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## **RISK MANAGEMENT AND INTERNAL CONTROL**

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## RISK MANAGEMENT SYSTEM

Kcell JSC's Corporate Risk Management System (CRMS) is an integral part of the Company's operations, designed to identify, assess, and monitor all significant risks, as well as implement measures to mitigate them.

The current risk management framework is aligned with international standards, including COSO ERM and ISO 31000, ensuring that risk oversight is systematic, comprehensive, and effective.

The primary internal document governing the Company's approach to risk is the Risk Management Policy of Kcell JSC. This policy defines the purpose, objectives, and vision of the CRMS, outlines the key principles and structure of the risk management process, and establishes a consistent methodology for its implementation across the organization.

The Board of Directors holds overall responsibility for the Company's risk governance and reports to shareholders on matters related to risk management. The CRMS is designed to provide reasonable assurance of achieving the following objectives:

- Strategic goals – supporting long-term value creation and sustainability;
- Operational goals – ensuring efficient and effective day-to-day operations;
- Reporting goals – producing reliable and timely internal and external reporting;
- Compliance goals – adhering to applicable laws, regulations, and internal policies.

In order to ensure effective functioning of the CRMS, the Company is guided, at all levels of its activities, by the following interrelated components corresponding to the business life cycle:

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

The organization structure of the Company's CRMS is multi-level and includes the following participants in the risk management process:

- Board of Directors;
- Internal Audit Committee of the Board of Directors;
- Internal Audit Service;
- Management Board;
- Risk Management Committee;
- Risk Management Unit of the Company; and
- Business units, employees of the Company and risk coordinators.

# RISK MAP

The Company conducts an annual risk identification process, the results of which are reflected in the Risk Register and Risk Map, both approved by the Board of Directors. The Risk Register includes risks that may impact the achievement of the Company's long-term strategic goals and the key performance indicators set out in the Development Plan.

In 2024, according to the Company's Risk Register and Risk Map, a total of 31 risks were identified: 1 risk in the critical red zone, 8 risks in the high orange zone, 17 risks in the medium yellow zone, and 5 risks in the low green zone:

## KCELL JSC RISK MAP IN 2024

IMPACT	Irretrievable	3	4	1		
	Material / critical		1			
	Medium / strong		6			
	Low / noticeable		3		2	
	Insignificant	1	4	3	3	
		Very occasionally	On rare occasions	Sometimes	Often	Very often
		PROBABILITY				

# DESCRIPTION OF KEY RISKS OF KCELL JSC

The Risk Management Unit conducts ongoing monitoring of the dynamics of key risks and oversees the implementation of mitigation measures. Monitoring results are submitted quarterly to the Company's Board of Directors in the form of risk management reports. The Company's key risks include:

**Strategic Risk** is defined as the potential for losses resulting from changes in, or errors in defining and implementing, the Company's business strategy and development plans, as well as from shifts in the political or regional environment, market volatility, or consumer behavior. Risk factors also include intensifying price competition driven by actions of other mobile operators or new legislation. The Company seeks to mitigate these risks by maintaining strong regional market leadership and launching competitive tariffs and products to grow its market share in Kazakhstan.

**Operational Risk** refers to the potential for losses due to shortcomings or failures in internal processes, supply chain disruptions, staffing challenges, corporate culture, or governance practices. Most of these risks are assessed as low and are addressed through standard risk management procedures already in place. An exception is the area of information systems and technologies, which the Company classifies as high risk. Safeguarding customer confidentiality and ensuring robust data management are vital to the Company's service offering. Any data breach could result in serious short- and long-term consequences for the business. In response, the Company's networks are protected by advanced information security systems and comprehensive measures designed to reduce the risk of cyberattacks.





**Financial Risks.** The Company is exposed to various financial risks arising from multiple sources, including price volatility, interest rate fluctuations, exchange rate movements, and other macro- and microeconomic factors. The risk management system is designed to minimize the potential adverse impact of these fluctuations on the Company's operations and financial performance.

**Foreign Exchange Risk.** The Company's foreign exchange risk primarily stems from fluctuations in the exchange rate of the Kazakhstani tenge against the US dollar. Although profit is less sensitive to currency fluctuations, certain revenues – such as those from roaming services – are denominated in US dollars. Additionally, the majority of equipment, installations, and inventories are purchased in this currency. The Company does not use derivative financial instruments to hedge its currency risk. Instead, it applies a “natural” hedging approach by aligning assets and liabilities denominated in foreign currencies where economically practical and feasible.

**Liquidity risk** may arise when the Company is unable to access sufficient funds in a timely manner to meet its financial obligations. This could result from a shortage of liquid assets, the inability to dispose of assets on favourable terms, or challenges in securing additional short-term financing.

As part of its liquidity risk management strategy, the Company ensures operational liquidity at minimal cost and risk through the following measures:

- Developing and regularly updating liquidity management plans that outline strategic approaches and tools to ensure timely access to financial resources;

- Diversifying funding sources to minimise reliance on any single lender or mechanism and reduce overall liquidity risk;
- Proactively managing receivables and payables to improve cash flow efficiency and optimise the working capital cycle.

Effective liquidity risk management enables the Company to avoid potential financial disruptions and maintain operational resilience amid volatile financial market conditions.

**Regulatory Risks** arise from changes in the regulatory environment in which the Company operates, including legislative amendments, shifts in the regulation of natural monopolies, and government-imposed restrictions (e.g. sanctions, anti-dumping regulations, and changes in tax policy). Managing regulatory risk involves a set of proactive measures to minimize potential adverse impacts, including: identifying and analyzing relevant regulatory requirements; developing and implementing risk mitigation strategies; updating internal procedures and policies accordingly; responding promptly to legislative changes.

Effective regulatory risk management requires continuous monitoring and analysis, the ability to adapt quickly to new legal requirements, and close collaboration across all levels of the Company and with shareholders to ensure compliance and adherence to all applicable standards and regulations.

# INTERNAL CONTROL SYSTEM

Kcell JSC has implemented an Internal Control Policy that defines the objectives, tasks, and structure of the Company's internal control system (ICS), as well as the key principles for its operation. Based on this policy, the Company has also developed Internal Control System Management Rules, which outline the main objectives, responsibilities, and areas of accountability for the ICS. These rules were developed in accordance with the COSO framework and other international best practices in risk and internal control management.

The internal control model at Kcell JSC consists of five interrelated components: Control environment, Risk assessment, Control activities, Information and communication, and Monitoring. These five components are illustrated in Figure 1. For the internal control system to be effective, all components must be clearly defined and consistently applied across the Company's operations.

As part of the Company's internal control system, the responsible structural unit oversees the development and, when necessary, the updating of the business process classifier, the identification of key business processes, and the documentation of control procedures. This is followed by the identification of process-level risks, the development of appropriate control procedures to address those risks, and the evaluation of both the design and operational effectiveness of the controls through testing.

Annual testing plans for the effectiveness of control procedures are approved by the responsible structural unit. Kcell JSC has developed risk and control matrices covering areas such as inventory accounting, tax accounting, incoming and outgoing payments, and procurement, along with a dedicated action plan for the internal control system.

