB-	488	1,301	20,000	8,781
Kaspi Bank JSC	BB-	BB-	54	88	-	-
Bank of China					-	-
Kazakhstan JSC	BBB+	BBB+	-	1	-	-
SB Sberbank JSC	BBB-	BB+	38	8	-	-
Bank CenterCredit JSC	B+	B+	30	-	-	-
<b>Total</b>			<b>6,380</b>	<b>14,202</b>	<b>45,018</b>	<b>8,782</b>

### Liquidity risk

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

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

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

In millions of tenge	On demand	1 to 3 months	3 months to 1 year	From 1 to 5 years	More than 5 years	Total
<b>At 31 December 2021</b>						
Borrowings	-	1,669	15,609	59,320	-	76,598
Financial guarantee obligation*	-	798	4,164	9,624	-	14,586
Trade payables	-	35,705	-	-	-	35,705
Lease liabilities	-	1,815	5,444	17,460	1,515	26,234
Due to employees	-	4,347	-	-	-	4,347
	-	44,334	25,217	86,404	1,515	157,470
<b>At 31 December 2020</b>						
Borrowings	-	24,398	4,258	56,244	-	84,900
Financial guarantee obligation*	-	852	3,593	14,586	-	19,031
Trade payables	-	22,353	-	-	-	22,353
Lease liabilities	-	1,592	4,780	19,706	3,597	29,675
Due to employees	-	3,691	-	-	-	3,691
	-	52,886	12,631	90,536	3,597	159,650

\*Based on the maximum amount that can be called for under the financial guarantee's contract (Note 18).

## 31. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES (continued)

### Cash flow risk

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

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

### Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to the holders of common shares, return equity to shareholders or issue new shares. No changes were made by the Group in the capital management objectives, policies or processes in 2021 and 2020.

### Fair values

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

The table below presents fair value hierarchy of assets and liabilities of the Group. Disclosure of quantitative information of fair value hierarchy of financial instruments as at 31 December 2021 was as follow:

In millions of tenge	Date of valuation	Price quotation on active market (Level 1)	Significant observable in-puts (Level 2)	Significant unobservable in-puts (Level 3)	Total
<b>Assets for which fair values are disclosed</b>					
Financial assets at amortized cost	31 December 2021	-	-	-	-
Short-term trade receivables	31 December 2021	-	-	19,541	19,541
Long-term trade receivables	31 December 2021	-	-	3,115	3,115
Other current financial assets	31 December 2021	-	-	538	538
<b>Liabilities for which fair values are disclosed</b>					
Borrowings	31 December 2021	-	-	56,289	56,289
Trade payables	31 December 2021	-	-	35,705	35,705
Financial guarantee obligation	31 December 2021	-	-	564	330
Due to employees	31 December 2021	-	-	4,347	4,347

The table below presents fair value hierarchy of assets and liabilities of the Group. Disclosure of quantitative information of fair value hierarchy of financial instruments as at 31 December 2020 was as follow:

In millions of tenge	Date of valuation	Price quotation on active market (Level 1)	Significant observable in-puts (Level 2)	Significant unobservable in-puts (Level 3)	Total
<b>Assets for which fair values are disclosed</b>					
Financial assets at amortized cost	31 December 2020	18,624	-	-	18,624
Short-term trade receivables	31 December 2020	-	-	17,823	17,823
Long-term trade receivables	31 December 2020	-	-	2,504	2,504
Other current financial assets	31 December 2020	-	-	245	245
<b>Liabilities for which fair values are disclosed</b>					
Borrowings	31 December 2020	-	-	72,692	72,692
Trade payables	31 December 2020	-	-	22,353	22,353
Financial guarantee obligation	31 December 2020	-	-	563	563
Due to employees	31 December 2020	-	-	3,691	3,691

### 31. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES (continued)

#### Fair values (continued)

As at 31 December 2021 and 2020, the carrying amounts of the Group's financial assets and liabilities presented as follows:

In millions of tenge	Carrying amount 31 December 2021	Fair value 31 December 2021	Unrecognised gain/(loss)	Carrying amount 31 December 2020	Fair value 31 December 2020	Unrecognised gain/(loss)
<b>Financial assets</b>						
Cash and cash equivalents	51,402	51,402	-	23,023	23,023	-
Financial assets at amortized cost	-	-	-	18,923	18,624	(299)
Short-term trade receivables	19,541	19,541	-	17,823	17,823	-
Long-term trade receivables	4,148	3,758	(390)	2,421	2,504	83
Other current financial assets	538	538	-	245	245	-
<b>Financial liabilities</b>						
Borrowings	59,982	56,289	3,693	73,287	72,692	595
Trade payables	35,705	35,705	-	22,353	22,353	-
Due to employees	4,347	4,347	-	3,691	3,691	-
<b>Total unrecognised change in unrealised fair value</b>			<b>3.303</b>			<b>379</b>

