

**2018**

# **ANNUAL SUSTAINABILITY REPORT**

**BAKCELL GROUP**



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SUSTAINABILITY  
REPORT**

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# Content

List of Tables	4
List of Figures	5
List of Acronyms and Abbreviations	6
Message from the CEO	8
Bakcell at a Glance	10
<b>1. Reporting Scope and Boundaries</b>	<b>14</b>
1.1 Report content and methodology	15
1.2 Materiality analysis	15
1.2.1 Stakeholder engagement	17
1.2.2 Alignment to the Sustainable Development Goals	19
<b>2. Group Overview</b>	<b>26</b>
2.1 Group profile	27
2.2 Mission, vision and values	28
<b>3. Our Purpose</b>	<b>33</b>
3.1 Group strategy	33
3.1.1 Outlook	35
3.2 Innovation and digital inclusion	35
3.3 Value creation and re-defining our value proposition	39
3.3.1 Business model and value chain	39
3.3.2 Product development	40
3.3.3 Procurement	41
3.4 Corporate governance	43
3.4.1 Corporate governance statement	43
3.4.2 Governance principles and organizational structure	44
3.4.3 Internal control over business processes and reporting	45
3.4.4 General Meeting	46
3.4.5 Board of Directors	46
3.4.6 Remuneration	46
3.4.7 Committees	47
3.4.8 Ethics, transparency and anti-corruption	47
3.4.9 Risk and Business Continuity Management	49

<b>4.</b>	<b>Progress</b>	<b>55</b>
4.1.	Privacy and cyber security	55
4.2.	Responsible marketing	56
4.3.	Management discussion and analysis	57
4.3.1	Market analysis and business segment	57
4.3.2	Financial performance	58
4.4.	Environmental performance	62
4.4.1	Energy and climate change	62
4.4.2	Water and waste management	63
<b>5.</b>	<b>People</b>	<b>67</b>
5.1.	Responsible employer	68
5.1.1	Talent management and development	68
5.1.2	Diversity and inclusiveness	71
5.1.3	Women’s empowerment	72
5.1.4	Health and safety	73
5.2.	Impact on society	74
5.2.1	Economic and social impact	74
5.2.2	Human rights management	74
<b>6.</b>	<b>Group Entities</b>	<b>78</b>
6.1.	Bakcell	80
6.1.1	Five years in brief	80
6.1.2	Corporate governance	81
6.1.3	Connectivity and digital access	81
6.1.4	Network coverage and reliability	82
6.1.5	Service quality and customer experience	84
6.1.6	Awards and recognitions	89
6.1.7	Associations and external initiatives	89
6.1.8	Objectives	90
6.1.9	Community engagement	90
6.2	AzerTelecom	95
6.3	AzerConnect	97
<b>7.</b>	<b>Closing Remarks</b>	<b>101</b>
	Report Disclaimer	102
	GRI Content Index	103

## List of Tables

- Table 1. Highly material topic KPIs and topic boundaries
- Table 2. Bakcell Group's stakeholder engagement mechanism
- Table 3. Mapping of Bakcell Group's highly material topics with the SDGs
- Table 4. The Sustainable Development Goals prioritized by Bakcell Group
- Table 5. Six capitals of Bakcell Group and their interpretation
- Table 6. Procurement improvement progress of Bakcell Group as of 2018
- Table 7. Annual total compensation ratio at Bakcell Group
- Table 8. Profitability indicators of Bakcell Group
- Table 9. Liquidity indicators of Bakcell Group
- Table 10. Bakcell Group's Smart Enabler strategy
- Table 11. Energy consumption by source
- Table 12. Energy intensity ratios
- Table 13. GHG emissions at Bakcell Group
- Table 14. Water consumption at Bakcell Group
- Table 15. Statistics of hired and dismissed employees, by gender
- Table 16. Statistics of hired and dismissed employees, by age
- Table 17. Employee turnover rate, %
- Table 18. Total number of employees by vulnerable groups
- Table 19. OHS expenditures, in thousand AZN
- Table 20. Bakcell Group's Human Rights Commitments
- Table 21. Network infrastructure of Bakcell
- Table 22. Connectivity key performance indicators of Bakcell
- Table 23. Network improvement indicators of Bakcell
- Table 24. Customer demographics of Bakcell
- Table 25. Customer relationship metrics at Bakcell
- Table 26. M2M projects of Bakcell
- Table 27. Community investments of Bakcell for the past three years
- Table 28. Bakcell Stars CSR projects during the reporting period

## List of Figures

- Figure 1. Bakcell Group's material topics
- Figure 2. Bakcell Group's strategic priorities
- Figure 3. Most successful mobile applications developed at AppLab
- Figure 4. Bakcell Group's value chain model
- Figure 5. Procurement Improvement Roadmap of Bakcell Group
- Figure 6. Standard entry-level wage to local minimum wage ratio at Bakcell Group
- Figure 7. Zero Tolerance on Fraud and Corruption Project Schedule
- Figure 8. Major risk groups of Bakcell Group and respective mitigation plans
- Figure 9. Value marketing at Bakcell Group
- Figure 10. Global mobile data traffic trend
- Figure 11. Trend of voice and data services' share in ICT industry of Azerbaijan
- Figure 12. GDP contribution of ICT industry in Azerbaijan
- Figure 13. Number of employees, by gender
- Figure 14. Number of employees, by age
- Figure 15. Employment categories of Bakcell Group, by gender
- Figure 16. Share of male and female employees at Bakcell Group during the reporting period
- Figure 17. Azerbaijan's Fastest Mobile Network Award from Ookla
- Figure 18. 'Ulduzum' loyalty program's main performance indicators
- Figure 19. Bakcell 'Ulduzum' mobile application services
- Figure 20. Future customer service digitalization projects of Bakcell
- Figure 21. Roaming network coverage of Bakcell

## List of Acronyms and Abbreviations

<b>AI</b>	Artificial Intelligence
<b>APN</b>	Access Point Name
<b>AR</b>	Augmented Reality
<b>ATM</b>	Automated Teller Machine
<b>AZN</b>	Azerbaijani Manat
<b>B2B</b>	Business to Business
<b>B2C</b>	Business to Consumer
<b>BTS</b>	Base Transceiver Station
<b>CEM</b>	Customer Experience Management
<b>CIS</b>	Commonwealth of Independent States
<b>CSPS</b>	Center for Social and Psychological Studies
<b>CSR</b>	Corporate Social Responsibility
<b>CVM</b>	Customer Value Management
<b>CX</b>	Customer Experience
<b>DDOS</b>	Distributed Denial of Service
<b>E2E</b>	End-to-End
<b>EMS</b>	Environmental Management System
<b>FTTH</b>	Fiber to the Home
<b>FTTX</b>	Fiber to the X
<b>GDP</b>	Gross Domestic Product
<b>GHG</b>	Greenhouse Gas Emissions
<b>GSMA</b>	GSM Association
<b>HRMIS</b>	Human Resource Management Information System
<b>HSE</b>	Health Safety and Environment
<b>ICT</b>	Information and Communications Technology
<b>IFRS</b>	International Financial Reporting Standards
<b>IOT</b>	Internet of Things
<b>IR</b>	Integrated Reporting
<b>IT</b>	Information Technology
<b>IVR</b>	Interactive Voice Response
<b>KPI</b>	Key Performance Indicator
<b>LLC</b>	Limited Liability Company
<b>LTE</b>	Long-Term Evolution
<b>M2M</b>	Machine to Machine
<b>MTTD</b>	Mean Time to Detect
<b>MNO</b>	Mobile Network Operator
<b>MNP</b>	Mobile Number Portability
<b>MTTR</b>	Mean Time to Resolve
<b>NGO</b>	Non-Government Organization
<b>NOC</b>	Network Operations Center
<b>OHS</b>	Occupational Health and Safety
<b>OTT</b>	Over-the-Top



<b>PPE</b>	Personal Protective Equipment
<b>QMS</b>	Queue Management System
<b>RFP</b>	Request for Proposal
<b>ROI</b>	Return on Investment
<b>SDG</b>	Sustainable Development Goal
<b>SIP</b>	Session Initiation Protocol
<b>SMS</b>	Short Message Service
<b>SROI</b>	Social Return on Investment
<b>TC</b>	Terms and Conditions
<b>TTM</b>	Time-to-Market
<b>UN</b>	United Nations
<b>VOD</b>	Video-on-Demand
<b>VPN</b>	Virtual Private Network
<b>WFM</b>	Workforce Management

## Message from the CEO

Dear Reader,

Our world is undergoing unprecedented changes as the global communities unite in pursuing ambitious solutions to significant global challenges. Against this backdrop, the telecommunications industry – being the main global connectivity enabler – must meet stakeholder expectations for compliance with increased regulatory and other standards linked to sustainability principles. As a manifestation of our responsibility and commitment, I am pleased to introduce the **first Annual Sustainability Report of Bakcell Group to our stakeholders**. This Report is a big step towards embedding sustainability into our business and value chain. We aspire to drive positive transformation in the region by narrowing digital disparity and ensuring that everyone’s voice is heard.



Let me start first with a big thank you to all our customers who are the loyal base of our business.

**Recent years have been marked as a period when we learned and still learn about the possibilities, but also the challenges of the internet and digitalization not only in the world, but also of course, in Azerbaijan.**

A number of reforms and initiatives have been introduced in the country to stimulate digitalization and technological transformation both in the private and public sectors. We strongly acknowledge our role in achieving strategic national targets, hence our commitment to the national development vision is integrated into our Business Strategy.

**One of the most noteworthy achievements was the launch of “Azerbaijan Digital Hub” program in early 2019 by AzerTelecom International<sup>1</sup>, the backbone internet provider of the Group, connecting Azerbaijan to the global network.** The program is aimed at transforming Azerbaijan into a regional digital hub. The main objective of “Azerbaijan Digital Hub” program is to raise the telecommunications ecosystem of Azerbaijan to the most advanced standards, to minimize the dependence of the country on the purchasing of internet from abroad, and to transform Azerbaijan from a country importing digital services into a country that produces and exports these services to the neighboring regions under the brand name “Made in Azerbaijan”.

**“Azerbaijan Digital Hub” program has important advantages for our country.** Along with the above-mentioned, there will be new opportunities for the national economy without the involvement of public investment, a digital logistics center will be established in the region, and the program will contribute to the digital economy by stimulating investment in the non-oil sector, giving a strong impetus to its development.

**We are proud that Bakcell Group is a pioneer in providing telecommunications services in Azerbaijan.** While entering the market we enabled local communities to connect and communicate much faster than before. Since its establishment, our Group has been at the forefront of technological innovations aiming to bring the most up-to-date and modern solutions to its customers.

**Managing through the challenging 2015 and 2016, we continued to successfully meet our business objectives.** Thanks to the diversity of our services and loyal customer base, our profit margin shrank slightly in the crisis, but recovered fast.

**Ecosystem where we operate is complex and evolves at a rate never observed before.** In these times of fast changes, we adjust to what our customers teach us: they decide how they want to use these ecosystems and we have to provide our services accordingly.

**At the same time, we acknowledge challenges that are concomitant with digitalization and technological development.** To maintain a competitive edge, constant investment in IT and connectivity infrastructure is required, which in turn involves financial outlays. In 2017, we initiated a major restructuring of our organization by outsourcing all support functions to our service subsidiary, while leaving only commercial functions for our mobile operator and internet provider businesses. This allowed us wider room for strengthening and investing in our core services and innovations.

**Looking back, I would say that recent years have been clearly productive and successful for Bakcell Group.** Our investments in broadband quality and speed resulted in continuous growth. In 2018, more than 800 new LTE stations were launched, almost 300 of which were located in the regions of Azerbaijan. Bakcell currently provides the best quality 4G services through the biggest LTE network in the country with more than 1,700 LTE stations. These figures are in line with our strategy to enable connectivity in all regions of Azerbaijan. We are pleased to observe that we are already reaping the benefits of this strategy, since in 2018, Bakcell successfully passed the speed test and was rewarded with Ookla certification as the Fastest Mobile Internet Provider in Azerbaijan.

**At Bakcell Group, we have a team of professionals who constantly work together to ensure that the right solutions are offered to the customers, which is the reason why our products gain quick popularity among customers.** The year of 2018 was remarkable, as we launched My Bakcell - the first digital self-care application in the market, which further cemented Bakcell's position as an innovation leader.

**At Bakcell Group we are all committed to preserving long-term value for our business and community where we operate.** In addition, we are ambitious to drive positive changes in the business community by being and acting as a responsible citizen. In our operations and decisions we are guided by the Global 2030 Agenda for Sustainable Development Goals (SDGs), and are committed to contribute more to the SDGs in the future. By providing enriched connectivity, I believe we foster opportunities for all social groups, in particular by empowering women and the underprivileged who need it the most.

**As a leading telecommunications services provider, we constantly work on improving all areas of our business – from products to processes and productivity.** Therefore, we will continue researching the market to learn the exact needs and demands of all the customer segments. Bakcell Group will continue bringing renewed, convenient, and exciting solutions, tariffs, products, and services to the modern users of communications both in retail and corporate sectors. Our ambition is to meet consumer expectations by making our services even more convenient and valuable.

Finally, **I would like to express my gratitude to everyone who is part of our Group's big family.** Without these people, none of these achievements would be possible. This journey is much more rewarding when you walk it together with enthusiastic and committed people. We will stay customer focused and energetic.

**Rainer Rathgeber**



**CEO of Bakcell Group**

## Bakcell Group at a Glance

### WHO WE ARE

We are the leading telecommunications service provider in Azerbaijan. We provide services connecting 99% of the population of Azerbaijan to communicate, do business and be entertained.

 **1338**  
employees  
of which 41% are women



### OUR VALUES

Innovation                      Customer commitment  
Accessibility                    National identity

 **99%**  
of the population  
covered

### WHAT WE DO


We provide

-  Mobile voice and data
-  High tech IT solutions
-  Fixed voice and data
-  Backbone internet

 **160%**  
growth  
in 4G enabled customers

### Our coverage

99% of the population  
99.7% of the land area of Azerbaijan (excluding occupied territories)

 "Azerbaijan Digital Hub"  
project launched

# 1<sup>st</sup>

- Digital self-care on the market
- Blockchain integration hackathon in the country
- Mobile residency in the world
- 4G service in Baku subway
- Record-breaking speed of up to 1 Gbps with 4.5G Pro
- HD Voice Technology in the country
- Internet package sharing among Bakcell subscribers

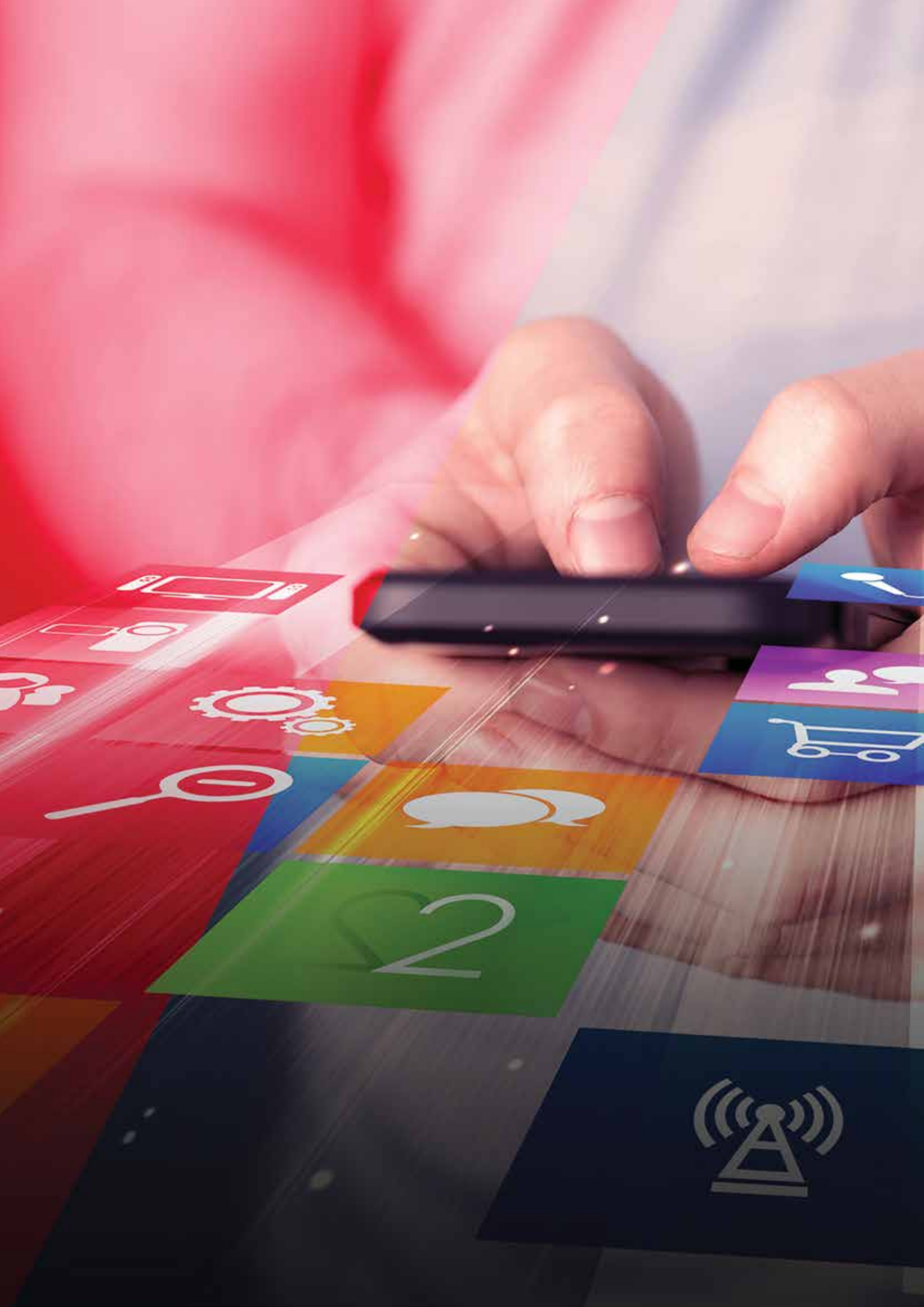


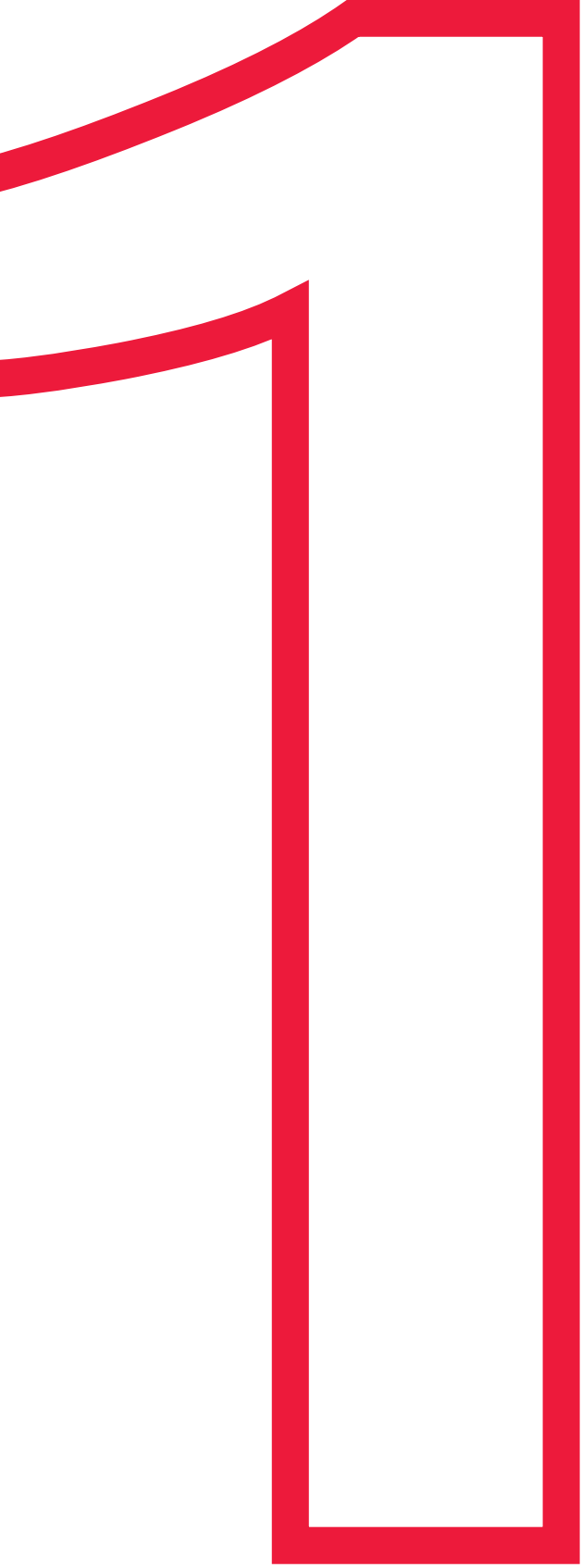
# To a better future with innovation in reaching new horizons...

## **“Azerbaijan Digital Hub” program launched to transform Azerbaijan into a regional digital center**

The main objective of the “Azerbaijan Digital Hub” program is to raise the telecommunication ecosystem of Azerbaijan to the most advanced world standards, to minimize the dependence of the country on foreign countries in the purchase of internet, and to transform Azerbaijan from a digital services importing country into a country that produces and exports these services to the neighboring regions under the brand “Made in Azerbaijan”.

As a result of the implementation of the “Azerbaijan Digital Hub” program, the major fiber-optic networks in the North-South, East-West directions will be intersected in Azerbaijan. In addition to the intersection of the world’s global transit backbone networks in Azerbaijan, the largest Data Center in the region will also be established in Azerbaijan. Together with Azerbaijan Railways CJSC, AzerTelecom has started the construction of new sustainable backbone fiber-optic cable infrastructure along the protection zone of the railway line in the country and relevant investments have been made. This will allow the backbone lines in the East-West and North-South directions to intersect in Azerbaijan.





# REPORTING SCOPE AND BOUNDARIES



# 1. Reporting Scope and Boundaries



*Being transparent about our ambitions and how we measure, manage and integrate our priorities into our business is an important part of our reporting process.*

## 1.1. Report content and methodology

Society's interest in sustainability continues to grow, with existing and prospective stakeholders increasingly interested in learning how **Bakcell Group** (hereinafter, the Group) is delivering value. Our ambition is to provide all our stakeholders with accurate, timely, reliable, comparable and balanced information on all our sustainability activities, which is why we have committed to publishing our first Annual Sustainability Report (hereinafter, the Report).

This Report covers the calendar years 2016, 2017 and 2018, and encompasses the economic, social, and environmental performance of **Bakcell Group** during this period. For the purposes of this Report, the Group refers to **Bakcell** – the first mobile operator and leading mobile internet provider in Azerbaijan, **AzerTelecom** – backbone internet provider that connects Azerbaijan to the global internet network, and **AzerConnect** – corporation providing diversified services and solutions in the field of telecommunications and IT in Azerbaijan. Since Bakcell is the parent company and the biggest entity of the Group – most of the information and disclosures presented in the Report pertain to Bakcell, and are given in a greater detail than those for subsidiaries. Disclosures pertaining to the Group are presented in the first part of the Report and entail materiality analysis, SDGs progress, group structure and governance, mission and vision, environmental and economic performance, and people management. Disclosures pertaining solely to Bakcell, AzerTelecom and AzerConnect are presented subsequently in section 6. We have also touched upon some major corporate events and achievements outside of the reporting period, due to this being our first Report. The “Core” level of Global Reporting Initiative (GRI) Standards, ESG Guidelines of London Stock Exchange, Dow Jones Sustainability Index, and industry guidelines set by GSMA and ITU have all been considered during the preparation of the Report. We apply the precautionary approach

to sustainability, not using the lack of full scientific certainty of environmental threats as an excuse for not addressing them.

## 1.2. Materiality analysis

We are operating in an environment that is constantly evolving and changing. Materiality helps us identify and prioritize the issues that matter most to us and to our stakeholders. An issue is material to Bakcell Group if it meets two conditions. Firstly, it impacts our businesses in terms of growth, risk or reputation. Secondly, it is important to our stakeholders – such as our customers, employees, investors, NGOs, suppliers or the government. In determining if an issue is material, we also consider whether it aligns with our values, vision, mission, and its potential impact on our value chain.

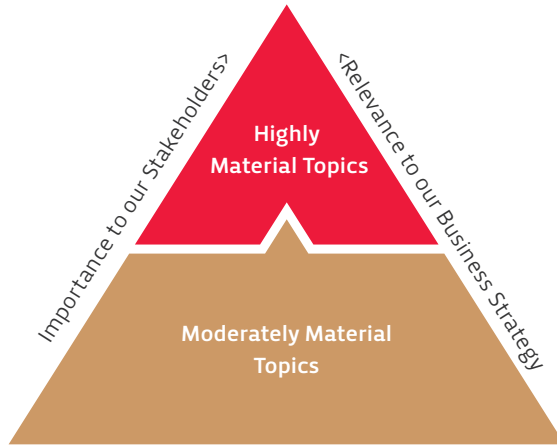
Despite the fact that no formal stakeholder consultation process has been set in motion yet, an in-depth analysis has been carried out to identify the most material issues pertaining to our Group, including a thorough analysis of the global and local telecommunications industry, material topics of peer companies and a broad media review. We are aware that a formal consultation process is crucial for the objectivity and completeness of the materiality analysis, and therefore are planning to engage our stakeholders for the identification of material topics in the upcoming reporting periods.

The following figure demonstrates the material topics that we have identified as a result of our materiality analysis.

Figure 1. Bakcell Group’s material topics

**Highly Material Topics**

- Ethical governance
- Transparency and reporting
- Risks and opportunities management
- Innovation and development
- Information security
- Privacy protection
- Cyber security
- Network quality and expansion
- Customer relationships
- Equal opportunity employment
- Gender equality
- Development of human capital
- Energy and climate change
- E-waste



**Moderately Material Topics**

- Low carbon equipment
- Economic impact valuation
- Social innovation
- Electromagnetic fields
- Mobile phones and health
- Digital inclusion
- Responsible marketing
- Board compensation and independence
- Impact on biodiversity
- ICT and child safety
- Supply chain sustainability
- Water management
- Human rights management

For each highly material topic that we have identified, we have described the relevant KPIs, reporting scope and topic boundaries both inside and outside of our Group.

Table 1. Highly material topic KPIs and topic boundaries

Material Topic	KPIs	Topic Boundary
Ethical governance	Number of investigations and disciplinary actions arising from any breach of the Code of Conduct	<b>Internal:</b> All business units of the Group <b>External:</b> Government, employees, local communities, suppliers, customers
Transparency and reporting	Number of fraud and corruption cases	<b>Internal:</b> All business units of the Group <b>External:</b> Government, local communities, suppliers, customers
Innovation and development	ROI on new products introduced to the market	<b>Internal:</b> All business units of the Group <b>External:</b> Customers, suppliers, local communities
Information security	Mean time to detect (MTTD) Mean time to resolve (MTTR)	<b>Internal:</b> All business units of the Group <b>External:</b> Customers, suppliers, employees
Privacy protection	Number of complaints received regarding data privacy violation	<b>Internal:</b> All business units of the Group <b>External:</b> Customers, suppliers, employees
Cyber safety	Number of programs and projects relating to safety initiatives	<b>Internal:</b> All business units of the Group <b>External:</b> Customers, suppliers, employees





Material Topic	KPIs	Topic Boundary
<b>Network quality and expansion</b>	Population coverage and network quality metrics	<b>Internal:</b> All business units of the Group <b>External:</b> Customers, government, regulators, local communities
<b>Customer relationships</b>	Net Promoter Score	<b>Internal:</b> All business units of the Group <b>External:</b> Customers
<b>Equal opportunity employment</b>	Share of special needs employees in the workforce	<b>Internal:</b> All business units of the Group <b>External:</b> Local communities from which we hire
<b>Development of human capital</b>	Number of training hours conducted during the year per each employee category, by gender	<b>Internal:</b> All business units of the Group <b>External:</b> Local communities from which we hire
<b>Energy and climate change</b>	Energy consumption of network, offices, buildings and vehicles	<b>Internal:</b> All business units of the Group <b>External:</b> Broader society through impacts of climate change
<b>E-waste</b>	Number of collected and recycled devices	<b>Internal:</b> All business units of the Group <b>External:</b> Broader society through environmental impact
<b>Gender equality</b>	Share of female employees in management positions	<b>Internal:</b> All business units of the Group <b>External:</b> Local communities from which we hire
<b>Risks and opportunities management</b>	Cycle time from the discovery of a control deficiency to a risk acceptance decision	<b>Internal:</b> All business units of the Group <b>External:</b> Government, employees, local communities, suppliers, customers




### 1.2.1. Stakeholder engagement

To be able to fulfill our mission of becoming a trusted and transparent corporate citizen, we strive to engage a wide array of stakeholders to gain their input and insights, as well as to share knowledge and expertise. We recognize that to run our Group successfully and sustainably, we must build a constructive dialogue with our stakeholders. In various forms of communication with our stakeholders, we evaluate the relevance of sustainability topics, thereby establishing solid objectives and identifying opportunities for further development. Through this continuous dialogue we also gain insights that enable us to align our sustainability initiatives to the requirements of our stakeholders, hence ensuring the value we deliver to society.

Below are the main groups of stakeholders that we have identified, including a brief description of why they are important to us and how we engage them.

**Table 2. Bakcell Group’s stakeholder engagement mechanism**

Stakeholder group	Why they are important to us	How we engage them	Frequency of engagement
 <p><b>Government and supervisory authorities</b></p>	<p>Given the scale of our operations and significance in the industry, we shape the market and play a crucial role in the economy. We are also under direct jurisdiction of the Ministry of Communications and High Technologies of Azerbaijan.</p>	<p>Press conferences Seminars Ministry reports Membership meetings and events</p>	<p>On an as-needed basis</p>
 <p><b>Customers</b></p>	<p>Our customers are the focus of everything that we do as a business. Through our customers we ultimately create value for society and the economy.</p>	<p>Customer portal Customer care centers Contact Centers Customer surveys Dealer shops SMS communication</p>	<p>On a daily, weekly, monthly, quarterly, or annual basis, depending on the engagement channel</p>
 <p><b>Employees</b></p>	<p>Our people are essential to our Group. We deem it a priority to nurture the potential of our employees by offering them learning and development opportunities, and by providing concise feedback on their performance criteria.</p>	<p>Training programs Employee grievance mechanism Intranet portal One-to-one meetings Group meetings Employee surveys</p>	<p>On an as-needed, quarterly, or annual basis, depending on the engagement channel</p>
 <p><b>Suppliers</b></p>	<p>We rely on our suppliers to support us in the smooth delivery of our operations. It is important therefore to make relationships with our suppliers mutually beneficial.</p>	<p>Supplier assessment One-to-one meetings Verbal and written correspondence</p>	<p>On an as-needed, monthly, quarterly, or annual basis, depending on the engagement channel</p>

Stakeholder group	Why they are important to us	How we engage them	Frequency of engagement
 <p><b>Shareholders and investors</b></p>	<p>The foundation of our relationship with the shareholders is built on effective and transparent communication. Our aim is to create value for our shareholders by being a robust and sustainable business with a demonstrated strong leadership and commitment to success.</p>	<p>Annual General Meetings Reports</p>	<p>On a weekly, monthly, quarterly, or annual basis, depending on the engagement channel</p>
 <p><b>Local communities and NGOs</b></p>	<p>One of our biggest commitments as a responsible corporate citizen is to nurture and develop local communities. We therefore continually seek to maximize the positive impact that our business has on society.</p>	<p>CSR programs Collaboration with NGOs One-to-one meetings Conferences Seminars Webinars</p>	<p>On an as-needed basis</p>
 <p><b>Media</b></p>	<p>Media is a key supplier of information to the public and plays an important role in shaping public opinion. It's therefore crucial for us to supply media representatives with transparent and accurate information about our activities and events that may be of public interest.</p>	<p>Press conferences Press releases Seminars Verbal and written correspondence</p>	<p>On an as-needed basis</p>

### 1.2.2. Alignment to the Sustainable Development Goals

The Sustainable Development Goals (SDGs) adopted by the UN member states, set out a series of global ambitions to end poverty, fight inequality and injustice, and tackle climate change by 2030. We believe that committing to a credible international sustainability framework like the 2030 Agenda is a major element of being a responsible and sustainable corporate citizen.

The telecommunications industry is an enabler across almost all of the SDGs. There are opportunities for innovation and market development, and technology can play an important role in solving most of the challenges outlined in the SDGs. Expanding access to basic technology services is the most direct opportunity

for the industry, contributing to enhanced connectivity, creating a platform to hear everybody’s voice, to raise awareness about acute environmental and social problems, and much more.

To determine our impact area, we undertook a mapping exercise to show the alignment between our highly material topics (please refer to the “Materiality Analysis” section) and the SDGs. This exercise helps us draw insights into where our activities are best placed and most able to contribute, both directly and indirectly, towards meeting the objectives of the SDGs.

**Table 3. Mapping of Bakcell Group’s highly material topics with the SDGs**

SDG	SDG 1	SDG 2	SDG 3	SDG 4	SDG 5	SDG 6	SDG 7	SDG 8	SDG 9	SDG 10	SDG 11	SDG 12	SDG 13	SDG 14	SDG 15	SDG 16	SDG 17
<b>Economic</b>																	
Ethical governance								●								●	●
Transparency and reporting								●								●	●
Risks and opportunities management																●	●
Innovation and development	●				●				●	●	●						●
Network quality and expansion	●			●					●		●						●
<b>Social</b>																	
Information security									●			●					●
Privacy protection								●	●			●					●
Cyber security			●						●			●					●
Customer relationships								●									●
Gender equality	●				●			●		●							●
Equal opportunity employment	●	●			●			●		●							●
Development of human capital	●	●		●				●		●							●
<b>Environmental</b>																	
Energy and climate change							●					●	●				●
E-waste						●			●		●	●					

Although we acknowledge that we have a role to play for all of the 17 SDGs, we estimate that we exercise the biggest multiplier impact on four of them, which we have accordingly prioritized, as demonstrated in **Table 4**.

**Table 4. The Sustainable Development Goals prioritized by Bakcell Group**

SDG	Targets prioritized by the Government of Azerbaijan	Examples of our activities	Discussed in
	<p><b>4.3.</b> By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university.</p> <p><b>4.4.</b> By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocation skills, for employment, decent jobs and entrepreneurship.</p>	<p>“Smart Start” internship program  “Communication through art” project  “Edu-bus” 2018 – 2018 projects  Training programs for our employees  Signing of MoU with the Ministry of Education  Signing of MoU with the Western Caspian University  TOPs – improving physical and mental fitness of school-age children</p>	<p>“People”</p>
	<p><b>5.1.</b> End all forms of discrimination against all women and girls everywhere.</p> <p><b>5.5.</b> Ensure women’s full participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life.</p>	<p>Support for women’s social development in Sabirabad and Salyan  Driving empowerment of our female employees</p>	<p>“People”</p>
	<p><b>8.2.</b> Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labor-intensive sectors.</p> <p><b>8.5.</b> By 2030, achieve full and productive employment and decent work for all women and men, including young people and persons with disabilities, and equal pay for work of equal value.</p>	<p>“Azerbaijan Digital Hub” program  “Start and Improve your Business” project  “People with Disabilities in the World of Work” conference  “Development and Career Center for Youth” project</p>	<p>“People”  “Innovation and digital inclusion”</p>
	<p><b>9.C.</b> Significantly increase access to information and communications technology, and strive to provide universal and affordable access to the internet.</p> <p><b>9.5.</b> Enhance scientific research, upgrade the technological capabilities of industrial sectors in all countries by 2030, encouraging innovation and substantially increasing the number of research and development workers per 1 million people, and public and private research and development spending.</p>	<p>“Azerbaijan Digital Hub” program  Rehabilitation Academy  “Global Goals” radio show  International Coastal Cleanup Day  AppLab project</p>	<p>“Progress”  “People”  “Innovation and digital inclusion”</p>

One of the most large-scale initiatives that we have launched is the “Azerbaijan Digital Hub” project, which entails transforming Azerbaijan into a regional digital center. We strongly believe that within the framework of the project, new jobs will be created in the digital field, new opportunities will be created for the prevention of the outflow of intellectual capital from the country, and a favorable ecosystem will be formed for the development of startups and their stay in Azerbaijan. Not only this will accelerate the achievement of targets for **SDG9** (Industry, Innovation and Infrastructure) and **SDG8** (Decent Work and Economic Growth), but the project also has the potential for positively impacting other SDGs. Digital technology can help integrate renewable energy sources and digitize manufacturing processes thus promoting resource efficiency, hence effectively achieve relevant targets of **SDG7** (Affordable and Clean Energy). Additionally, combination of digital connectivity, data and citizen knowledge generates opportunities for public services to become better adapted to the needs of populations, which falls directly under **SDG11** (Sustainable Cities and Communities). In the long-run, digitalization of national economy will lead to the prosperity and welfare of the population, and will contribute to the reduction of negative impacts on the environment and ecosystems in general – and this remains our ultimate objective.

Starting from 2018, Bakcell Group is also the official supporter of the weekly “Global Goals” program, produced by ASAN Radio and the United Nations office in Azerbaijan. The main purpose of this radio-program is to increase awareness about the SDGs, and provide information about the projects implemented to achieve the 2030 Agenda, as well as on the duties and responsibilities of various institutions and citizens.

It’s imperative for us to demonstrate our commitment to the Global Agenda as one of the leading companies in the local communications industry, to align with both the local and global Sustainability Agenda. For this reason, Bakcell Group will continue its efforts to design and support initiatives to achieve the Agenda, expanding our impact area to cover more SDGs apart from those already prioritized by us.

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Our future perspective on the SDGs includes a closer alignment with our highly material topics, including a more comprehensive approach to the SDGs covering environmental topics (Goals 13, 14 and 15) and issues pertaining to responsible consumption (Goals 6, 7 and 12).



Two women in red dresses are standing at a trade show booth. The woman on the left is partially visible, and the woman on the right is smiling and looking towards the right. They are both wearing lanyards with ID badges. The woman on the right is holding a smartphone. The booth has a white background with the Bakcell logo and app information.

 bakcell



Mənim  
Bakcellim



# To a better future with innovation in digitalization...

## **Bakcell issued mobile residency for the first time in the world**

In 2018, Bakcell issued a mobile residency for the first time in the world during the second Digital Hub Conference.

M-residency is a significant innovative tool aimed at improving the investment climate in the country, greatly simplifying business, increasing investment attractiveness and providing easy, fast and reliable services to foreign investors and businesses willing to conduct business in Azerbaijan. M-residency allows registering company online, carrying out tax and customs transactions online, using electronic and mobile banking services, and signing contracts online without visiting the country.

All diplomatic missions and consulates of Azerbaijan are empowered to issue m-residency, Asan İmza (easy signature) digital signature electronic certificates to foreign citizens around the globe.





# GROUP OVERVIEW

## 2. Group Overview



*We are honored that for over 20 years, we have been part of your everyday lives – from your simplest routines to your social celebrations, connecting families and loved ones.*

### 2.1. Group profile

Bakcell Group comprises six entities all operating in the telecommunications industry and providing a wide range of telecommunications services both to B2C and B2B clients. Those entities are Bakcell – the parent of the Group, and the subsidiaries, namely – AzerTelecom, AzerConnect, ULTEL, CNC.AZ, DataPlus and Global Networks.

For the purposes of this Report, Bakcell Group entails Bakcell, AzerTelecom and AzerConnect. The remaining entities are outside the scope of this Report due to smaller scale of operations.

**Bakcell** is the first company to provide mobile communications services in Azerbaijan. Being the leader in innovation and one of the largest investors in the non-oil sector of the economy of Azerbaijan, Bakcell provides a wide range of high-quality modern telecommunication (voice and mobile internet) services to more than three million customers.

**AzerTelecom** is the Internet backbone provider connecting Azerbaijan to the Global Internet Network. The company was established in 2008, and provides the country with a high level and quality internet and other telecommunication services.

**AzerConnect** provides different services and solutions in the fields of telecommunications and IT in Azerbaijan. With an experienced and qualified staff comprising more than 1000 specialists, AzerConnect continues providing reliable and efficient solutions and high-class services.

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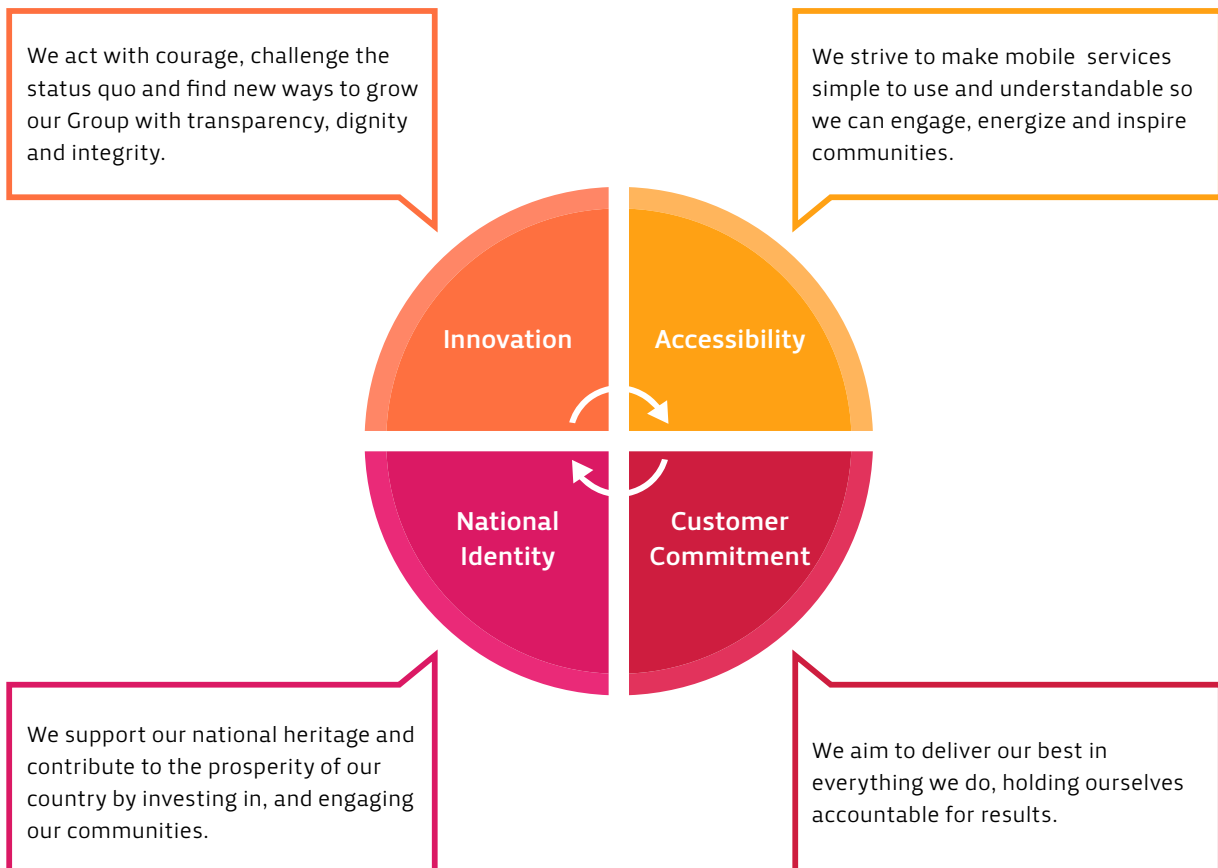
**Bakcell Group's aim is to improve consumer's experience and help businesses succeed in this digital world.**

## 2.2. Mission, vision and values

Telecommunications facilitates growth, provides access for people, and thus helps combat poverty. Telecommunications is not an end in itself, but rather a means allowing people to access what they need, economically and socially. We develop competitive products and services, and it is with these that we build lasting relations with our customers. In the end, by bringing together the best of everything from the offer to the relationship, we aim to become the customers' preferred choice. It is these aspirations that we have reflected in our vision, and mission statements, as can be seen below.



Our culture is defined by our values. These values, outlined below, serve as a guide to our day to day behavior and drive decisions on all levels of our Group.



## Our purpose

- Ensuring that customer expectations are consistently met by enhancing existing services and investing in research and development
- Stabilizing our brand recognition as a prestigious and trustworthy telecommunications service provider
- Maximizing shareholder value by demonstrating positive trends in our performance indicators
- Making Bakcell Group the top choice employer
- Minimizing our negative impact on community health and safety
- Contributing to community development by narrowing the digital divide and empowering society

We remain focused on continuing to improve our connectivity and internet services, securing additional spectrum and making progress in the adoption of newer technologies.