#### Valuation techniques and assumptions

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

#### Assets for which fair value approximates carrying value

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

#### Financial liabilities carried at amortised cost

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

#### Changes in liabilities arising from financial activities

Changes in liabilities arising from financial activities for 2021 were as follows:

In millions of tenge	1 January 2021	Loan obtained	New leases	Principal repaid	Interest accrued	Interest paid	Reclassification	Modifications	Cancellation of leases	Discount recognized	31 December 2021
Borrowings: non-current portion	49,933	62,500	-	(52,500)	610	-	(11,000)	-	-	(1,260)	48,283
Borrowings: current portion	23,354	-	-	(21,754)	6,548	(7,449)	11,000	-	-	-	11,699
Long-term lease liabilities	19,447	-	77	-	-	-	(5,153)	814	-	-	15,185
Short-term lease liabilities	4,219	-	-	(4,321)	2,772	(2,772)	5,153	-	(107)	-	4,944
<b>Total</b>	<b>96,953</b>	<b>62,500</b>	<b>77</b>	<b>(78,575)</b>	<b>9,930</b>	<b>(10,221)</b>	<b>-</b>	<b>814</b>	<b>(107)</b>	<b>(1,260)</b>	<b>80,111</b>

Changes in liabilities due to financial activities for 2020 were as follows:

In millions of tenge	1 January 2020	Loan obtained	New leases	Principal repaid	Interest accrued	Interest paid	Reclassification	Modifications	Cancellation of leases	Discount recognized	31 December 2020
Borrowings: non-current portion	55,548	27,000	-	(11,130)	-	-	(21,337)	-	-	(148)	49,933
Borrowings: current portion	6,384	-	-	(5,000)	8,386	(7,753)	21,337	-	-	-	23,354
Long-term lease liabilities	23,447	-	491	-	-	-	(4,371)	161	(281)	-	19,447
Short-term lease liabilities	3,606	-	-	(3,758)	3,150	(3,150)	4,371	-	-	-	4,219
<b>Total</b>	<b>88,985</b>	<b>27,000</b>	<b>491</b>	<b>(19,888)</b>	<b>11,536</b>	<b>(10,903)</b>	<b>-</b>	<b>161</b>	<b>(281)</b>	<b>(148)</b>	<b>96,953</b>



## 32. COMMITMENTS AND CONTINGENT LIABILITIES

### Operating environment

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

### Coronavirus pandemic and market conditions

The coronavirus pandemic left its mark on 2020 and continues to have impact in 2021, requiring businesses to limit or suspend operations and implement restrictions. On 1 July 2021, Ministry of Healthcare performed PCR screening and the Delta strain of COVID-19 was found in all regions and cities of Nur-Sultan, Almaty, Shymkent. Thus, on 1 July 2021 chief state sanitary doctor of the Republic of Kazakhstan introduced new decree, which obliges Akims of regions, cities of Almaty, Nur-Sultan, Shymkent, NPP "Atameken" (as agreed), national companies, heads of organisations, individuals and legal entities, regardless of the form of ownership, operating in the territory of the Republic of Kazakhstan to organize preventive vaccinations of employees with the first component by 10 August 2021 and with the second component of the COVID-19 by 1 September 2021 (except for those who have permanent medical contraindications and have recovered from COVID-19 during the last three months). Admission to full-time work of those organisations for unvaccinated employees is limited.

In November 2021 Omicron strain was first reported by World Health Organization (WHO) identified in from South Africa. Omicron multiplies around 70 times faster than previous strains, however less fatal. Omicron first was identified in Kazakhstan in the beginning of January 2022, which lead to average daily COVID-19 cases to 10,000. The Government put additional restrictions to stem the spread of the virus. Currently, only those who have been vaccinated can enter public areas such as shopping malls, entertainment venues, and indoor sports facilities.

The measures taken to contain the virus have adversely affected operations activity and disrupted many businesses resulting in significant economic downturn in the markets. As the outbreak continues to progress and evolve, it is extremely challenging to predict the full extent and duration of its impact on the Group's businesses.

Whilst the Group's business model is more resilient than many others, it is not immune to the challenges. The Group is experiencing a direct impact on roaming revenues from lower international travel and also expect economic pressures to impact customer revenues over time. However, there is significant increases in data volumes and further improvements in loyalty, as customers place greater value on the quality, speed and reliability of the Group's networks.

The Group's investments in the network infrastructure have paid off throughout the pandemic: networks were running stably even under substantially higher loads. The Group fulfilled its responsibility as an employer by introducing comprehensive rules and protective and supportive measures to help employees work from home while continuing to safeguard service for customers in parallel. At sites and in stores, the Group rolled out strict hygiene and safety measures with the support of hygiene experts. Based on information available as at 31 December 2021, the management of the Group believes that there were no impairment indicators of its long-term assets. While it is impossible to quantify the long-term impact of the coronavirus pandemic, the Group expects to see appreciable effects on the economy as a whole, while on the other, the pandemic has given a boost to the digitalisation trend, which would contribute strengthen the role of the companies in telecommunications and IT sector, and will give impetus to the development of technologies and communication networks.