# To a better future with innovation in customer care...

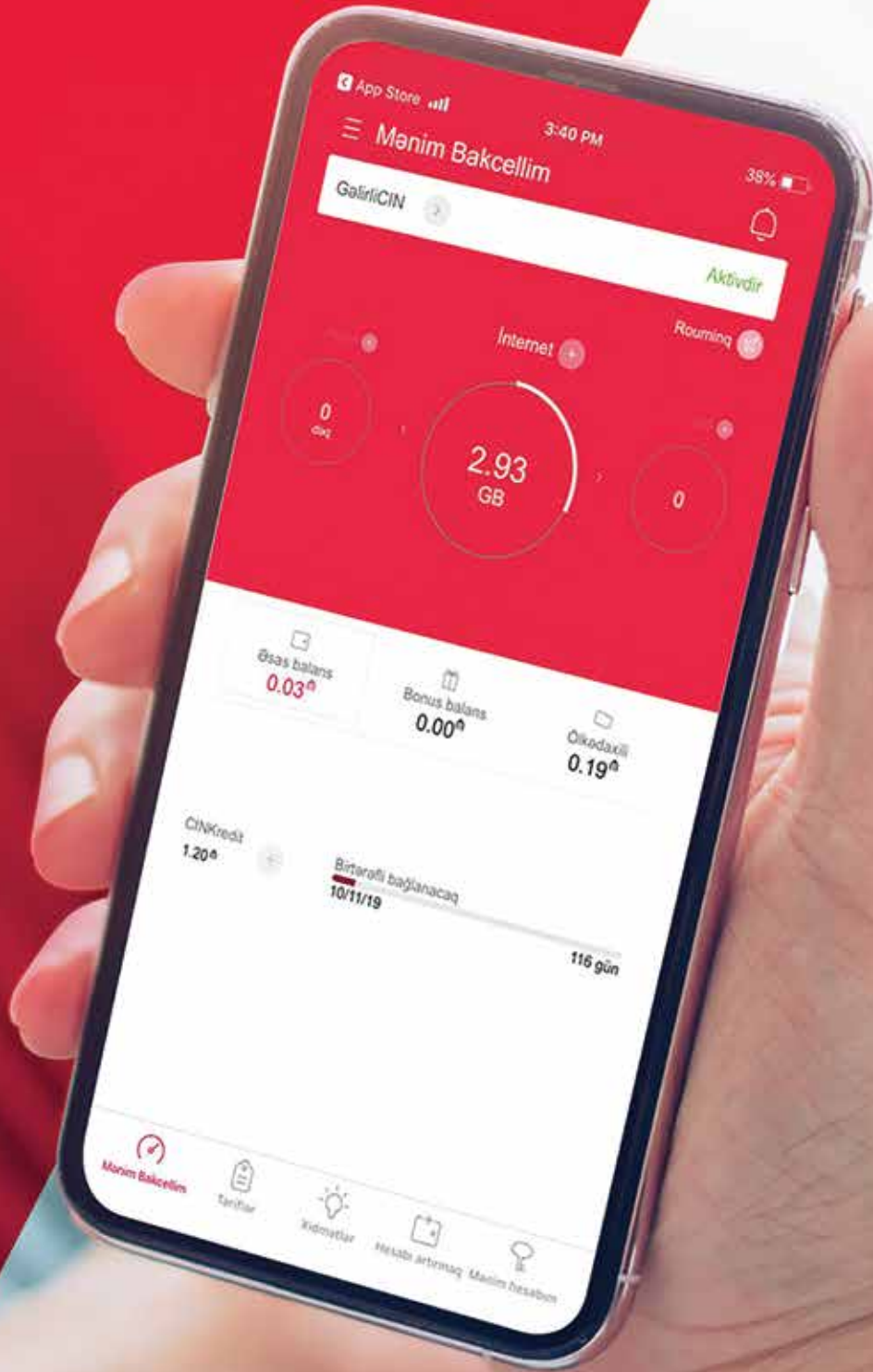
## **First digital self-care on the market**

Bakcell's "My Bakcell" application is the first digital self-care and most innovative customer care method on the country's telecommunications market.

Aiming to provide the customers with a convenient, transparent and enjoyable user experience the Company has designed "My Bakcell" – a virtual customer care application. By using this app, Bakcell customers will be able to perform all the necessary transactions with the account and get detailed information about their number, including the remaining balance, active bonuses, dates of expiration, and available megabytes of internet without a need to call or visit a customer care office.

Moreover, users of the new app will enjoy a maximum level of transparency, being able to have a full access to their number's usage history, covering the list of called numbers, time and duration of calls, as well as all the subscriptions, charged amounts and purchased additional services.







# OUR PURPOSE

### 3. Our Purpose



*For us, sustainability is not a goal to be reached, but a way of thinking, a way of being, a principle we are guided by.*

#### 3.1. Group strategy

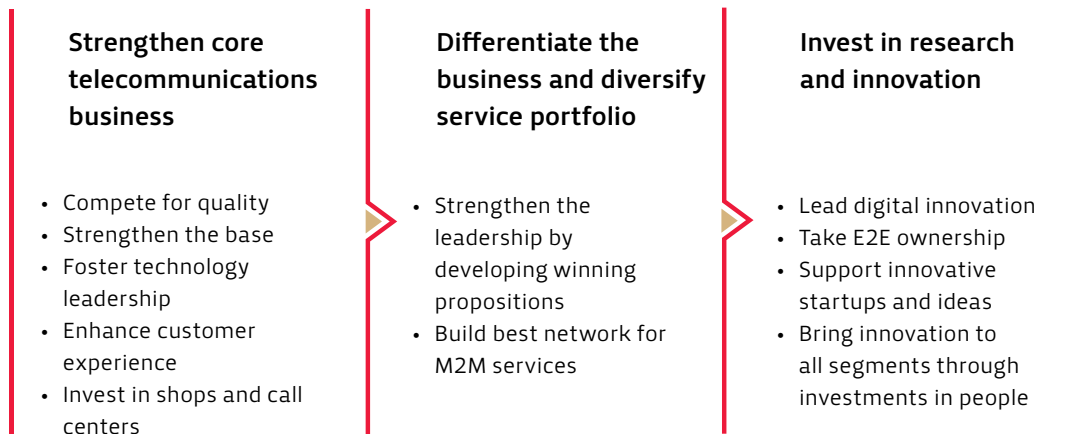
The telecommunications industry is a critical building block for innovation, driving a transformation in how governments, businesses, and individuals interact and collaborate. Bakcell Group is committed to creating positive changes in the community by leading digital transformation. We believe digital transformation provides an exceptional opportunity for our Group to create shared value, especially due to the growing importance of connectivity for digital business models in other industries. We understand and acknowledge that to unlock this value, we need to overcome several barriers specific to the industry we are operating in. Tactical rather than strategic investment plans, archaic governance structures, outdated regulatory compliance requirements, and

lack of digital talent are among the most pressing issues that we need to tackle.

Our 2018-2020 Business Strategy sets the direction for all major business units and incorporates our principles and core vision to smoothly overcome current market barriers. The primary goal of our Strategy is to contribute to the sustainable development of our Group and community as a whole, by enhancing our core business while exploring new opportunities.

There are three pillars of our 2018-2020 Business Strategy that serve as a bedrock for the Group’s strategic decisions.

**Figure 2. Bakcell Group’s strategic priorities.**



#### Strengthen the core business

At Bakcell Group, we believe that our long-term success in the market is a direct result of the quality of broadband service. We live in the digital era where high speed and connectivity are of high importance for customers and that is the reason why we continuously invest to improve the quality of services we offer.

Hence, our Strategy focuses on development of seamless customer experience. We apply consumer segmentation and market research to better understand needs and expectations of our customers and ensure “the best deal” solutions for every consumer segment. Furthermore, we believe that with an advanced campaign management system which is currently under implementation, our new products will become even more targeted – almost personalized.

## **Differentiate the business and diversify service portfolio**

To ensure further expansion of our business and long-term value to customers, we are constantly seeking new propositions. We will expand our cooperation with more partners to bring new services meeting the needs of specific customer groups. We believe that our strategic initiatives will firmly secure our competitiveness in the market. We also work to improve our M2M proposition and expand number of business partners that will surely drive technological transformation at the national level. We are also confident that successful implementation of “Azerbaijan Digital Hub” program will trigger a set of events that will generate opportunities for us to expand our business in the adjacent markets and areas from an innovation and digitalization perspective.

## **Invest in research and innovation**

Bakcell Group strives to be recognized as a modern and trendsetting service provider that has a deep understanding of current technological developments. We aim to bring digital experience to our customer relations by constantly exploring and introducing innovative solutions.

Bakcell Group’s innovation and transformation strategy also envisages increase of projects aimed at assisting startups and creative ideas to enter the market, and we plan to make substantial investments in this direction in the upcoming years.

We also plan to enhance E2E (end-to-end) ownership of our actions, and to build a real service culture by strengthening the following principles in our operations and decision-making process:

- Customer centricity and service culture
- Efficiency
- Time-to-Market
- Investment in people

Major changes occurring in digital world bring up the need to constantly adjust our approach to how we run our business, including leveraging knowledge and skills of our employees. On the other hand, employees’ attitude and needs regarding the workplace are also changing over time. Hence, we are striving to find the right balance between market and employee needs while remaining a caring employer. We plan to implement a set of specific measures to achieve the following:

- Guarantee our people have the right knowledge and skills to deliver the highest quality services that our customers need
- Ensure work effectiveness by eliminating duplications, clarifying roles and responsibilities
- Stimulate employee loyalty by providing improved opportunities, as well as reviewing performance assessment and management framework
- Foster teamwork that can positively impact collective decision-making, encourage innovation and more effective approaches in a more prompt and productive manner

### 3.1.1. Outlook

Our 2018-2020 Business Strategy outlines our future purpose, vision, objectives, and performance KPIs. Along with our operational and business-related objectives, our Strategy is also a bedrock for our sustainability vision and targets. Although our current Strategy does not oversee specific targets on sustainable development, its implementation will deliver positive changes that our community and country will benefit from. By ensuring enriched connectivity and data coverage in all our regions, we can narrow the digital divide and ensure that no one is left behind, empower women, vulnerable groups, and people living in remote regions. We also hope that our responsible marketing activities will inspire and encourage other players in the market resulting in large-scale transformations.

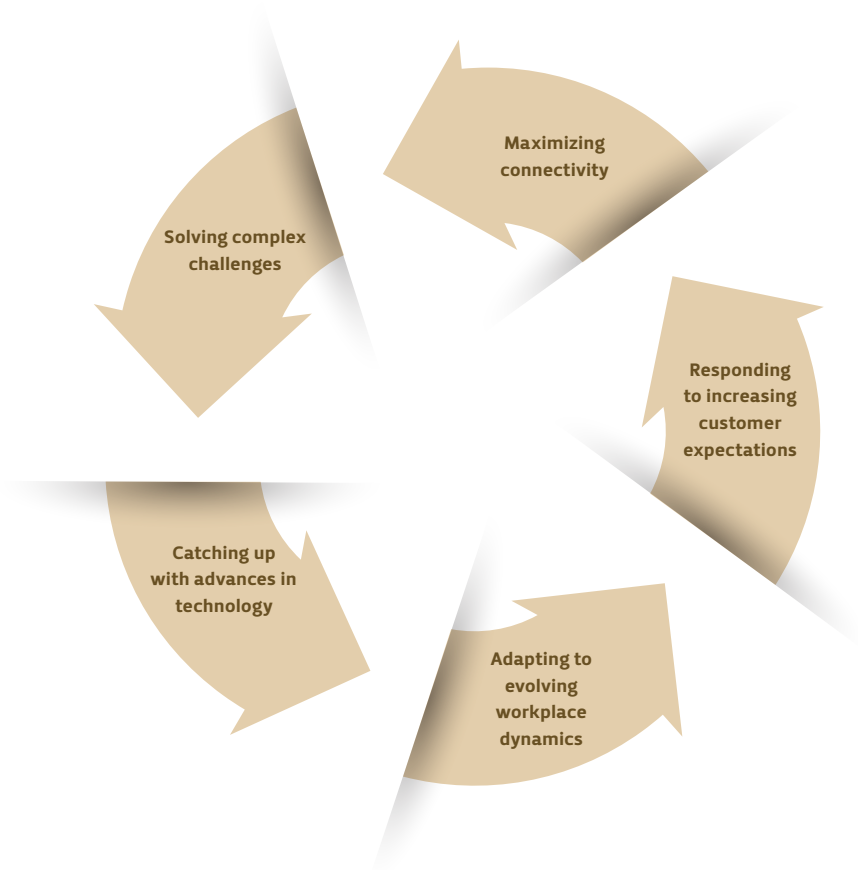
We also aim to embed the following topics in our future strategy establishing a specific set of targets:

- Sustainability in the supply chain
- Climate change and energy efficiency
- Circular economy and management of e-waste
- Extended Producer Responsibility

Finally, we will continue to foster partnerships and joint projects with our business partners, local and international, private and public, as we consider cooperation to be the most important factor in continuous innovation and digital transformation.

### 3.2. Innovation and digital inclusion

At Bakcell Group, we prefer to view digital transformation not as a threat, but as an opportunity. Our philosophy in recent years has been to utilize digital innovation as a technological and strategic tool to enact agile innovation culture and smooth business processes. We have identified the following advantages from placing innovation at the heart of our strategy, which will not only transform our business, but will also inevitably contribute to its long-term sustainability.



In January 2019, AzerTelecom, which connects Azerbaijan to the international internet network, launched the “Azerbaijan Digital Hub” (ADH) project, which aims to transform Azerbaijan into a Digital Hub in the region. The main objective of the “Digital Hub” program is to raise the telecommunication ecosystem of Azerbaijan to the most advanced world standards, to minimize the dependence of the country on foreign countries in the purchase of internet, to transform Azerbaijan from a digital services importing country into a country that produces and exports these services to the neighboring regions under the brand “Made in Azerbaijan”, to add Baku to the world’s internet map, to establish the largest Data Center of the region in Azerbaijan, and to bring global digital-service providers (Apple, Amazon, Alibaba, Google, Facebook, Netflix and others) to Azerbaijan.

The program aims to turn Azerbaijan into a Digital Center for the countries of Caucasus, the Middle East, Central Asia, and South Asia and adjacent regions. Within the “Digital Hub” program AzerTelecom cooperates with Azerbaijan Railways CJSC for the construction of sustainable backbone fiber-optic cable lines within the territory of Azerbaijan. Within the framework of the program, the project of “Trans-Caspian Backbone Cable” is implemented, which entails construction of fiber-optic backbone cables along the bottom of the Caspian Sea in direction of Azerbaijan - Kazakhstan and Azerbaijan - Turkmenistan to create a digital telecommunications corridor (Digital Silk Way) between Europe and Asia passing through Azerbaijan.

In 2014, we launched an innovative mobile developer program AppLab in cooperation with Qualcomm, a world leader in next-generation mobile technologies. The program is aimed at providing effective tools to entrepreneurs and application developers to help accelerate their ideas and create innovative turn-key mobile applications for both local and global markets.

AppLab is an acceleration framework to support selected developers to drive execution of ideas, mobile applications and technologies from proof of concept to the launch.

Teams participating in AppLab program are granted access to AppLab Center and provided with free internet access, desks and needed training, along with an opportunity to use the latest devices for developing and testing their products.

In 2018, we conducted training sessions for members of AppLab as part of our contribution to their sustainable development. Team members of seven projects residing at AppLab Incubation Center participated in the training sessions on following topics:

- Pitching master class
- The Trend Concept intensive
- Blockchain Introduction intensive
- Investor Relationship Development intensive
- Maintaining Productive Team training
- Strategy Development and Commercializing intensive

Since the launch of the program in 2014, local hardware and software developers have been able to submit their ideas and get support from Bakcell Group. Many innovative projects developed by Azerbaijani developers with support of AppLab are already available to download for devices running on Android and iOS. We are proud to present some of the most successful projects on the following page.

**Figure 3.** Most successful mobile applications developed at AppLab



**Run2Help**

**Run2Help** is a project designed to boost interest in healthy lifestyle and social responsibility, connecting these two aspects in one application. Run2Help counts the distance you cover on foot, and converts it to monetary equivalent, which can later be donated to a charity organization of your choice.



**Hara Gedek**

**Hara Gedek** (translated to “Where To Go”) is your pocket assistant, which helps you to discover different points of interests in Baku, Azerbaijan such as amusement parks, shopping malls, restaurants, cafes and entertainment centers, see their reviews, check their image galleries, call their contact numbers and set the route map to desired point.



**BethClip**

**BethClip** is an application to manage or sync your clipboard without leaving it open. BethClip will work in the background and monitor your clipboard so you can easily switch to any of your running apps. Copy any text or image within any app, and BethClip will sync it in the background. You can also paste your clipboard on any other device, where BethClip is installed.



**Kvotter**

**Kvotter** is a mobile app for people who consistently highlight, store and share parts from anything they read. The idea behind this app is simple. It enables you to start “cropping” out the paragraphs and quotes you enjoy the most. You may classify the quotes and paragraphs under book titles, and share those on social media.



**ARZoom**

**ARZoom** will help you find content tailored for you according to your favorite companies and brands. With ARZoom you will open the doors of the digitally augmented reality content. You can collect daily rewards, play mini-games, find special coins with augmented reality technology in special locations and more.

In December 2018, we signed a cooperation agreement with INNOLAND Incubation and Acceleration Centre of the State Agency for Public Service and Social Innovations under the President of Azerbaijan. INNOLAND is a center created to develop the private sector, promote innovation and expand the startup movement both in Azerbaijan and beyond its borders. It consists of co-working, incubation, acceleration, and IT training and education center. Within the framework of this cooperation, AppLab program will function as an Acceleration Center to continue supporting startup projects in a broader format.

One of the most outstanding projects that we have in the framework of accelerating digital inclusion, is “Bilik.al”, a website that helps users to find the right training and courses in the needed field. The website was created by the “Way to Future” startup team with support of Bakcell Group, and offers a quick search option by the preferred categories, from IT to culinary. It is also mobile-friendly, which means users can use it conveniently from their smartphones and tablets. Within five months after the launch of the project, we have achieved cooperation with companies that provide over 40 courses and reached the mark of over 5,000 active users.

In 2018, we also supported ActInSpace 2018 Azerbaijan, the international innovation contest held in Baku for the first time since its creation in 2014, organized and hosted by the French-Azerbaijani University. Participating teams (more than 100 students from different universities of Baku) came together to work on real-life challenges set by the industries, namely CNES, ESA, Airbus and others. They had 24 hours to imagine and design innovative services and products that find every day uses for space technologies or data.

During 2018, together with ENGINET, the first Fiber to the Home (FTTH) provider in the country and with the support of the Ministry of Education of Azerbaijan, we conducted a series of seminars dedicated to the safe internet usage in various schools in Baku and Sumgayit. During the seminar, the students were provided with information about the role of internet in education, as well as potentially harmful content and safe internet usage guidelines. Detailed information about “Safe Internet” package designed jointly by Bakcell Group and ENGINET was presented to the parents and teachers.

The Digital Trade Hub Conference held in 2018 with the sponsorship of Bakcell Group for the second time and organized by the Center for Analysis of Economic Reforms and Communication together with ISESCO brought together almost 200 representatives from more than 20 countries, including high-ranking government officials, as well as representatives of public organizations of Azerbaijan and global trade platforms. During the conference, Bakcell Group issued a mobile residency for the first time in the world. The first mobile residency on behalf of the country was officially awarded to the Director General of ISESCO Mr. Abdulaziz Othman Altwaijr.



We also held another seminar named “Introduction to Mobile Telecommunications”, which was intended for journalists. The seminar has been held for five years in a row now, and tells the audience of about 30 journalists from various leading media sources of the country about the essentials of mobile telecommunications, modern technologies, innovation and latest trends. The seminar in 2018 was held in Shaki, one of the most picturesque towns in the north of Azerbaijan, and covered some of the following topics:

- Current state of the mobile internet – applications and devices
- Video consumption – the leading force of modern content policy
- Mobile financial services
- Customer care digitalization
- 4G network advantages and coverage
- Digital natives

Digital inclusion, which refers to making society more digitally inclusive, is one of the most important integral elements of our responsibility as a corporate citizen. It involves closing the digital disparity, stimulating equality and diversity, connecting the unconnected, providing access to mobile financial services, and other value adding applications. We remain committed to promoting innovation, and continue exploring initiatives to support start-up ecosystem and development of entrepreneurship in Azerbaijan. We acknowledge the fact that our products and services play an important role in empowering and enabling the daily lives of almost three million customers, and we know that with this number comes substantial responsibility. We are also aware of our potential to create positive impact through innovations and services for society at large.

### 3.3. Value creation and re-defining our value proposition

#### 3.3.1. Business model and value chain

At Bakcell Group, we seek to be known for our passion, integrity, professionalism and innovative spirit. We are committed to long-term excellence by maximizing value creation in every part of our value chain through increased efficiency, quality and performance. Our main goal is to be agile to global trends, and to meet customer needs both today and tomorrow. Throughout our value chain our customer focus is central. Every step of the way, we adopt a responsible business behavior to build trust and make sure our products and services contribute to prosperity. In the following value chain model, we demonstrate how we utilize our inputs to create shared value for our business, our stakeholders and the communities in general.

**Figure 4. Bakcell Group’s value chain model**



Our value chain model embeds the principles of the Integrated Reporting <IR> Framework, using the six capitals, which we interpret in terms of our own resources below.

**Table 5. Six capitals of Bakcell Group and their interpretation**

Six capitals	Bakcell's interpretation	Discussed in
<b>Human Capital</b>	Covers physical and psychological capacity of the employees, i.e. motivation, safety, well-being, etc.	"People"
<b>Intellectual Capital</b>	Covers intangible and knowledge-based assets, i.e. brand, patents, copyrights, employees' knowledge, etc.	"Innovation and digital inclusion" "People"
<b>Financial Capital</b>	Covers cash and cash equivalents that can be used in exchange for other functions to enable Bakcell Group's successful operations.	"Financial performance"
<b>Social Capital</b>	Covers Bakcell Group's reputation and relationships with communities, stakeholders, organizations and networks.	"Corporate governance", "Stakeholder engagement"
<b>Manufactured Capital</b>	Covers the inventory of plant, property and equipment that facilitate business activities, and enable Bakcell Group to successfully operate.	"Network coverage and reliability"
<b>Natural Capital</b>	Covers the renewable and non-renewable natural resources Bakcell Group needs to operate, i.e. water, energy, land, etc.	"Environmental performance"

Our aspiration at Bakcell Group is to ensure that we minimize our negative impact throughout the value chain, and with our mindset set on this holistic approach, we cultivate competitive advantage and drive sustainability.

### 3.3.2. Product development

Accelerating digital transformation, industrial trends and consumer expectations for access, simplicity and connectivity require that businesses become more partnership-focused and innovative. We have drastically changed our approach to innovation and product development in recent years to meet this challenge. Throughout our value chain our customer focus is central, which in terms of product development translates to developing innovative and efficient solutions.

In 2018, we adopted a Product Board Policy, outlining the product development process, time-to-market (TTM), and product development lifecycle. The aim of the Policy is to optimize our Group's strengths by tightening the processes and cutting out extra steps, whilst ensuring the development of innovative products to keep pace with the marketplace.

We analyze the current trends and segments to find the best solutions, as well as to capture future opportunities and prepare for market changes. As a result, in recent years we have shifted our focus from only mobile communication business to decentralizing our approach to different customer segments, as listed below:

- Personal mobile market
- Household market
- Corporate and SME market

We have established a separate Research, Analytics and Reporting Unit under our Marketing division, responsible for performing comprehensive market analysis with a view of the whole telecommunications ecosystem and adjoining markets. Our research activities enable us to align product development

to rapidly developing market trends, evaluate our go-to strategy and product positioning and effectively handle market disruptions.

We continue to research new technologies and methodologies to generate ideas for new products and services, while at the same studying market and customer trends to better align our strategy with external factors.

### 3.3.3. Procurement

Bakcell Group's present aim is transparent and responsible procurement, placing high demands on ourselves, our suppliers and partners. We recognize that through our procurement of products and services, we indirectly contribute to our suppliers' positive and negative impact on the environment and society. We are constantly working to optimize our vendor base, and to secure the best possible commercial offers without sacrificing quality and sustainability of purchased products, components and services. As one of the country's major purchasers, not only do we have to ensure a sustainable supply of goods and services, but also make efforts to minimize negative impacts on the environment, respect human rights and mitigate non-compliance and reputational risks across our supply chain.

Our procurement practice is governed by our Annual Procurement Plan Policy, which was adopted in 2013 and is currently under the review for further update. The purpose of the policy is to ensure that the Group operates in accordance with the best practice solutions and supports effective value for money purchasing while maintaining transparency and accountability.

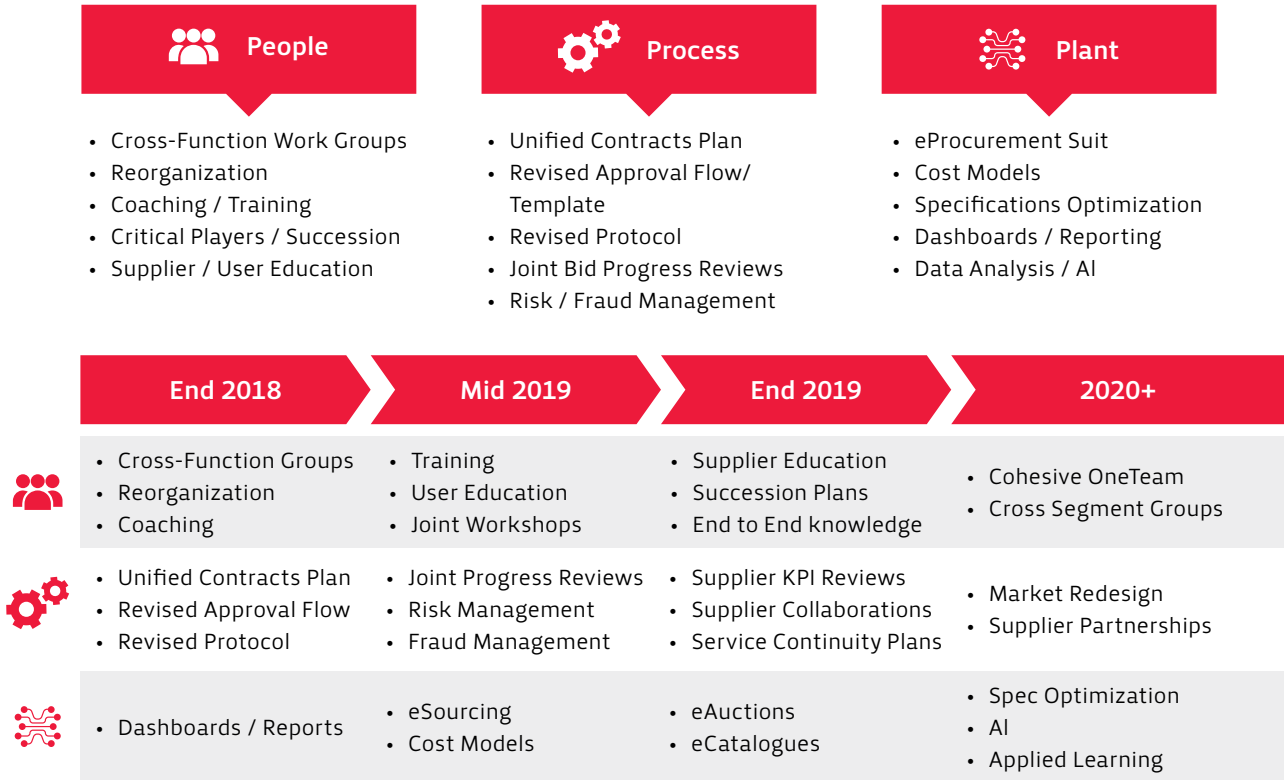
Starting from 2018, our procurement function has undergone major optimization processes, resulting in a reduction in Purchase Order creation and Purchase Order approval cycles, and a drop in sourcing average days. Through our disciplined efforts and ambition for continuous improvement, we have achieved substantial progress in 2018, some of which we have highlighted in the table below.

**Table 6. Procurement improvement progress of Bakcell Group as of 2018**

People	Process	Plant
The contracts function, which was previously under the Legal division, was joined with the Procurement function.	Sourcing quality has improved, whilst Purchase Order cycle time has been reduced.	Data Dashboard has been implemented resulting in increased visibility.
Tactical buying was separated from strategic buying.	A long-term view on contracts has been adopted, allowing for better commercial terms.	New contracts-planning and resource-planning tools have been adopted.
Personnel competency was reevaluated and improved.	Single source and technical evaluation have been challenged.	The Request for Proposal (RFP) document has been improved – prepayment, and Terms and Conditions changes have been eliminated.
Cross-functional workshops and cross-discipline coaching have been conducted.	Internal approval procedure has improved, whilst cycle time has been reduced.	Optimization projects for the vendor database and contract templates have been launched.

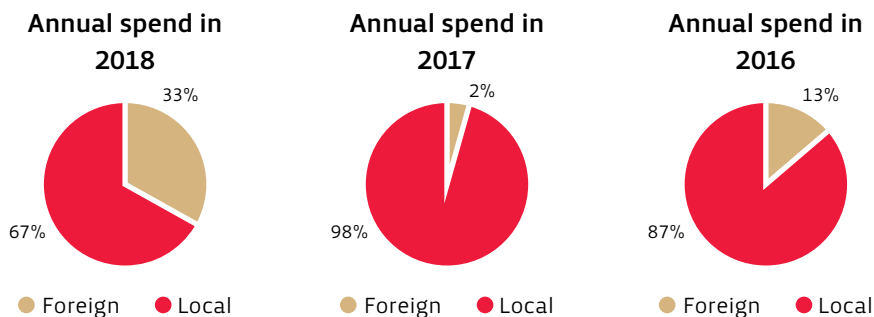
We also designed a new roadmap for further progress, with respective activities grouped under three headings, as demonstrated below.

**Figure 5. Procurement Improvement Roadmap of Bakcell Group**



Data Dashboard has been particularly crucial for the motivation of the team, where every team member can track their own and their peers’ metrics in a single interface. The Dashboard displays contracts, bid and spend data, cultivating a culture of transparency and healthy competition across the team.

To deliver the right service to our customers, we draw on the services of 327 foreign and local suppliers. Our main supplier categories include IT and technology, professional services, hospitality and event planning, office supplies and others. Through structured sourcing processes, we always select the best option for our Group, and we strive to engage and support local suppliers when they meet our corporate requirements. A large proportion of our annual spend hence goes to local suppliers as can be seen from the below graphs.



Although there is currently no formal assessment mechanism for negative environmental and social impacts in our supply chain, all our suppliers undergo a vigilant security and background check before contracting. We are currently reviewing our due diligence procedures and checklists to ensure that new suppliers in the future reporting periods will be appropriately screened for their environmental and social performance. We are additionally considering adopting a Supplier Code of Conduct, to govern relations with existing suppliers and to minimize the risk of negative environmental and social impacts in our supply chain.

### 3.4. Corporate governance

#### 3.4.1. Corporate governance statement

The basis for the corporate governance structure of Bakcell Group comprises the following corporate governance documentation which is under continuous improvement to gain more efficiency:

Document Title	Purpose	Date of Latest Adoption
<b>Code of Conduct</b>	To maintain and instill a standard of behavioral conduct that is acceptable to the Group, its suppliers, customers, and other employees.	06/04/2018
<b>Code of Ethics</b>	To provide guidance and set common ethical standards to promote consistency in behavior across all levels of employment. The Code governs the actions and working relationships of Board members with employees and in dealing with other stakeholders.	To be restructured and adopted by the end of 2019
<b>Board Committee Charters</b>	The charter for each respective Committee addressing the committee's mission, authority, responsibilities, composition, frequency of meetings, requirements for minutes, and how they report their findings to the Board.	Varies
<b>Performance Accomplishment Bonus Policy</b>	To define rules and principles for the calculation and payment of annual performance accomplishment bonuses to employees.	12/11/2018
<b>Employee Benefits Policy</b>	To provide employees with pertinent information and guidance on types of benefits they are entitled to and identify their principles of application.	08/01/2018
<b>Accounting Policy</b>	To document the financial principles and policies governing the accounting practices providing a foundation for a foolproof system of financial internal controls.	To be restructured and adopted by the end of 2019
<b>Tax Payment Policy</b>	To ensure compliance with applicable tax laws and regulations and establish appropriate coordination of the tax practices whilst fulfilling the corporate interest and supporting the long-term strategy that avoids tax risks and inefficiencies in the implementation of business decisions.	30/07/2012

Pursuant to the Charter, corporate governance of Bakcell Group is the responsibility of the following bodies:

- General Meeting of Participants (*please refer to the “General Meeting” section*)
- Board of Directors (*please refer to the “Board of Directors” section*)

Bakcell Group is committed to attracting outstanding professionals for ensuring effective and sustainable governance of the Group. The professionalism of our governing body members enables us to gain trust of our customers and society.

One of our major focus areas in 2018 has been the harmonization of the corporate governance arrangements, ensuring that we have a strong and robust corporate governance at the heart of everything we do. We will continue revisiting our governance framework regularly to ensure we have effective controls in place to support the creation of long-term value.

### **3.4.2. Governance principles and organizational structure**

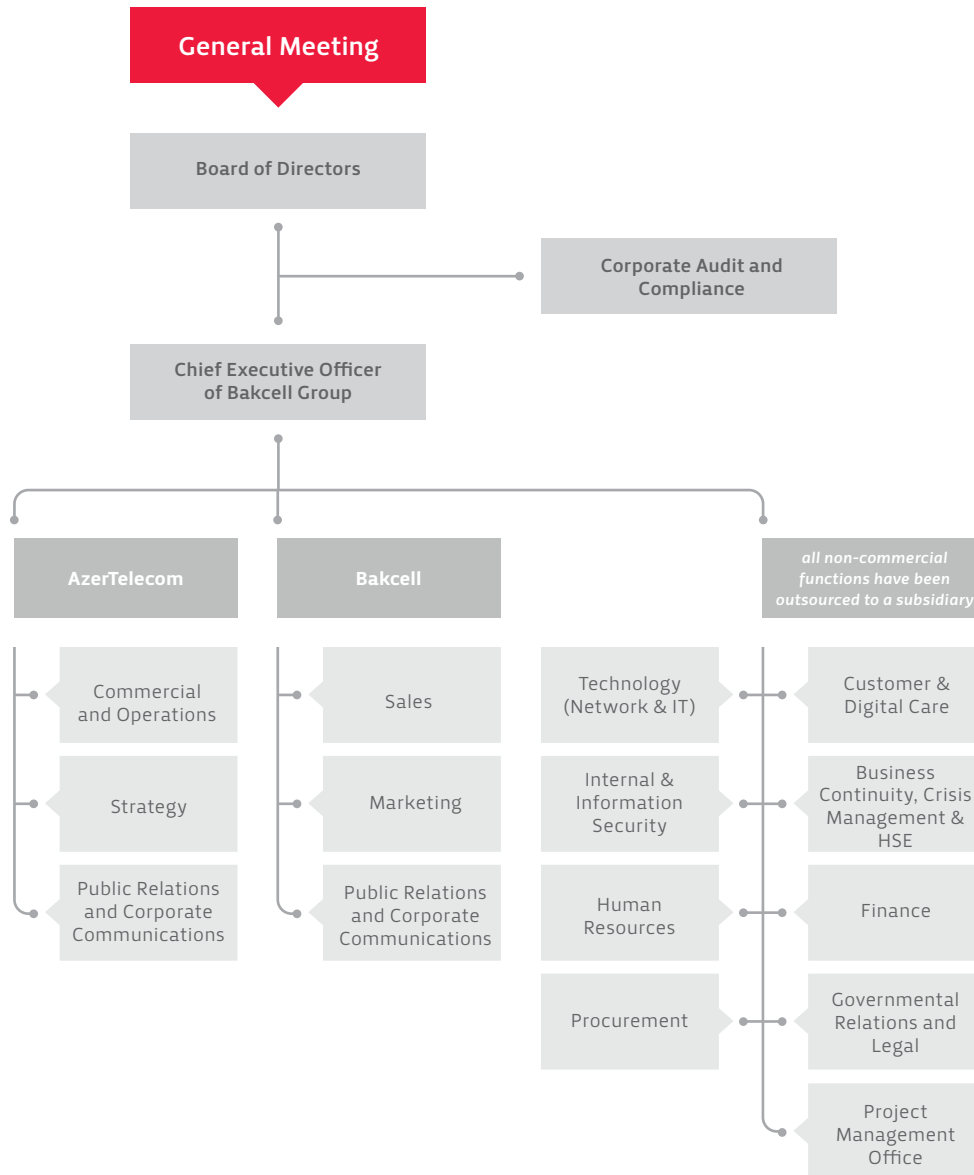
Bakcell Group is committed to upholding responsible and effective corporate governance as a core element of its culture, and we have reinforced our governance structure to promote integrity in everything we do. Over the past years we have made significant efforts to re-engineer our internal administrative systems and back-office processes to make our operations more flexible and transparent.

In 2017, the Group underwent a substantial restructuring, as a result of which all of the non-commercial business units were outsourced to a subsidiary. The decision to restructure was driven by a need for the change in the organizational structure of the Group, and the necessity to further optimize resources. Through this restructuring, we have been able to reduce costs related to administrative functions, we are making better use of talent, and we have the space to concentrate on key products and accounts.

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Bakcell Group is committed to maintaining universally accepted standards of corporate governance and business integrity. We aim to achieve an efficient allocation of resources and clear mechanisms for setting strategies and targets in order to maximize and protect shareholder value.

The following organizational structure is a visual representation of the flow for the corporate governance and the mutual interaction of the Group entities.



### 3.4.3. Internal control over business processes and reporting

The purpose of this section is to provide our stakeholders with an understanding of how internal control is organized at Bakcell Group regarding business processes and reporting. There is a separate Corporate Policies and Processes function to oversee compliance with directives and policies, as well as to create effective conditions for control activities in key processes related to financial and non-financial reporting. There is also an internal audit function, namely Corporate Audit and Compliance division, which among other things, independently monitors our activities, carries out both planned and ad-hoc

inspections, and reports to our shareholders with relevant findings and recommendations. Corporate Audit helps our Group to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of the control and governance processes.

Fundamental to the Group’s control environment is the organizational culture in which our people operate. Our management works actively on communicating the Group’s values of transparency, ethics and integrity to our people and partners. We are currently considering introducing annual

mandatory training sessions for all of our employees covering our stance on bribery, employee rights and relations, corruption and discrimination.

We have several control measures in place to ensure transparency and efficiency of our business activities, and to prevent fraud in all its forms. Two major directions in which we develop and establish our internal control processes are the following:

- Controls within the reporting software which lock data once approved at different levels to prevent unauthorized access and alterations.
- Segregation of duties between data owners responsible for providing initial data, officers responsible for the reporting and data entry process, and line managers responsible for checking data quality and content.

In addition to these, control activities comprise remediation of deficiencies and respective reporting to the management, planning, and selecting focus areas, processing and monitoring design assessment, and validating details. We are also currently working together with external consultants to benefit from the international expertise and further improve our business processes and internal control procedures.

### **3.4.4. General Meeting**

The General Meeting is Bakcell Group's highest decision-making body. Under the Charter the General Meeting is entitled to hold meetings and pass resolutions on any matters pertaining to the activities of Bakcell Group. The General Meeting possesses a number of exclusive competences in accordance with the Charter and the requirements of the Civil Code. The General Meeting is convened once a year, within six months after the end of the fiscal year. In addition to what follows from applicable laws regarding shareholders' right to participate at General Meetings, the shareholders may also exercise their voting rights with regard to the following:

- Change the share capital
- Appoint or dismiss the Chief Executive Officers of the Group entities
- Approve annual reports and account balances
- Establish the Board of Directors, appoint or dismiss its Chairperson and members

### **3.4.5. Board of Directors**

The Board of Directors is ultimately responsible for the direction of our Group, and reviews risks and opportunities as part of its regular review mechanism. It is also the responsible body for setting top-level strategy, vision, mission, and core values of the Group. Its members are appointed by the General Meeting, after a careful consideration of their relevant educational and industry-related experience. The Board is currently comprised of four members, all of whom are non-executive directors.

The Board of Directors carries out supervision over the Chief Executive Officers during the periods falling between the assemblies of the General Meeting. To avoid any conflict of interest, members of the Board of Directors cannot simultaneously hold other positions in Bakcell Group, including the position of Chief Executive Officer.

### **3.4.6. Remuneration**

Fair and adequate remuneration plays a key role in attracting, motivating and retaining talent. Being a fair and transparent employer is at the heart of Bakcell Group's talent management strategy, therefore we have adopted a stand-alone Performance Accomplishment Bonus Policy, which governs all bonus and incentive-related pays both to executive and non-executive employees.

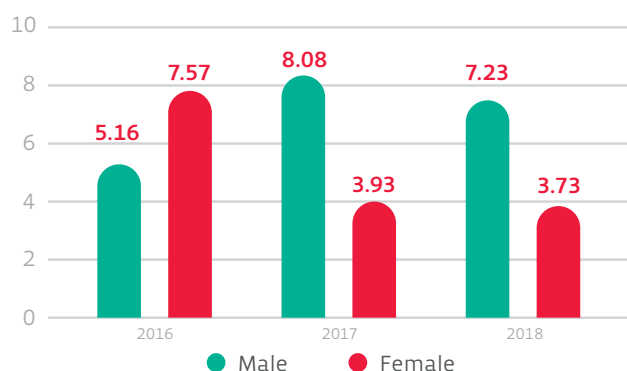
Both fixed salary and incentives of the Chief Executive Officer are established by the Board of Directors. Remuneration of the Chief Executive Officer is highly contingent on a demanding level of corporate performance.

The figures on the next page show the annual total compensation ratio, and standard entry-level wage to local minimum wage ratio at Bakcell Group. Entry-level wages between men and women differ, since due to cultural perceptions entry level wage positions such as drivers are only occupied by men, while positions for cleaning staff are occupied by women. All non-entry level position salaries are strictly performance based, and do not take any non-performance related criteria such as gender into consideration. Annual total compensation ratio has increased in 2017 due to a substantial salary increase for the position of Chief Executive Officer.



**Table 7. Annual total compensation ratio at Bakcell Group**

	2016	2017	2018
Ratio of annual total compensation for the Group's highest-paid individual to the median annual total compensation for all employees	30.02	76.35	79.48

**Figure 6. Standard entry-level wage to local minimum wage ratio at Bakcell Group**

### 3.4.7. Committees

The following committees provide strategic guidance on respective areas, and ensure further transparency of our corporate governance.

- **Disciplinary Committee** – functioning since April 2018, the Committee is responsible for examining and investigating alleged breaches of the Code of Conduct and Code of Ethics, and taking respective actions based on the investigation outcome and Labor Code.
- **Audit Committee** – functioning since 2017, the Committee is responsible for assisting the Board to fulfill its oversight over financial reporting, internal control system, and primarily internal and external audit functions.
- **Technology Committee** – functioning since 2017, the Committee is responsible for overseeing role of technology and innovation in executing the business strategy, including but not limited to, technology strategy, technical operations performance, and significant technology investments.
- **Investment Committee** – functioning since May 2019, the Committee is responsible for the oversight and management of the investment portfolio, monitoring portfolio performance and setting the investment strategy.

### 3.4.8. Ethics, transparency and anti-corruption

Integrity is a pivotal element of our governance structure as the bedrock to maintain the trust of our stakeholders, and to execute our business strategy. Our corporate culture is built on clearly defined values and supported by a robust set of controls and a compliance framework that we continue to reinforce. We adopt a zero-tolerance approach to bribery and corruption in any form, and prefer to ignore a business opportunity than engage in actual or even perceived corruption.

Our Code of Conduct expresses our values and defines professional behavior for everyone in Bakcell Group. The sheer purpose of our Code of Conduct is to ensure that anyone acting for the Group makes the correct decisions. We hold anyone acting on behalf of our Group, or representing our Group, to the highest standards of professional integrity at all times. The Code of Conduct explicitly states that employees or others working on our behalf must never accept or offer any kind of bribe. The document also provides guidance about what constitutes a bribe and prohibits giving or receiving of any excessive or improper gifts and hospitality.

Compliance with our Code of Conduct is managed through mandatory training, risk assessments, due diligence, performance monitoring and evaluation, as well as whistle-blowing procedures. Any reported violations of the Code of Conduct are investigated by the Disciplinary Committee. Investigations may result in disciplinary action, including termination of employment, and even in criminal prosecution. Such incidents are also further analyzed to ensure future prevention and continuous improvement of our business functions.