### Capital commitments

The Group generally enters into contracts for the completion of construction projects and purchase of equipment. As at 31 December 2021, the Group had contractual commitments totaling 21,016 million tenge, excluding VAT (as at 31 December 2020: 4,375 million tenge, excluding VAT), which includes capital expenditures in respect to new technical regulation in the amount of 7,586 million tenge (as of 31 December 2020: 3,490 million tenge) described below.

### Taxation

Tax legislation and regulatory framework of the Republic of Kazakhstan are subject to constant changes and allow for different interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 80% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of the Republic of Kazakhstan multiplied by 1.25. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review.

Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2021. Management believes that as at 31 December 2021 its

interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained, except as provided for or otherwise disclosed in these interim condensed consolidated financial statements.

### Tax risks assessment

In the beginning of 2020, the Group performed recalculation of the tax risk provisions recognized by the Group in previous years. Accordingly, for the year ended 31 December 2020, the Group recognised reversal of provision on VAT and personal income tax in the amount of 257 million tenge and 211 million tenge, respectively. In addition, for the year ended 31 December 2020, the Group recognised income from reversal of the tax and related fines and penalties provision in the amount of 216 million tenge recognised due to expiration of the limitation period.

Also, for the year ended 31 December 2020 the Group recognized reserve on CIT expenses in the amount of 175 million tenge in the consolidated statement of comprehensive income.

### Government grant related to frequency fee

The shareholders of the Group Kazakhtelecom has submitted consolidated report on expenditures used to finance broadband projects access to the Internet in urban and rural areas included capital and operational costs that are necessary for the provision of broadband Internet access services in urban and rural settlements throughout the territory of the Republic of Kazakhstan. Management believes that there are no unfulfilled conditions or contingencies attached to these grants.

In case if, based on the results of the audited information, the fact of non-fulfillment by the telecom operator of obligations to allocate at least released funds from the reduction of the corresponding fee rate to finance broadband Internet access projects in urban and rural areas is confirmed, the authorized body in the field of communications not earlier than one year after of the year following the reporting year, recalculates the amount of the annual fee for the use of frequency fee for the reporting year, which should be proportional to the unfulfilled volume of financial obligations for this reporting year.

### New technical regulations

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

As of 31 December 2021 the Group partially implemented modernisation and expansion of license and port capacity for the total amount of 4,390 million tenge. The Group plans to complete expansion in full in 2022 and expect that total amount of capital expenditures in respect to modernisation and expansion will be equaled to 7,586 million tenge.

### Customs inspection

On 13 September 2019, the Customs Control Department ("CCD") of Almaty issued an order on initiation of custom audit in relation to the Group's operation for the period 2014-2019. CCD examines the Group's tax reporting documents for the purpose of the revealing of violations on incorrect determination of the customs value of goods and its incorrect classification. On 9 October 2019, CCD suspended the custom audit to allow the Group to prepare required documents. On 9 September 2020, the Group provided the entire package of documents requested by the CCD, which are currently being examined by the auditors of CCD. The ongoing custom audit is related to the revealing of violations of customs regulations, incorrect determination of the customs value of goods, and if violations are identified, the Group may be brought to administrative penalty and be liable to pay appropriate customs charges, including import VAT and late payment fees. On 15 October 2020 the Customs Control Department issued the notice to postpone the customs inspection of the Group for an indefinite period. The Group estimated probability of the outflow of resources embodying economic benefits as probable and accrued provision on fines and penalties in the amount of 701 million tenge (**Note 21**).

On 22 April 2021 the custom audit was resumed, and a preliminary report was issued. According to the report, the Group was charged additional VAT charge in the amount of 39 million tenge and late payment penalty in the amount of 18 million tenge. The preliminary report was reviewed by the Group.

On 29 April 2021 CCD sent a formal letter regarding the on-site customs audit performed and a notice of audit findings, instructing the Group to pay 57 million tenge and to amend the customs declarations. In pursuance of the notice, the Group paid additional tax charge and late payment penalty and amended the customs declarations.

On 28 May 2021, the Group sent a letter to the customs authority informing about fulfillment of the requirements stated in the notice. During the year ended 31 December 2021 the Group reversed unutilized part of provision in the amount of 683 million tenge, respectively (**Note 21**).

# Contacts



## **Kcell JSC**

51 Alimzhanov str.,  
Almaty 050004

## **Irina Martinez**

Investor Relations Manager

Tel.: +7 701 211 12 02