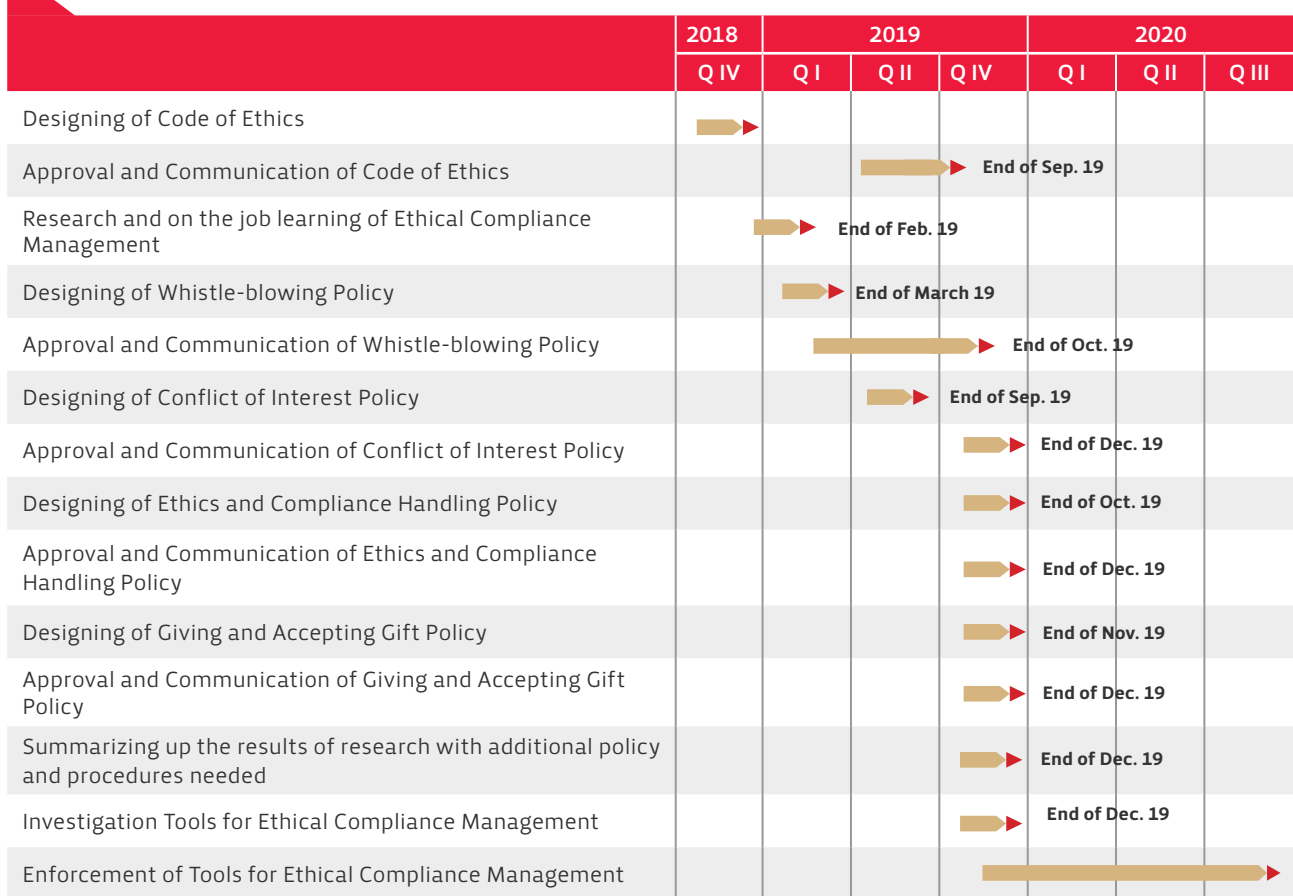
Along with fostering an integrity culture, we recognize that there must be a mechanism in place to report and investigate integrity-related incidents. The Disciplinary Committee is currently fulfilling the function of investigative body, and all grievances are

received and reviewed by the Committee in a due manner. We continuously encourage our employees to report any concerns without fear of retribution. During the reporting period, there have been no incidents of fraud or corruption.

In November 2018, we launched the “Zero Tolerance on Fraud and Corruption” project, which encompasses comprehensive and detailed methodology on how to perfect our internal processes to further integrate ethics and anti-corruption principles. Within the framework of the

project, we will finalize the Code of Ethics, draw up a number of policies on whistleblowing, compliance, conflict of interest, and giving and accepting of gifts. The figure below shows the schedule and the steps of the project, which will be completely finalized by the third quarter of 2020.

**Figure 7. Zero Tolerance on Fraud and Corruption Project Schedule**





### 3.4.9. Risk and Business Continuity Management

Businesses operating in the telecommunications industry are vulnerable to global drivers that include megatrends, risks and specific material topics pertaining to the industry. Bakcell Group employs an approach to identifying and articulating the risks under the concept of business continuity management. The aim of business continuity is to ensure that the critical business functions are safeguarded by means of effective business continuity management despite any unplanned or predicted critical interruptions to normal business activities. Risk management and governance processes are supported by the highest governance body to ensure that the necessary steps are taken to identify the impact of potential losses, maintain viable recovery strategies and plans, and establish continuity of products and services through training, exercising, maintenance and review.

To assess the impact of a disruption on a business process, service or product, the following criteria are carefully considered.

- **Financial impact.** If disruption causes financial damage equivalent of the billing per hour. Additional costs could occur due to services being unavailable.
- **Customer satisfaction/reputation impact.** If disruption can potentially damage customer confidence, public image and reputation, or shareholder, supplier or dealer loyalty.
- **Safety impact.** If disruption poses a risk on the health and wellbeing of the public through the service being unavailable.
- **Legal or regulatory liability impact.** If the disruption causes a breach of legal, regulatory or contractual obligations.

Based on these criteria, we have identified five major risk categories, which we subsequently analyze and determine respective response plans to mitigate each. Each risk has been categorized as high, moderate or low, and respective mitigation plans have been drawn, as can be seen in **Figure 8**.

Figure 8. Major risk groups of Bakcell Group and respective mitigation plans

	Risk	Mitigation
Financial	Inability to extract value from network assets	<ul style="list-style-type: none"> <li>Increasing the performance and reach of network infrastructure</li> <li>Maximizing the benefits of network sharing and outsourcing</li> </ul>
	Ignoring new imperatives in privacy and security	<ul style="list-style-type: none"> <li>Tackling cyber threats head-on</li> <li>Focusing on digital trust as a platform for value creation</li> <li>Managing shifting compliance burdens in data protection</li> </ul>
Compliance	Lack of regulatory certainty about new market structures	<ul style="list-style-type: none"> <li>Engaging proactively with regulators to help shape the digital society</li> <li>Adopting a level-playing field approach to regulations</li> </ul>
	Failure to carry out new roles in evolving industry ecosystems	<ul style="list-style-type: none"> <li>Leveraging demand for over-the-top services in new ways</li> <li>Taking the lead in emerging ecosystems</li> </ul>
Operational	Insufficient performance measurement to drive execution	<ul style="list-style-type: none"> <li>Focusing on the right customer metrics</li> <li>Embracing a wider set of key performance indicators</li> <li>Adopting a new performance management mindset</li> </ul>
	Failure to improve organizational agility	<ul style="list-style-type: none"> <li>Improving internal collaboration</li> <li>Moving to customer-defined network and IT systems</li> </ul>
Strategic	Failure to understand what customers value	<ul style="list-style-type: none"> <li>Simplifying the service portfolio</li> <li>Optimizing customer support</li> <li>Responding to the needs of Generation Z</li> </ul>
	Failure to adopt new routes to innovation	<ul style="list-style-type: none"> <li>Leveraging a more diverse talent pool</li> <li>Making the most of incubator initiatives</li> <li>Shifting the cultural mindset</li> </ul>
Sustainability	Increased environmental and social footprint due to data growth	<ul style="list-style-type: none"> <li>Improving data collection and reporting processes for environmental and social indicators</li> <li>Improving energy efficiency measures to reduce both costs and consumption</li> </ul>
	Failure to integrate sustainability into business operations and culture	<ul style="list-style-type: none"> <li>Increasing sustainability awareness both across the organization and externally</li> <li>Incorporating a formal employee and external stakeholder engagement mechanism</li> </ul>

▶ High
 ▶ Moderate
 ▶ Low

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We consider risk management to be a key element for protecting the value and reputation of our Group in delivering its services and products in full compliance with the terms of its contracts with customers, industry regulations, and, more generally, in accordance with the relevant international methodologies and standards.



# To a better future with innovation in technology...

## First HD Voice Technology in the country

For the first time in Azerbaijan, Bakcell has launched the HD Voice technology. Thus, as a result of implementation of the modern AMR-WB (Adaptive Multi-Rate Wideband) in the UMTS (3G) network, Bakcell is now able to provide the subscribers with the highest quality of calling experience.

As opposed to regular calls, the HD Voice (high definition voice) allows subscribers to hear each other's voice in a very high precision during the phone conversation, thanks to transmission channels capacity optimization technology. At the same time, the launched technological novelty will automatically minimize the additional noise, which surrounds the subscriber during the call and lets the called party hear caller's speech in a more clear and precise way. As a result, both subscribers will hear each other just as good as if they were in the same room.







**PROGRESS**



## 4. Progress



*Sustainable operations for Bakcell Group mean focusing on promoting operational reliability and functionality, whilst emphasizing interactions with customers, employees, society, and the environment.*

### 4.1. Privacy and cyber security

Around 90% of the world's data has been generated in the past two years, and global data flows now contribute almost as much to global GDP as the trade in goods. Billions of devices that are connected to the internet, interacting and sharing data on a completely new scale, present a substantial potential for increasing efficiency and cutting costs. On top of this, advanced technology such as artificial intelligence and big data are increasingly occupying our personal and professional lives. As much as these advances are improving economies and livelihoods, the security risks that they trigger are significant. Personal data has become one of the most valuable assets, and cyber-attacks have been causing significant damage to the companies worldwide.

At Bakcell Group, we strongly believe that adequate cyber security has become a fundamental requirement for a digital society. We constantly monitor, review and improve our infrastructure and security measurements to avoid data breaches and maintain uninterrupted business operations. Starting from 2018, we have started implementing penetration testing to detect potential threats to our systems and ensure that appropriate remediation measures are implemented. We have also begun migrating our servers to cloud, aiming for a majority of our servers to be ultimately run on cloud by the end of 2020.

Our Information Security Manual informs all employees of our standard IT security operating procedures. All Bakcell Group employees are also required to participate in mandatory training on information security and data protection.

By the end of 2019, we are planning to receive ISO 27001, the global standard on information security. We believe that our disciplined approach and stringent measures will further strengthen our data security, facilitating an impenetrable level of protection against external cyber-attacks.

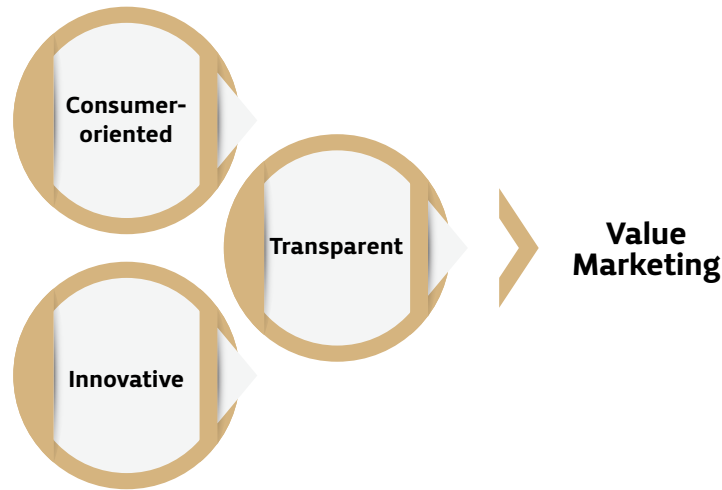
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**We enforce the most stringent measures to ensure that our customers can trust that their digital devices are secure, and that their data is safe and protected.**

## 4.2. Responsible marketing

Our marketing philosophy entails placing most of our resources in value-building marketing investments. By deploying value marketing, we seek to create long-term customer loyalty by adding significant value to the consumer offer. Our marketing activities are governed by three values, as demonstrated below.

Figure 9. Value marketing at Bakcell Group



We believe that by adopting the following principles, we have been able to realize our aspiration to be a leader in responsible marketing:

- **Safety.** We believe any product or service that could be hazardous to public health or the environment should have clear advisories and warnings.
- **Honesty.** We always ensure our products and services satisfy the needs they promise to, or aim to provide the lifestyle they advertise.
- **Ethical pricing.** We consider creating false shortages and undermining the competition to be unethical marketing practices.
- **Respecting customer privacy.** We always put the privacy and security of our customers at the heart of everything we do.

It is a point of pride for our Group, that there have been no incidents of non-compliance regarding our marketing and labelling activities during the reporting period.

By the end of the third quarter of 2019, we are also planning to implement Customer Value Management (CVM) platform, to significantly improve time-to-market, business effectiveness and efficiency, and the whole customer value management processes from campaign ideation through launch of targeted marketing campaigns. This means the entire process will be as automated as possible, with business users finding it easier to launch campaigns without having dependency on other teams. The top business objective is to increase revenue by making drilled down segmentation of active customer base, approach customers with tailored offers, launch multiple-layered omni-channel campaigns, and ensure 360-degree tracking of customers in near-real-time. CVM encompasses the following capabilities:

- Campaign management
- Enterprise messaging
- Recommendation engine
- Customer churn prediction analytics
- Cross-selling real time offers
- Customer loyalty management system

Functionally, CVM solution’s capabilities are spread across three main areas that support a closed loop marketing process for both outbound and inbound campaigns to elaborate an overall end-to-end contextual marketing cycle. These areas are customer insight, customer interaction, and marketing performance tracking – to address our marketing requirements.

At Bakcell Group, we respect and value the time and information needs of our customers. We know that consumers today are more discerning about how and what kind of marketing messages they receive every day. Our aspiration is to be governed by truthfully representing our products and services and their value, attracting audiences organically, and subsequently delivering our pledge to completely detoxify our value-added-services.

### 4.3. Management discussion and analysis

Our financial performance is governed by the following regulatory documents, which are under continuous improvement to gain more efficiency:

Document Title	Purpose	Date of Latest Adoption
Accounting Policy	To document the financial principles and policies governing the accounting practices providing a foundation for a foolproof system of financial internal controls.	To be restructured and adopted by the end of 2019
Tax Payment Policy	To ensure compliance with applicable tax laws and regulations and establish appropriate coordination of the tax practices whilst fulfilling the corporate interest and supporting the long-term strategy that avoids tax risks and inefficiencies in the implementation of business decisions.	30/07/2012

#### 4.3.1. Market analysis and business segment

Rising global smartphone penetration, convergence of fixed and mobile services, ultra-fast internet access, and outstanding new technologies are rapidly transforming the way communities live and work, whilst simultaneously creating a range of new commercial, regulatory and societal challenges.

Until now, mobile network operators have been in a privileged position to drive the adoption of mobile data with a strong focus on the services that make up around 80% of data revenues. However, the industry is changing due to the following megatrends:

- **Changing industry ecosystems and new ways to compete.** The ecosystem is becoming multifaceted, with a range of players from equipment, devices, media, content, applications, distribution, advertising, payment, and many others.

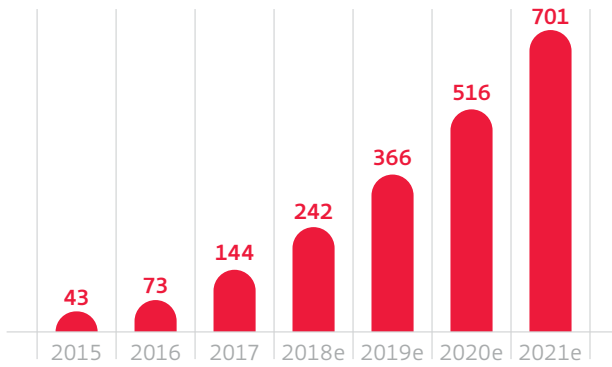
- **Continuing surge of the mobile internet.** Mobile devices have become the fastest growing internet access point, fueled by the rise of smartphones and tablets.
- **Rapidly evolving consumer behaviors.** Digital consumers, especially in the mobile arena, are constantly changing their patterns of behavior and are increasingly hard to predict. What market research indicates today may be irrelevant tomorrow. From shopping and research to social networks and entertainment, digital consumers’ appetite for mobile data consumption is ever-changing.
- **Exploding data traffic.** Wireless technologies are accelerating the pace of broadband adoption in both developing and developed markets.

Demand for mobile data is rising rapidly, driven by increased smartphone penetration, customers moving to 4G, and the growing use of social media. As a result, between 2012 and 2017 total mobile data

traffic increased by an average of 76% per annum, and growth over the next four years is expected to reach 48% (Analysys Mason, 2018).

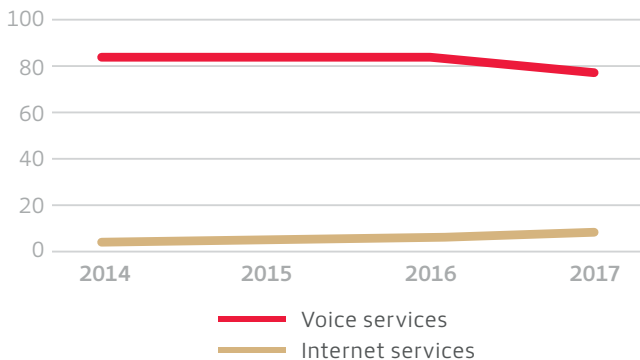
**Figure 10. Global mobile data traffic trend**

\*000 petabytes (1petabytes = 1m gigabytes)



The communications industry in Azerbaijan is following the same trend, with a 6% dip in the overall share of voice services in 2017 compared to 2015, and a massive 83% increase in the share of data services in 2017 compared to 2015. Although voice services still account for the biggest share in the industry at 79.2% (The State Statistics Committee of Azerbaijan, 2017), the trend has been downwards, as opposed to data services, which can be seen from the graph below.

**Figure 11. Trend of voice and data services' share in ICT industry of Azerbaijan, %**



The challenge for mobile operators worldwide is to monetize this appetite for data services. Today, consumers are increasingly using bundles of mobile, landline, broadband and TV services. They have access to content and information of a scale that was inconceivable even a few years ago. This is bringing about a revolution in the way people

share, learn, and access education, healthcare and financial services, among others.

At Bakcell Group, instead of feeling threatened by this revolution, we are exploring our options to adopt and monetize it. Our ambition is to integrate digital transformation into the very essence of our business. We believe new technologies including smartphones, artificial intelligence, cloud computing and robotic process automation will enable us to connect with consumers directly, while automating operational processes and improving the efficiency of all commercial and technological activities. We are confident in our market position and expertise to channel today's and tomorrow's disruptive technologies. We acknowledge the fact that to utilize these technologies most efficiently, we have to be increasingly involved in collaboration arrangements with other carriers, internet giants, IT service companies and cutting-edge start-ups. We are therefore continuously collaborating and engaging in knowledge sharing and exchange with tech giants such as Huawei, Nokia and Ericson.

**4.3.2. Financial performance**

We have made substantial progress over the past years to become a digital communications leader in Azerbaijan. A key development was a substantial restructuring process to reduce structural costs and increase efficiency, which has put our Group in a phase where the focus is on organic growth and improved profitability through continuous improvement and innovation. As a consequence of this restructuring, all our performance indicators started showing progress starting from 2017.

In 2017, our revenue increased by approximately 10%, and our operating profit increased by approximately 78%, which was an outstanding result considering the previous year had been a rather challenging one. We attribute this positive trend to our successful restructuring, as a result of which we have been able to boost sales, boost capacity, and shed off divisions which did not add value to our business.

Focusing on our commercial activities enables us to deliver excellent customer experience which both benefits society and drives our revenue growth. Together with the substantial opportunity to improve all aspects of our business model, this

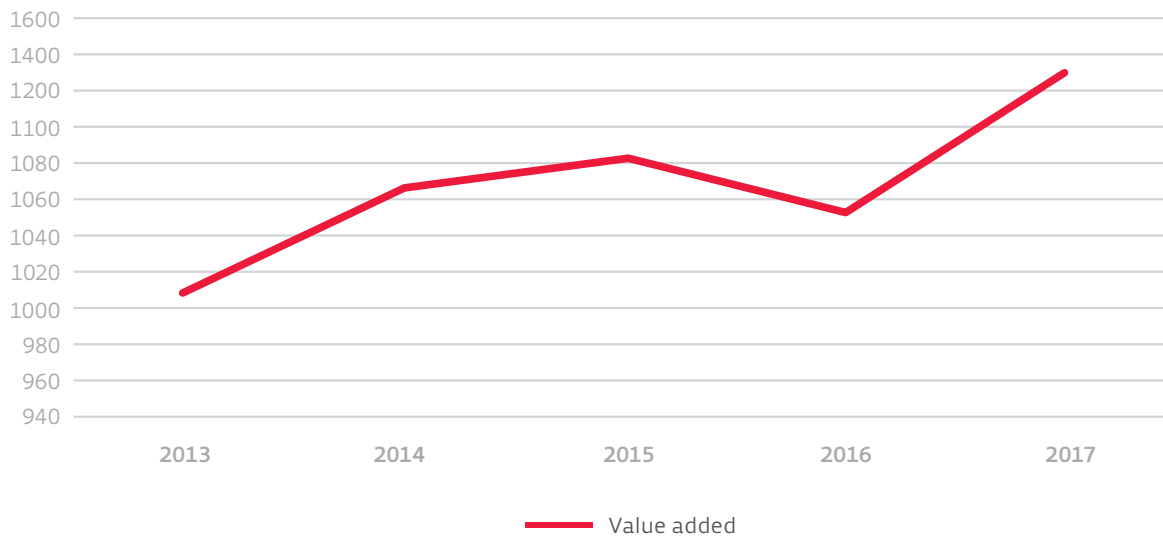
allows us to grow our cash flows, reinvest and provide attractive returns to our shareholders.

**Table 8. Profitability indicators of Bakcell Group**

	2014	2015	2016	2017	2018
Operating profit margin	23%	21%	9%	14%	18%
Return on equity	44%	21%	15%	20%	19%

The slowdown of 2016 was not only pertaining to Bakcell Group, but to the overall economy of Azerbaijan. 2016 was a difficult year for our country, with a 3.4% reduction in GDP (and a 5.6% reduction in non-oil GDP), and a 12.4% inflation rate (The State Statistics Committee of Azerbaijan, 2016). The following figure shows the GDP contribution of ICT industry in Azerbaijan, where it is clearly evident that the whole industry, not only our organization, experienced a major slowdown in 2016.

**Figure 12. GDP contribution of ICT industry in Azerbaijan, thousand AZN**



Our liquidity position has also improved over the past two years, with a 209% increase in 2017 as compared to 2016.

**Table 9. Liquidity indicators of Bakcell Group**

	2014	2015	2016	2017	2018
Current ratio	0.71	0.84	0.65	1.36	1.18
Quick ratio	0.47	0.57	0.36	0.91	0.84

We continue investing in our network infrastructure to further expand coverage, improve reliability, and enhance data speeds, which is why we took a long-term loan in 2017 for further investment. This strong and differentiated position enables us to provide our customers with an outstanding user experience, with a dropped call rate for voice of just 0.19%, and a voice accessibility of 99% as of 2018.

We are strongly aware that there are many factors that may influence our future performance, including the successful introduction of new services for both data and voice. Factors affecting future turnover and profit performance are the potential for growth of telecommunications market in Azerbaijan, the impact of regulatory changes, the start-up costs of new products and services, and our ability to retain high-value customers and to stimulate more usage of our services using new technologies.

As one of the leading communications service provider in Azerbaijan, at Bakcell Group, we believe we need to look beyond the role of a connectivity enabler. We have a strong ambition to deliver innovation faster into the market and leverage platforms to transform the existing technological infrastructure for a faster implementation of innovation. We thoroughly research current state-of-the-art technologies, and evaluate best practices for effectively deploying Internet of Things (IoT), artificial intelligence (AI), as well as virtual and augmented reality technologies. Our subject matter experts monitor market trends to identify potential areas for the development of new products and restructuring of existing systems. We are actively collaborating with major communications vendors, and are studying all global cases for implementing latest digital technologies. Our technology transformation strategy is aligned with the latest industrial trends and implementation is in line with emerging business requirements.

With that being said, we believe that the future does not only lie solely in launching innovative concepts. In fact, we believe the future lies in adopting a smarter approach to providing services and integrating complex multimedia ecosystems. As part of our strategic outlook, we are currently pursuing what is known as a “smart enabler” strategy, using our telecommunications assets to promote innovation, integrate industry ecosystems, and foster change in consumer behavior.

**Table 10. Bakcell Group’s Smart Enabler strategy**

<b>Ecosystem integration</b>	<ul style="list-style-type: none"> <li>• Collaborate with partners to create industry standards and open ecosystems</li> <li>• Foster alliances to create customer awareness and communities, and to take advantage of brand affiliations and marketing clout</li> </ul>
<b>Customer analytics</b>	<ul style="list-style-type: none"> <li>• Provide real life insights into consumer behavior</li> <li>• Offer tailored solutions and instant recommendations to customers</li> </ul>
<b>Enabling platforms</b>	<ul style="list-style-type: none"> <li>• Develop platforms that allow participation of multiple stakeholders and encourage the creation of new services</li> </ul>

Our business strategy remains committed to driving future growth of our Group by means of continuous technological innovation and operational advancement. Our ambition is to become the leading provider of connectivity and internet services in Azerbaijan by increasing and enhancing access to services that matter the most, while building trust with our stakeholders through responsible and sustainable behavior.



 bakcell

**4G**

**OLAN HƏR YERDƏ  
INTERNET**

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## 4.4. Environmental performance

### 4.4.1. Energy and climate change

There is clear evidence that global temperatures are rising rapidly and a consensus that man-made greenhouse gases (GHGs) are having a direct impact on climate change. Information and communications technology (ICT) industry is responsible for a high percentage of total carbon emissions, due for instance to the electricity used in the transceiver stations and the cooling systems. Energy use is also growing as subscriber numbers increase. The Global e-Sustainability Initiative estimates that by 2020, the mobile industry will compose about 51% of the global ICT energy-related emissions (GSMA, 2018). This means businesses operating in communications industry will need to develop actionable strategies to reduce the impact on climate change while supporting new trends and securing supply of resources.

At Bakcell Group, we believe digital revolution and environmental protection are not incompatible. Information and communication technologies have been a key factor in the increased use of green electricity, more intelligent heating and cooling systems, and reduced emissions due to digital tools such as web-conferencing, e-learning, online education and others, which contribute to cutting back on traveling, whether for business or education.

We recognize and acknowledge our responsibility to mitigate the environmental consequences of our growth. A significant share of our total GHG emissions originates from the energy use in our network. Introduction of large-scale implementation of network energy efficiency measures remains our primary objective. We acknowledge that the benefit of focusing on energy efficiency in our business not only contributes to a low carbon economy, but it also reduces costs, helps to manage risks and strengthens our brand reputation.

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The typical annual CO<sub>2</sub> emissions per average subscriber is now about 25kg CO<sub>2</sub>, which equates to the same emissions created by driving an average car on the motorway for around one hour.

Source: GSMA, 2018



**Table 11. Energy consumption by source**

	2016	2017	2018
Grid electricity, kWh	n/a	44,690,016	46,370,184
Diesel and petrol, liter	713,770.40	623,457.80	503,342.70

**Table 12. Energy intensity ratios**

	2016	2017	2018
Energy intensity per subscriber	n/a	15.37	16.03
Energy intensity per employee	n/a	312,517.59	353,970.87

We are currently focusing on improving the measurement of our Scope 1 and Scope 2 carbon emissions, and haven't started to measure our Scope 3 emissions yet. This proves to be one of the current challenges facing our business, since we have outsourcing agreements relating to the building, management and maintenance of our network assets. We are aware that the bulk of our energy consumption comes from base stations, therefore we have used consumption-based information with the knowledge of technical capabilities of different types of equipment used. Our preliminary estimations are shown below, with reference to conversion factors provided by the International Energy Agency in 2018.

**Table 13. GHG emissions at Bakcell Group**

	2016	2017	2018
Scope 1 GHG emissions (tons CO <sub>2</sub> e)	n/a	27,707.81	28,749.51
Scope 2 GHG emissions (tons CO <sub>2</sub> e)	1,795.85	1,568.62	1,266.41
Scope 2 GHG emissions per subscriber	0.00061	0.00054	0.00044

Our future focus is on fostering a deeply embedded group-wide approach to environmental performance to correctly identify and reduce our impact on the environment. Increasing our energy efficiency, and thereby reducing our GHG emissions is on our priority list, and we are currently exploring the options for using alternative energy sources.

#### 4.4.2. Water and waste management

We strive to reduce environmental and health impact of our operations and supply chain through the responsible use of natural resources and ongoing reduction of waste. We strictly adhere to local environmental legislation, and there have not been any incidents of non-compliance with applicable environmental laws during the reporting period.

Consumption of drinking water during the reporting period is shown in the table below.

**Table 14. Water consumption at Bakcell Group**

	2016	2017	2018
Total water consumption, liter	34,370	10,415	2,096

We acknowledge that for a better integration of sustainability into our business operations, we need to harmonize our resource and waste management with international standards. For this reason, we are currently in the process of obtaining ISO 14001 Environmental Management System (EMS) certification, which is planned to be finalized by the end of 2019. Hence, upcoming reports will feature more information on our water and waste management metrics.

# To a better future with innovation in connectivity...

## **Fastest mobile network in Azerbaijan**

In 2018, Bakcell was recognized as the Fastest Mobile Network in Azerbaijan.

We became the winner of the prestigious “Fastest Mobile Network Speed-test Award” for the period of Q1-Q2 of 2018. This award, presented by the world-famous company Ookla, recognizes Bakcell’s commitment to delivering fastest speed to customers all across Azerbaijan.

During the award period, Ookla compared user-initiated tests taken on the speed-test iOS and Android mobile apps from all the major mobile carriers in Azerbaijan to determine who showed the fastest mobile network speeds. According to results, Bakcell’s network had the best speed-test score in all the measured categories. Thus, it was confirmed that Bakcell has the best average download speed in the country, as well as the lowest average latency time on the market. This information, issued by the most reliable network testing and analysis authority in the world, is based on almost 80,000 test counts (via the speed-test platform) done by Azerbaijani users from more than 18,000 unique devices.





# PEOPLE

## 5. People

Our people management is governed by the following regulatory documents, which are under continuous improvement to gain more efficiency:

Document Title	Purpose	Date of Latest Adoption
<b>Code of Conduct</b>	To maintain and instill a standard of behavioral conduct that is acceptable to the Group, its suppliers, customers, and other employees.	06/04/2018
<b>Code of Ethics</b>	To provide guidance and set common ethical standards to promote consistency in behavior across all levels of employment. The Code governs the actions and working relationships of Board members with employees and in dealing with other stakeholders.	To be restructured and adopted by the end of 2019
<b>Performance Accomplishment Bonus Policy</b>	To define rules and principles for calculation and payment of annual performance accomplishment bonuses to employees.	12/11/2018
<b>Employee Benefits Policy</b>	To provide employees with pertinent information and guidance on types of benefits they are entitled to and identify their principles of application.	08/01/2018
<b>Employee Termination Policy</b>	To provide overall framework within which employee termination and handover process is performed.	To be restructured and adopted by the end of 2020
<b>Learning and Development Policy</b>	To provide overall framework within which employees' development and training needs are identified and implemented.	30/07/2018
<b>Performance Management and Development Policy</b>	To provide overall framework and standards within which Performance Management is planned and executed throughout the year.	21/11/2018
<b>Leave Policy</b>	To provide rules and guidelines related to types of leave, terms of granting leave, and occupational disability in compliance with the Labor Code of the Republic of Azerbaijan.	To be restructured and adopted by the end of 2020
<b>New Hires Registration Procedure</b>	To provide rules and guidelines related to registration of the newly hired employees in compliance with the Labor Code of the Republic of Azerbaijan.	26/07/2019
<b>Grievance Policy</b>	To provide overall framework within which employees can raise a grievance and the guidance for solving the grievances.	To be restructured and adopted by the end of 2020
<b>Recruitment Policy</b>	To provide a structured and consistent approach to all recruitment processes and guide involved parties.	To be restructured and adopted by the end of 2020

Document Title	Purpose	Date of Latest Adoption
<b>Drug and alcohol policy</b>	To provide standards of conduct regarding the use of drug and alcohol, the responsibilities of the Group, its employees and other persons, as well as the consequences of violation of this policy.	To be restructured and adopted by the end of 2019
<b>Medical Checkup Policy</b>	To define overall rules and guidelines for medical check-up of employees.	To be restructured and adopted by the end of 2019
<b>Overtime Procedure</b>	To provide rules for the regulation and documentation of overtime hours.	To be restructured and adopted by the end of 2019
<b>Succession Planning Procedure</b>	To provide main rules and regulations for Succession Planning activities to identify and prepare candidates for key positions within the Group.	To be restructured and adopted by the end of 2019
<b>Corporate Dress Code</b>	To provide business dress code rules for employees for the establishment of a professional business image.	To be restructured and adopted by the end of 2019
<b>Farewell Policy</b>	To provide overall rules concerning the organization of farewell parties for departing employee at Group's expense.	To be restructured and adopted by the end of 2019

**5.1. Responsible employer**

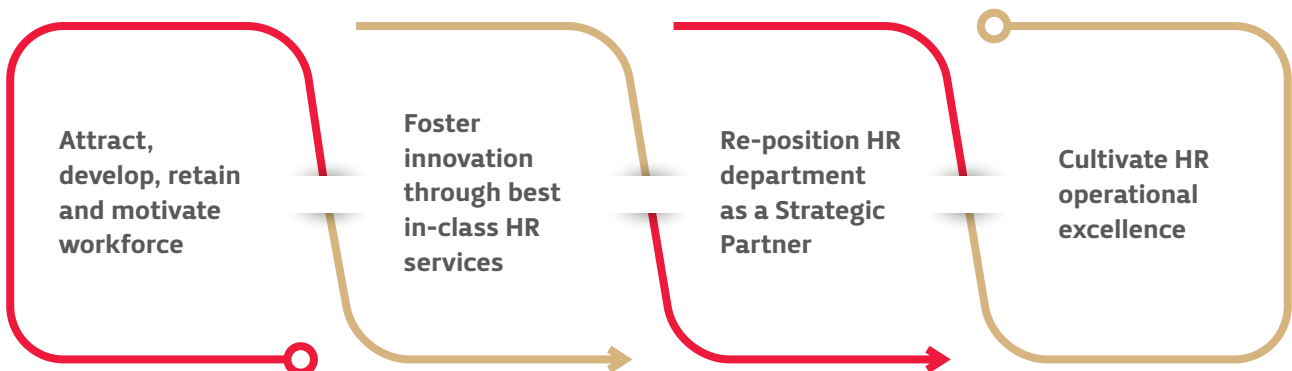
**5.1.1. Talent management and development**

The progress we have made so far, and our determination to build on this progress, is a testament to the ambition and dedication of our people, who we cherish above all at Bakcell Group.

Our employees are expected to embody our values in everything they do – the way they conduct themselves, treat others, and work with customers

and suppliers. We strongly believe that every employee's action, regardless of their position or title, has the potential to impact our reputation, which is why professional excellence is a prerequisite.

We are investing in our people through our newly developed strategic framework for talent management, which determines the following directions for future growth.

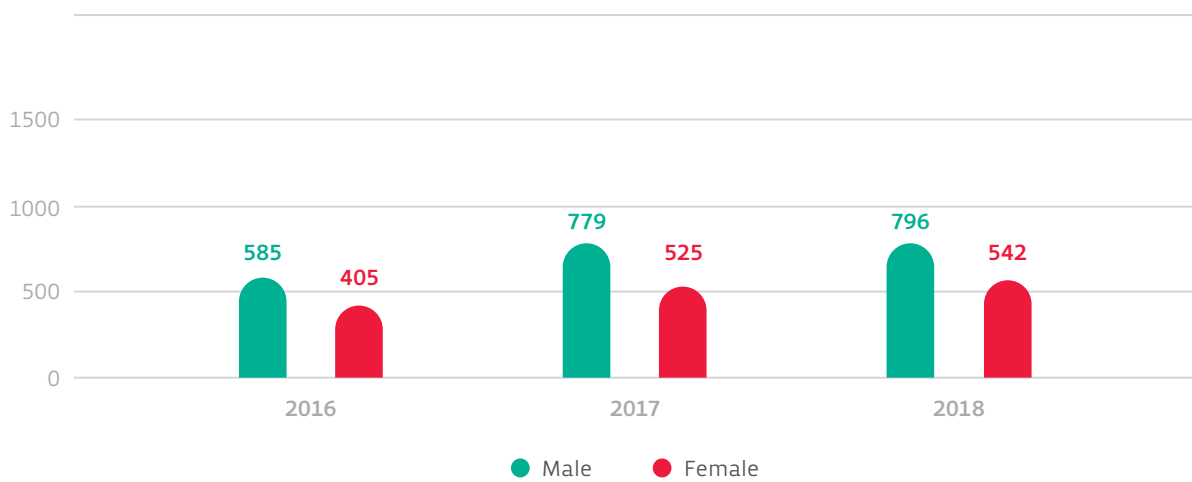


Our strategic framework is driven by several internal and external influences including business performance, overall strategy, vision, mission, values, as well as our talent strategy and workforce analytics. Our aspiration is to achieve more sustainable relations with our employees, better talent retention and cultivation of a fully transparent value proposition for our people.

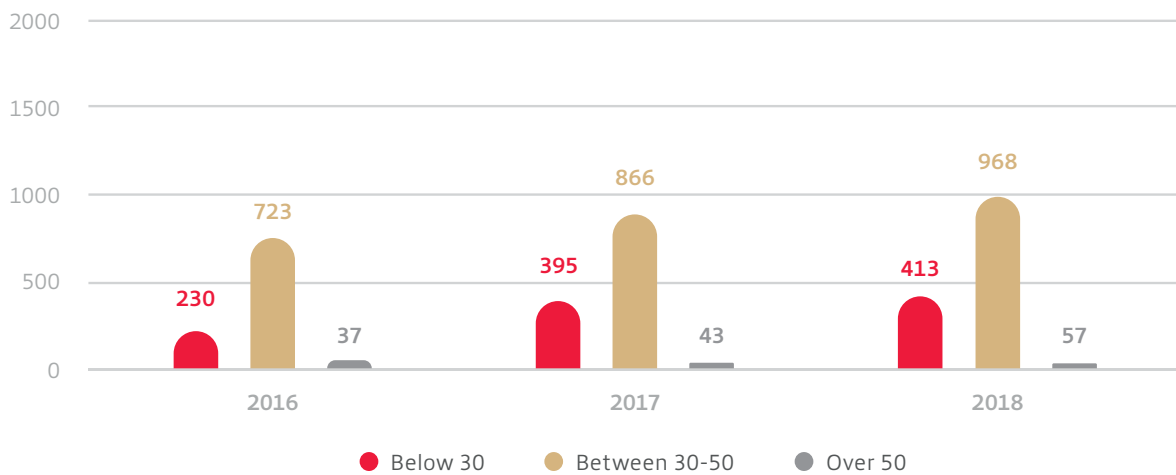
We are currently deploying one of the best-in-class HRMIS<sup>1</sup> systems, i.e. Oracle, and there is an ongoing project to shift into Oracle’s cloud-based version – Fusion.

The following tables show our employee demographics by age and gender.

**Figure 13. Number of employees, by gender**



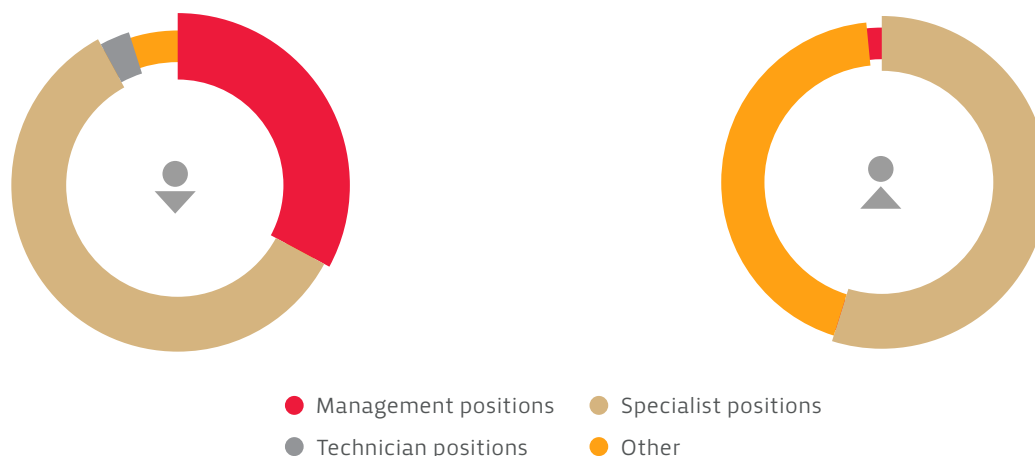
**Figure 14. Number of employees, by age**



<sup>1</sup> Human Resource Management Information System

The figure below shows our employment categories by gender.

**Figure 15. Employment categories of Bakcell Group, by gender**



As can be observed from the above graph, there is currently a lack of female representation on management level. This is an issue we acknowledge, and are considering group-wide women empowerment initiatives to tackle it.

We continuously keep education and professional development of our country’s youth in constant spotlight, largely contributing to employment rate among young specialists. Through our “Smart Start” internship program, targeting students and graduates aged 18 to 25, we provide ambitious and talented young people with the opportunity to gain practical training in our Group, attend business ethics and career development training sessions, and familiarize themselves with the professional life at Bakcell Group.

The following tables show the statistics of hired and dismissed employees. As mentioned above, in 2017 we underwent a restructuring, as a result of which most of our employees were provided with employment at a subsidiary.

**Table 15. Statistics of hired and dismissed employees, by gender**

	2016		2017		2018	
	Male	Female	Male	Female	Male	Female
<b>Employees hired</b>	15	11	26	17	189	35
<b>Employees dismissed</b>	76	23	291	306	138	60

**Table 16. Statistics of hired and dismissed employees, by age**

	2016			2017			2018		
	< 30	30 – 50	50 <	< 30	30 – 50	50 <	< 30	30 – 50	50 <
<b>Employees hired</b>	14	10	2	22	21	0	48	174	2
<b>Employees dismissed</b>	38	54	7	131	446	20	3	163	1

**Table 17. Employee turnover rate, %**

	2016	2017	2018
<b>Employee turnover rate</b>	14.2%	9.6%	16.2%



Fundamental to our talent management is our approach to performance evaluation and development of staff competency. We put the emphasis on helping our employees to achieve long-term success through regular feedback, frequent career conversations, accurate performance measures and feasible goal-setting. KPIs are cascaded down for every employee based on their job responsibilities, taking our corporate strategy and annual targets as the basis. Employees are provided with annual performance evaluations by their direct supervisors based on the following four criteria:



**Responsibility** – to determine the ability to pay attention to most important issues and provide optimal choice of behavior strategy for results achievement



**Energy** – to determine the extent to which the individual works productively, without breaks and distraction, completes tasks simultaneously, and how quickly he or she restores their energy



**Motivation** – to determine readiness to demonstrate commitment to work and to undertake new and unfamiliar tasks without fear



**Proficiency** – to determine quality and experience, which influence accuracy, speed and organization of assignment implementation

We firmly believe in nurturing leadership capabilities of our people to meet organizational needs of our business, whilst also accommodating our employees’ personal development goals. We will continue investing and prioritizing our people, and equip them with necessary skills to overcome the challenges of a new digital world together.

### 5.1.2. Diversity and inclusiveness

At Bakcell Group, we believe our ability to understand and embrace diversity is critical to our business success and sustainability. We are committed to the principles of equality and diversity in employment, regardless of a person’s gender, color, marital status, race, nationality or ethnic origin, religion, sexual orientation, disability, age or criminal conviction which is unrelated to the employment offered. We ensure that no requirement or condition is imposed without justification which could disadvantage individuals on any of these grounds.

In 2017, together with the British Embassy in Azerbaijan, we supported a conference held by the British Council, on enhancing employability

prospects for people with disabilities. The project aims to increase employability prospects and the skills of people with disabilities living in Baku, Azerbaijan. Project participants attend various classes on English, computer skills, and soft skills.

We support diversity and inclusion not only within our Group, but also for our society as a whole. That is why, earlier in the same year, together with the Center for Social and Psychological Studies (CSPS) we announced the launch of a new social project, focused on the creation of the “Web-portal for Developing Social Entrepreneurship Skills among Vulnerable Groups of Population”. The main goal of the project is to create opportunities for socially disadvantaged individuals with entrepreneurial and practical skills to find a job, or offer their services and products by creating and promoting their profiles on the website, that will eventually help improve their economic conditions and integrate to the society.

The following table shows the number of employees from vulnerable groups employed at Bakcell Group.

**Table 18. Total number of employees by vulnerable groups<sup>2</sup>**

	2016	2017	2018
<b>Disabled</b>	6	2	32
<b>Internally displaced</b>	12	1	42
<b>War veterans</b>	3	0	3

<sup>2</sup>The sharp increase in 2018 figures is due to the fact that data for employees from vulnerable groups for AzerTelecom and AzerConnect has not been added due to unavailability

We are proud to say that during the reporting period, there have been no incidents of discrimination at Bakcell Group.

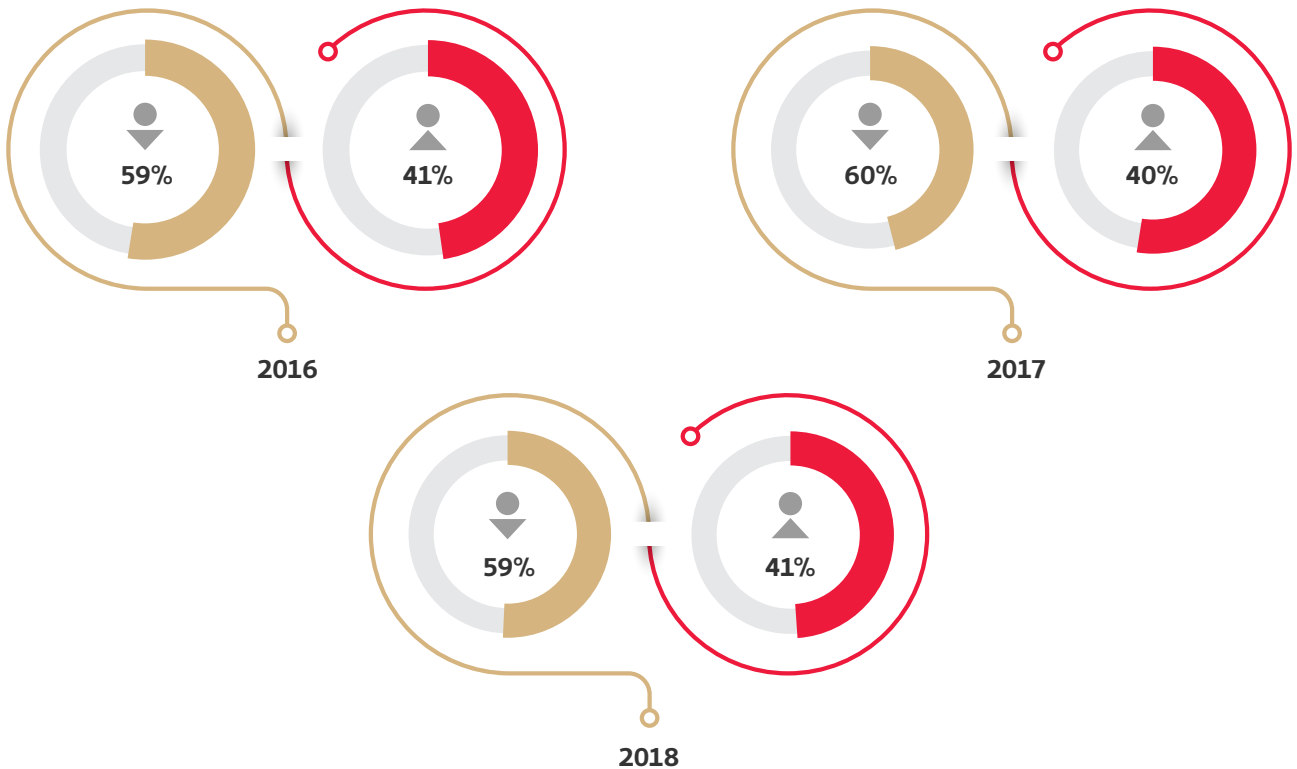
We will continue promoting our diversity and inclusiveness agenda for a more inclusive society, and will report on our progress in the upcoming reports.

**5.1.3 Women’s empowerment**

Gender equality is a major challenge both at local and global levels. Not only does it affect the lives of individual men and women, but the inequality of genders also stunts economic growth and hinders development. At Bakcell Group, we strongly believe that the best way to sustainably alleviate poverty and stimulate development is to focus on initiatives to help women empower themselves. Central to empowerment initiatives are education and employment.

The following figures show the share of female employees in Bakcell Group over the past three years. We are proud to demonstrate our commitment to hiring and promoting women, and being an employer known for a solid stance on anti-discrimination.

**Figure 16. Share of male and female employees at Bakcell Group during the reporting period, %**



Outside of our Group, we have launched several initiatives aimed at promoting women empowerment. One of such initiatives was to encourage and stimulate social development of women in Sabirabad and Salyan regions, in partnership with the United Nations Development Program. The purpose of the initiative is to establish networking to increase collaboration among the women through an online platform, to enhance their job-searching skills, and to contribute to the development of small businesses among the female participants.

Participants are granted with access to an online platform where they can attend online courses and webinars on how to create business plans, how to build online business, basic accounting skills, basic IT skills, and more.

We closely monitor our performance on gender equality both inside and outside our Group, and do not tolerate any form of negative discrimination. Nurturing equal opportunities will remain a core principle for us moving forward.

#### 5.1.4 Health and safety

Although a large proportion of Bakcell Group's employees work in offices and face a relatively low level of occupational health and safety hazards, we nevertheless treat the safety of our employees as one of our highest priorities. Occupational health and safety is governed by national labor protection laws and regulations, as well as our Health, Safety and Environmental Policy. There are also two separate formal procedure documents for **incident handling and incident investigation**.

We continuously invest in improving our occupational health and safety procedures. Number of days lost due to occupational diseases, and injuries or accidents during the reporting period also equate zero. The table below shows our OHS related expenditures during the reporting period.

The sharp increase in 2018 is due to the purchase of automatic fire suppression system that controls and extinguishes fire without human intervention. The system will be implemented on our strategically important sites to ensure business continuity and to prevent disruption due to fire accidents.

**Table 19. OHS expenditures, in thousand AZN**

	2016	2017	2018
<b>Expenditures on initiatives to improve working conditions</b>	80,000	80,000	1,200,000
<b>Personal Protective Equipment (PPE)</b>	30,000	30,000	30,000

With that being said, it's noteworthy to mention that during the country-wide power outage in July 2018, due to the accident at Mingachevir power station, we were able to ensure high reliability and stability of voice and internet services, and hence maintain continuity of our operations thanks to technical capabilities of our network equipped with the state-of-the-art technology. During the week of the accident, our network was switched to enhanced and reinforced operation mode. Within the framework of preventive actions, taken on an expedited basis to ensure flawless and uninterrupted provision of mobile services, we used additional energy sources, and hundreds of stationary and portable generators, aiming to prevent any power outage at mobile base stations.

We currently employ Network Operations Center (NOC) through which 24/7 monitoring of our technical sites and data centers is conducted. We also regularly train our employees on OHS issues to cultivate a culture of safety consciousness and maturity.

We are currently in the process of obtaining ISO 9001 Quality Management and ISO 45001 Occupational Health and Safety certifications, and we expect the process to be finalized by 2020.

It is one of our greatest points of pride that during more than twenty years that Bakcell Group operates, there have never been any incidents of fatality or lost time injuries.

## 5.2. Impact on society

### 5.2.1. Economic and social impact

Over recent decades businesses have begun acknowledging that their engagement with society is now viewed in a much broader context than solely paying taxes and creating value for shareholders.

Our economic performance not only directly influences our ability to maintain a long-term, healthy business, but also to distribute the created wealth – through salaries to employees, as taxes to the governments, as donations to charitable causes, and as profit and dividends to our shareholders.

As one of the largest investors in the economic arena of Azerbaijan, our Group is contributing to prosperity and sustainability of our country through investments in state-of-the-art telecommunications technology, and in our people who serve the customers.

We identify three principal ways in which we can classify our economic and social impact. Direct impacts are those resulting from our own operations, such as creating employment, training, or generating returns for our shareholders. Indirect value is created through our supply chain, by creating indirect employment and prioritizing local businesses. The third type of impact we identify, to which we like to refer as the ‘ripple effect’, is the one that is generated by our services through the multiplier effect. We are committed to conducting more in-depth impact valuation in the future reporting periods, to support our goal of ensuring long-term, successful and sustainable value creation for all our stakeholders.

### 5.2.2. Human rights management

Bakcell Group’s commitment to respect and protect human rights covers not just our own operations and employees, but also governs our relationships with communities, suppliers, and other stakeholders potentially impacted by our products and services. Respecting the rights and dignity of every individual affected by our business operations is a critical element of our culture. We aspire to lead by example to positively influence others to do the same, hence adding value to communities, employees, suppliers and consequently, society.

We aim to create a work environment that is grounded in dignity and respects human rights. We have determined the following principles according to which we are building our work culture, ensuring our people embrace these principles and comply to the standards we expect of them.

**Table 20. Bakcell Group’s Human Rights Commitments**

**We commit to conducting our business in a manner that respects the rights and dignity of everyone.**

**We commit to honoring the United Nations Guiding Principles on Business and Human Rights.**

**We commit to complying with all applicable laws and respecting internationally recognized frameworks.**

**We commit to never willingly being complicit in human rights violations.**

**We commit to treating everyone fairly and without discrimination.**

There is currently no formal assessment mechanism for assessing our operations and supply chain for human rights related risks, but we recognize that long-term business performance is improved by sustainable operations which respect human rights and adhere to the highest standards of ethical conduct. It is part of our future plans to integrate human rights assessment into our business processes, and introduce formal human rights training both for our people and partners. Although we are realistic and acknowledge that total conformity to human rights across our supply chain is a long-term aspiration, we still strive to develop this direction further in the upcoming reporting periods.



# To a better future with innovation in data...

## First internet package sharing among subscribers

Bakcell is making mobile internet even more accessible to its customers. For the first time in Azerbaijan, Bakcell offers its subscribers the opportunity to share internet packages. This allows subscribers to share their internet packages with up to 4 other people of their choice. In such a way, several subscribers will be able to use one shared internet bundle (“Paylaşılan”) at the same time. This internet bundle can be used on mobile phones, tablets, data cards and other devices.





# GROUP ENTITIES



## 6. Group Entities



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Bakcell is the first mobile operator and the fastest mobile internet provider of Azerbaijan.



## 6.1. Bakcell

### 6.1.1. Five years in brief



- Joined the International Coastal Cleanup initiative
- “Smart Start” internship program launched
- “The Mobile Internet Provider of the Year Award” received
- Customer Experience Management (CEM) system launched
- Mobile Number Portability (MNP) service launched
- AppLab Center was launched in cooperation with Qualcomm



- Bakcell recognized as “The Best Mobile Network” in Azerbaijan
- “AmCham Excellence Award” received
- Partnership with Wayra UK signed to help scale start-ups in Azerbaijan
- Call Center complaints decreased by 61%
- First and only MNO in Azerbaijan to offer 4G roaming services to Azerbaijani customers and visitors to Azerbaijan



- Real Unlimited Internet Bundles for tablets and USB modems introduced
- Migration from prepaid to postpaid tariff packages established
- Bakcell Corporate Portfolio rebranded
- Applab projects attracted British investors
- MyBakcell Toolbar introduced, enabling customers to manage their balances and services on the phone



- Demonstration of 5G readiness and 4.5G Pro for the first time in Azerbaijan
- 4G LTE service launched in Ganja
- HD Voice Technology introduced for the first time in Azerbaijan
- “Best in Test Mobile Network in Azerbaijan Award” by P3 Communication



- First Bakcell concept store opened in Baku
- Fastest Mobile Internet in Azerbaijan, confirmed by Ookla
- “Best Performance Award” received at “Bakutel-2018” exhibition
- “My Bakcell” app was launched, reaching 200k customers by the end of the year
- Online chat function introduced in “My Bakcell” app
- First mobile residency in the world issued during the Digital Trade Hub Conference
- 4G service introduced for the first time in Azerbaijan in Baku subway
- 4G coverage in regions
- National CSR Award 2018 received

### 6.1.2. Corporate governance

Bakcell, the parent company of Bakcell Group, was incorporated as a Limited Liability Company in 1996 by the Ministry of Justice of Azerbaijan with the state registration No. 9.

As a result of organisational restructuring in 2017, we have retained only commercial business processes within the company, outsourcing the rest of the functions to our subsidiary.

Chaired by the Chief Executive Officer, our management team directs the company's business affairs, including the delivery of a competitive strategy, developing our reporting structure, driving financial performance, and ensuring sound succession planning and talent pipeline. The Chief Executive Officer is the sole executive body of Bakcell and carries out day-to-day management of the company in accordance with the Charter.

### 6.1.3. Connectivity and digital access

With more than 7000 base stations, Bakcell's network now covers<sup>3</sup> more than 99% of the population and 99.7% of the geographical area of Azerbaijan, excluding the occupied territories. As a result of heavy investment into the network, in 2018 more than 800 new LTE stations were launched, almost 300 of which were located in the regions of Azerbaijan. Bakcell currently provides the best quality 4G services through the biggest LTE network in the country with more than 1700 LTE stations.

In 2015, Bakcell commercially launched its 4G LTE technology for the first time in Azerbaijan. Today, Bakcell ensures the best quality 4G services in all regions of the country (excluding Nakhchivan) thanks to its long-term successful strategy of investing in the latest technologies, and its best and fastest 4G network in Azerbaijan.

Bakcell offers a wide range of products and services to users of modern mobile communications services. The company provides its customers with the best-in-class 4G mobile internet. Bakcell has also launched the most beneficial roaming data bundle in Azerbaijan as a result of extensive cooperation with Vodafone, and is the first mobile operator to introduce 4G internet in Baku subway.

In 2018, Bakcell won the "Fastest Mobile Network Speed-Test Award" by Ookla, the global leader in internet testing and analysis, and was also recognized as the "Best in Test" in Azerbaijan by P3 Communications, a highly reputable independent authority in mobile benchmarking.

In December 2018, Bakcell opened its first mono-brand concept store in Baku, designed as a 'one-stop' destination for device, accessories and SIM card sales, as well as customer care function.

Bakcell is currently the fastest mobile internet provider in Azerbaijan, offering a wide range of products and services, and providing its customers with best-in-class mobile internet. We continue promoting upgraded network construction, striving to harmonize telecommunications services in Azerbaijan and accelerate the implementation of speed upgrade and innovative solutions. We not only consider sustainable business practices as the backbone of our success, but also believe that sustainability is imperative to protecting and enhancing the communities in which we work and live. Whether we are protecting our customers' privacy, advancing transparency, respecting human rights, engaging with our suppliers and communities, our goal is to always earn our stakeholders' trust through responsible, ethical activities and outcomes that serve their interests.

The biggest aspiration we have as one of the leading telecommunications service provider in Azerbaijan, is to expand our core business by transforming ourselves from solely a telecommunications company to digital telecommunications company. We are constantly on the lookout for new opportunities in adjacent industries such as machine-to-machine technology (M2M), cloud computing, safety, video and digital homes, and mobile applications. To support the growing maturity of existing services, and enable the next generation of digital services, we need flexible and adaptable platforms that adhere to industry standards. We have already made some progress on this strategy over the past years, with a focus on the digitalization of our core infrastructure, transforming our networks and systems to host and provide new services and improve the ways we engage with our customers.

<sup>3</sup>In telecommunications, the coverage of a radio station is the geographic area where the station can communicate.

**Table 21. Network infrastructure of Bakcell**

	2016	2017	2018
Number of Base Transceiver Stations (BTS)	5919	6670	7548
Number of servers	39	44	44
Number of technology centers	5	6	6

We are currently actively investing in digital technologies, deploying the latest cloud-based platforms that enable us to develop and embed new digital communications features. Our aim is to successfully adapt to industry and market shifts, and incorporate digital transformation into our culture and business operations. We acknowledge, therefore, that 3G may not be sufficient for meeting the needs of future high-performance applications such as multi-media, full-motion video, and wireless tele-conferencing.

Considering this, we continue deploying high-quality services across the market, most recently with the launch of high-speed 4G LTE technology, first in Baku and Absheron peninsula, in 2015. The coverage of LTE was later extended to regional city centers, and subsequently reached 57.5% population coverage, and 28.6% geographical coverage. We are planning to cover entire Azerbaijan by the end of the second quarter of 2020. Current share of LTE traffic is already at 50%. Some of our main connectivity KPIs are listed below, to demonstrate the trend over the reporting period.

**Table 22. Connectivity key performance indicators of Bakcell**

	2016	2017	2018
Average 3G network downloading rate, kilobyte per second	2335	2209	2400
Average 4G network downloading rate, kilobyte per second	12498	14963	14612
Data traffic, petabytes	7.83	21.57	33.68

In addition to above-mentioned, we are also actively investigating 5G core network infrastructure, requirements and strategy. Our analyses reveal that there is currently a high infrastructure cost for deploying 5G. A new radio frequency range is needed to depart from overcrowded 3G and 4G frequencies, and these high-frequency bands will provide new unutilized spectrum available for 5G. To take advantage of the higher data rates, the infrastructure of inner core of networks needs to be upgraded as well. This would mean a complete conversion to fiber optic cables for the operators. Considering insufficient maturity of the local market and deployment costs we are currently not yet planning to launch 5G, however we are continuing to research and explore our options in preparation for the roll-out.

#### 6.1.4. Network coverage and reliability

Bakcell is currently one of the leading providers of connectivity and internet services in Azerbaijan. The coverage and reliability of our mobile network are central to a positive customer experience. We continue investing in enhancing our network to improve coverage, reliability and consumer experience. Our investment in new technologies has resulted in a significant enhancement of the mobile data speeds available to our customers. We are especially proud to have been named **Azerbaijan's Fastest Mobile Network** in 2018 by Ookla, the global leader in internet testing and analysis.

**Figure 17.** Azerbaijan’s Fastest Mobile Network Award from Ookla



The main functional metrics we use at Bakcell are listed below:

- **Accessibility** is the ability of a user to obtain the requested service from the network. When any user attempts to make a call/internet connection and relevant channel is successfully allocated from the network, then accessibility is considered as 100%.
- **Retainability** is the ability of a service, once obtained, to continue to be provided under given conditions for a requested duration. Any drop of service without customer will is considered to be Drop Rate.
- **Availability** is the percentage of time during a day Cell is available and ready for service. Any outage or manual blocking could cause service interruption.
- **Call Setup Time** is the period of time between the lifting of a handset to make a telephone call and the start of voice or data session.
- **Network throughput** is the rate of successful message delivery over a communication channel. The data these messages belong to may be delivered over a physical or logical link, or it can pass through a certain network node. Throughput is usually measured in bits per second (bit/s or bps). It can be monitored by subscriber on Ookla application.
- **Cellular network** is basically a radio network of individual base stations. Each base station covers a small geographical area which is part of a uniquely identified location area. The location update procedure allows a mobile device to inform the cellular network, whenever it moves from one location area to the next to continue to be served.

Below are some of our main KPI trends over the course of past three years.

**Table 23.** Network improvement indicators of Bakcell

	2016	2017	2018
2G Voice Accessibility	98.83	98.82	98.98
3G Voice Accessibility	99.49	99.31	99.61
2G Drop Call Rate	0.48	0.40	0.33
3G Drop Call Rate	0.26	0.27	0.19
Data Accessibility	98.39	98.19	98.93

The main factors affecting network utilization are traffic and subscriber growth. Monitoring of utilization is performed at various levels, including network elements, interfaces between network elements and capability access network elements for voice and data service. International data link utilization is separately monitored to avoid traffic interruption on a global scale.

### 6.1.5. Service quality and customer experience

Technology continues to revolutionize the way consumers communicate, travel, bank, shop, and seek entertainment. Our current focus is on digitalizing our core telecommunications business to ensure that our customers can interact with us online via different channels, while increasing customer satisfaction and realizing a lower cost structure for our business. We are therefore re-inspecting outdated systems and processes to enable new personalized services for our customers.

Customer satisfaction is the most vital measure of our success. The key to excellence is to create value for our customers by improving their experience tirelessly and systematically. It is of utmost importance to us that our customers recognize the value of our services and have positive experiences that bring them back to us repeatedly. We therefore aim to improve quality and promote transparency continuously by integrating customer relationship management into our approach through a key account management structure and a dedicated sales team.

Below are the main demographic indicators for our customers during the reporting period.

**Table 24. Customer demographics of Bakcell**

	2016	2017	2018
Number of customers, thousand	2,929	2,908	2,892
Number of 3G/2G customers, thousand	1,117	1,220	1,239
Number of 4G customers, thousand	34	147	384
Number of B2B customers, thousand	231	308	374
Number of B2C customers, thousand	2699	2600	2518
Share of female customers, %	47%	49%	50%

The following table shows the number of inbound calls we have received and processed, as well as the number of substantiated complaints received and resolved over the past three years.

**Table 25. Customer relationship metrics at Bakcell**

	2016	2017	2018
Inbound calls to our customer service centers	5,202,271	5,047,283	5,441,169
Number of substantiated complaints received	109,354	98,190	97,702
Number of substantiated complaints resolved	109,354	98,190	97,702
Customer satisfaction rate, %	N/A	85%	84%

Over the last two years Bakcell has been working in several directions for developing digital customer service channels and improving digital customer experience. In February 2018, Bakcell launched self-care web portal and application for Android and IOS platforms called **My Bakcell**. Within a little over than a year, number of customers who downloaded the application exceeded 320,000 and it is expected to reach 400,000 customers by the end of 2019. The number of successful operations per month through this channel reached 30,000 in 2018. The application has been included in “Top free productivity applications” in Play Store and “Lifestyle applications” in App Store, occupying the top-place for a long period. Our focus on digitalization and wide range of promotion activities besides the user-friendly design of the multi-functional application supports the increase of the user numbers on a daily basis. The application received positive reviews and feedback from our customers, with a rating of 4.2 in Google Play and 4.3 in App Store.

The wide range of functionalities inside the platform equips our customers with the ability to manage their numbers end-to-end without contacting traditional channels or visiting service centers. The fact that the usage of the application is free of charge, i.e. uses no data, creates additional comfort for customers. Some of the main functionalities of the application are as follows:

- Access to all available customer and subscription information
- Subscription to all available services of Bakcell
- Checking and topping-up the balance
- Tracking operations and usage history

In November 2018 Bakcell launched **Live Chat function**. More than 7,000 customer requests are handled 24/7 through this channel with an average of **20-second First Respond Time** on a monthly basis. During a year after the launch, we also worked on the improvement of customer experience (CX) inside the portal and developed several new functionalities, such as integration of the loyalty program, which has given our customers the ability to receive Bakcell’s loyalty benefits inside the application. In the near future, our customers will have several other options thanks to the application, among which are the following:

- Ability to manage more than one mobile number at once
- Voice command recognition
- Ability to restore expired, damaged or lost mobile numbers without going to front offices
- Ability to obtain a new mobile number
- Ability to set auto-payment for mobile numbers

Within a year of launching **My Bakcell** application, in February 2019 we launched **My Bakcell Business** platform – a self-care web portal and application for Android and IOS platforms for our B2B customers. Through this platform, our corporate customers can manage their accounts, including all mobile numbers. Using this platform representatives of B2B clients will be able to manage all operations without contacting traditional channels. Over 3,000 B2B clients will be able to benefit from this platform by the end 2019.

One of the other most successful products that we have launched is the loyalty program “**Ulduzum**”. All Bakcell customers can benefit from this program, which offers a range of benefits and services thanks to an extensive partnership network that we continue to update and grow. Discounts in almost any field are offered to subscribers who join the program – bank and insurance services, education and book stores, electronics and household goods, hospitality and entertainment, cafes and restaurants, beauty and health, fashion, and car services, to name a few. Customers may also earn additional value points from other local and international loyalty programs. Some of the main performance indicators of the program are shown in the figures below.

Figure 18. 'Ulduzum' loyalty program's main performance indicators

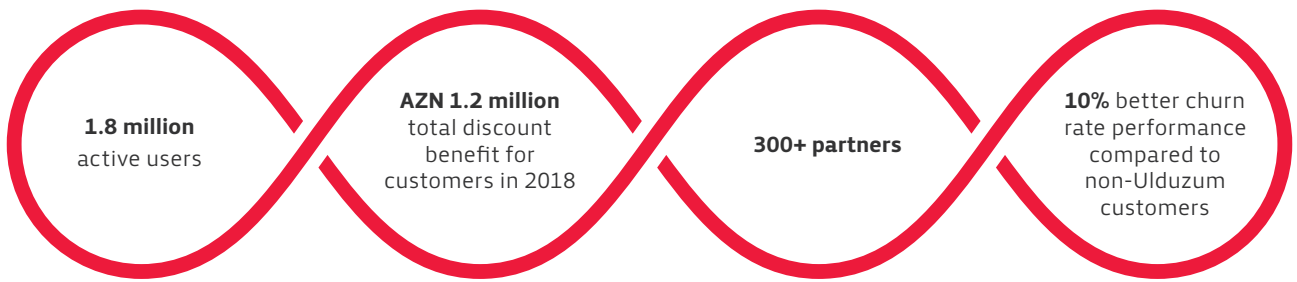


Figure 19. Bakcell 'Ulduzum' mobile application services



We also take great pride in offering efficient and tailor-made machine-to-machine (M2M) solutions to our customers. The following table features a list of our biggest M2M projects, where we provide secured connectivity with dedicated Access Point Names (APNs).



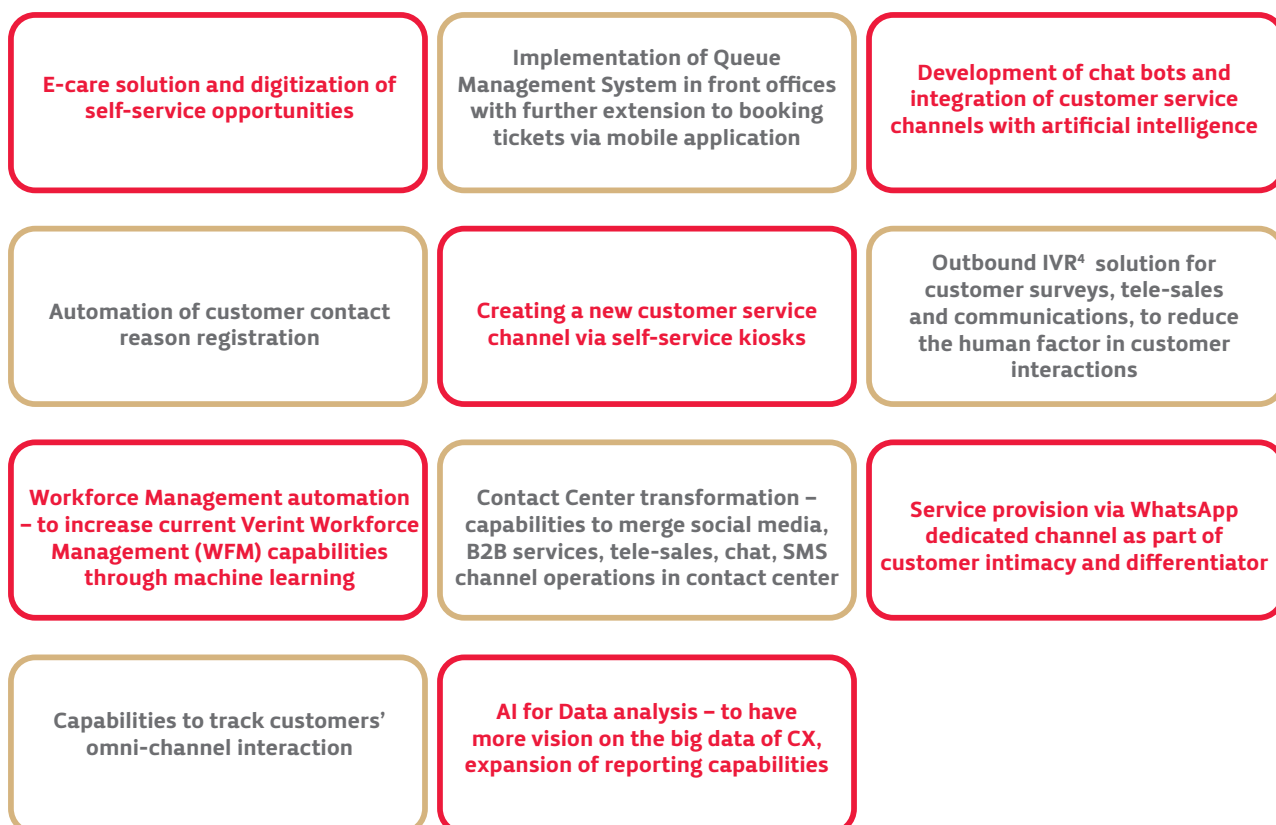
**Table 26. M2M projects of Bakcell**

Entity	Project scope
Ministry of Justice of Azerbaijan	Connectivity of bracelets for prisoners under house-arrest. Expected number of M2M SIMs is 21,000.
Ministry of Taxes of Azerbaijan	Connectivity for online cash-machines. 3,000 SIMs already provided, expected number of SIMs is 150,000.
State Customs Committee	Navigations for trucks and electronic seals. Expected number of SIMs is 5,000.
Private sector	GPS navigation for car rental companies.
Private sector	Connectivity of ATMs and pay points for most of the local banks.

By the end of the first quarter of 2019, we finalized the arrangements for cooperation with the largest over-the-top (OTT) and video-on-demand (VOD) service in the CIS – MEGOGO. This exclusive partnership provides our subscribers with a free access to up to ten thousand licensed and high-quality movies, cartoons, TV-shows and other video content for a period of 12 months.

We are currently working in the following areas towards further digitalization of our customer service.

**Figure 20. Future customer service digitalization projects of Bakcell**



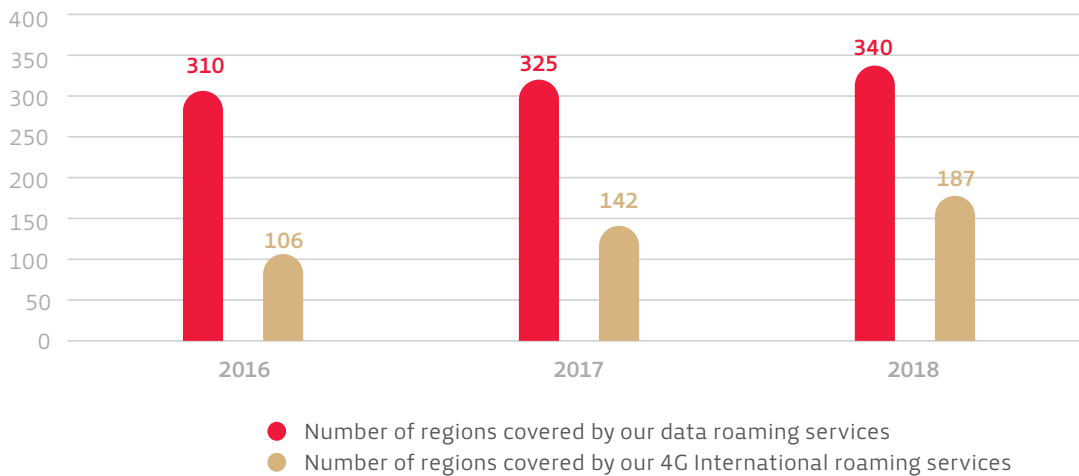
<sup>4</sup>Interactive Voice Response

We continue growing our roaming partnership network and aspire to be a leader in roaming services for subscribers in Azerbaijan. We have also introduced new roaming packages over the recent years, making roaming services even more accessible and beneficial for our subscribers.

Customers who prefer using internet while traveling will enjoy the new “Roaming Internet” packages. With these packages, available in more than 40 countries, there will be no more need to search for Wi-Fi or buy a local operator’s SIM card while travelling abroad. Moreover, users of “Roaming Internet” packages will enjoy free WhatsApp for texting and calling.

We also offer in-flight roaming service, which enables the customers to make and receive calls, send and receive SMS messages, and browse the internet on selected flights. This service is currently available on 20 flights, and we are planning to expand this number in the upcoming years.

**Figure 21. Roaming network coverage of Bakcell**



Social media is also one of the most important communication channels for us, and we continuously review feedback and comments received via our official pages. Socialbakers, a well-known company engaged in monitoring social network activities of large companies all over the world, confirmed that Bakcell responded to 100% of inquiries and requests received in 2018.

## 6.1.6 Awards and recognitions

Although our philosophy is not being driven by awards and recognitions, we are nevertheless proud to have our efforts and achievements acknowledged. The following is a list of awards Bakcell has received over the years. Despite the achieved results and a region-wide recognition, we are always open to working with the suggestions of our stakeholders to support continuous improvement.

- 🏆 2018 – “Fastest Mobile Network Speed-test Award” by Ookla
- 🏆 2018 – “National CSR Award” by National Confederation of Entrepreneurs Organization of Azerbaijan
- 🏆 2017 – “Best in Test Mobile Network in Azerbaijan Award” by P3 Communication
- 🏆 2016 – “Fastest Mobile Network Speed-test Award” by Ookla
- 🏆 2015 – “Best Mobile Network Award” by Business Time Magazine
- 🏆 2015 – Amcham’s CSR Excellence Award in 3 nominations
- 🏆 2012 – “Indoor Mobile Service Innovation Award” by Global Telecoms Business
- 🏆 2012 – “Asia’s Best Employer Brand Award” by 3rd Asia’s Best Employer Brand Award
- 🏆 2010 – “The Fastest Growing Company Award” by Ugur Award
- 🏆 2010 – “The Technology Leader of the Year” by Azeri Business Award
- 🏆 2009 – “Telecommunications Company of the Year” by Caspian Energy Award

## 6.1.7 Associations and external initiatives

To align with global best practices, we actively participate in and contribute to multi-stakeholder initiatives. We remain committed to industry standards and principles covering a number of areas such as digital innovation, sustainability, and digital inclusion.

We have been a member of GSMA (the GSM Association) since 1997, actively participating in regional collaborations and various forums. GSMA represents the interests of mobile operators worldwide, uniting more than 750 operators with almost 400 companies in the broader mobile ecosystem, including organizations in adjacent industries.

We are also members of the American Chamber of Commerce in Azerbaijan, German-Azerbaijani Chamber of Commerce and Azerbaijan France Chamber of Commerce.

### 6.1.8. Objectives

The following table encompasses Bakcell’s short-term objectives to be achieved by the end of 2019.

2018-2020 Strategy Goal	Indicator	Current situation	By the end of 2019
Customer experience	NPS score	28%	29%
Enriched connectivity	4G coverage	40.61%	70.90%
Technology leadership	Number of LTE users	0.59 million	0.93 million
Digital innovation leadership	Number of e-care users	350 thousand	370 thousand

For the upcoming reporting periods, we are planning to widen the range of our indicators to include not only operational, but also social and environmental metrics. We are also planning to adopt a long-term view regarding our objectives, hence next year reports will feature our medium-term and long-term targets as well.

### 6.1.9. Community engagement

One of our biggest ambitions at Bakcell is to help create thriving communities wherever we operate. We are determined to understand how our Company impacts society positively and negatively throughout our value chain. Our approach to understanding these impacts is to analyze the externalities generated by our activities, and we are planning to measure Social Return on Investment (SROI) in the upcoming reporting periods. We believe that over the long term, this will create a virtuous cycle, allowing us to create greater value for our society.

Our corporate social responsibility function is within the Public Relations and Corporate Communications division, and is governed by our Public Relations and Communications Strategy adopted in 2018.

**Table 27. Community investments of Bakcell for the past three years**

Community investment	2016	2017	2018
Total social investment, in AZN	50,000	50,000	120,000
Product or service donations, in AZN	30,000	30,000	40,000

Almost all of our social projects are implemented within our CSR program “Bakcell Stars”, which was launched in 2009.

As it was already mentioned in the **Table 4** (Sustainable Development Goals prioritized by Bakcell Group), Bakcell implements its CSR activities in line with the SDGs (SDG4 Quality Education, SDG5 Gender Equality, SDG8 Decent work and Economic Growth, SDG9 Industry, Innovation and Infrastructure).

Our mission is to build and strengthen Bakcell image as a socially responsible corporate citizen who does not only focus on the growth of business, but also the future of society.

Main areas of activity are as follows:

- Supporting children and youth with special needs to ensure the provision of equal rights and opportunities for them and support their integration to the society.
- Providing access to telecommunications services for disadvantaged groups, i.e. disabled people, women, and people in remote and isolated communities for creating opportunities for them.
- Bringing youth to telecommunication and innovation sector and creating job opportunities for them.
- To support promotion and development of startup ecosystem in the country through offering mentorship, investment, incubation and acceleration for innovation startups.

We believe as one of the biggest players in local telecommunications industry, we have an important role in making children believe that they are equal members of the society. Some of the most successful projects are listed in the following table.



**Table 28. Bakcell Stars CSR projects of Bakcell during the reporting period**

Project	Partner	Purpose	Duration	Description
<b>“Communication through art”</b>	United Aid for Azerbaijan	To contribute to the creation of inclusive society, and to raise awareness about disability issues in the community	Ongoing since 2010	The study groups ensure positive changes in the attitude of the public towards children with special needs and disabilities and facilitate their successful integration in the society.
<b>“Start and improve your business”</b>	SOS Children Villages	To improve educational and vocational skills of the youth	Ongoing since 2009	Participants gain initial knowledge and skills related to career planning, finding vacancies and establishing relations with the employers, and basic IT skills.
<b>Rehabilitation Academy</b>	Independent Lifestyle PU	To support innovative projects aiming at creating rehabilitation opportunities for people with disabilities	July to December 2018	Manufacture of innovative 3D prosthesis for people with disabilities and implementing activities for their large-scale use in the future.

Project	Partner	Purpose	Duration	Description
<b>Support for women's social development in Sabirabad and Salyan</b>	UNDP, State Committee for Women, Family and Children issues	To drive economic empowerment of women in regions	Ongoing since November 2018	A special web portal ( <a href="http://www.azqrm.net">www.azqrm.net</a> ) was created to reflect the activities of WRCs, the women's success stories and information on personal development. The portal also contains webinars related to improvement of skills. By means of this resource, members of both regions' WRC will be able to exchange information related to employment and business activities without visiting the center.
<b>International Coastal Cleanup Day</b>	Coca-Cola, PASHA Bank, Green ASAN, ASAN Radio	To demonstrate commitment to the protection of the environment	September 2018	The campaign was held at Bilgah beach. More than 600 participants helped to clean the coastline from almost five tons of trash and debris.
<b>"Edubus"</b>	Ministry of Education of Azerbaijan	To encourage and stimulate educational development of children in rural regions	Ongoing since 2017	"Education Bus – 2018" summer school was an education marathon covering various regions and cities of Azerbaijan.

In 2018, we signed MoU with the Ministry of Education on providing up to 700 schools located in rural areas of the country with connectivity for accessing the country's general education network. Along with this, we constantly support various education projects and activities.

Along with the "Bakcell Stars" program, we are also continuously investing in the cultural development of the local communities by executing various projects with several prominent local organizations. Among the most notable projects, is our partnership with Yarat Contemporary Art Space, commenced in 2017, within the framework of which we sponsor M.A.P. International Theatre Festival, an acronym for music, art and performance. The festival continually expands its geographical focus, and this year presented 16 performances by theatre companies from Denmark, Estonia, Germany, Iran, Italy, Japan, Switzerland, Russia and the United Kingdom.

In 2018 we also donated to the State Historical-Architectural Reserve "Icharishahar" for the organization and celebration of national holidays and festivals. By supporting this project, we demonstrated our devotion to the national values and cultural riches of our country.

In September 2018, we sponsored an event dedicated to the 120th Anniversary of Azerbaijani cinema, organized by Baku Media Center. The event was attended by high-level state officials, cinematographers, musicians and other performers. Along with this, we support various initiatives executed by Baku Media

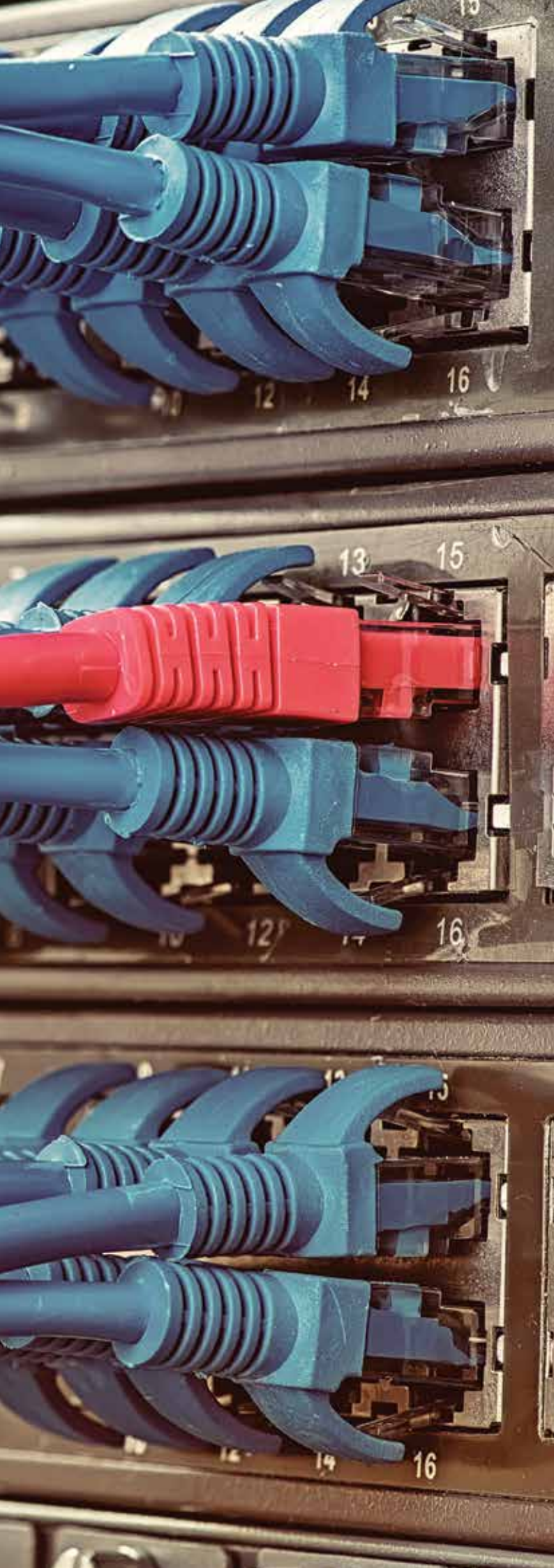
Center including “Oralar” TV show which is considered to be one of the most interesting TV projects in Azerbaijan.

The projects we are engaged in are not only focused on cultural development, but also on the development of sports in Azerbaijan. In 2012, we signed an exclusive long-term partnership contract with the Premier League soccer club Manchester United, becoming the Club’s first official telecommunications and broadcast partner in CIS region, and the only partner in Azerbaijan. With this partnership we brought a range of unique and exclusive content to local football fans, including special mobile packages dedicated to the partnership, giving the subscribers access to the club news, video highlights of the games, wallpapers, player interviews, behind-the-scenes footages, insights into the history of the club and so on. Within the framework of this partnership, Manchester United Summer Soccer School was established in 2014 with the involvement of Azerbaijan Football Federations Association (AFFA). At the preliminary stage, 32 children study at the School’s talent groups each year, divided into two groups of 16. Training sessions are conducted by trainers sent from Manchester United Soccer School and two local assistant-trainers. Before training sessions, children are also taught English twice a week. Children distinguished by their special skills receive the opportunity to participate in Manchester United Soccer School in Dentsone College in the city of Manchester.

Among other notable sports initiatives is the development of a 22,500-square meter stadium, construction of which started in 2010. In accordance with the agreement signed between Bakcell and AFFA in 2013, the stadium was modernized and renamed to Bakcell Arena. With a capacity of 11 thousand seats, general, media and VIP entrances, and a total of five sectors, the stadium is one of the best in Azerbaijan.

We also became the official sponsor and mobile communications partner of the UEFA U-17 European Cup 2016 held in Baku in May 2016. We actively support the youth of Azerbaijan and are pleased to continue our collaboration with AFFA for contributing to the development of sports in our country.

The main aspiration of Bakcell is to foster local entrepreneurial ecosystems in our country to encourage the growth of innovative start-ups and help young people to create better future for themselves and for the community as a whole.



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AzerTelecom is the internet backbone provider connecting Azerbaijan to the global internet network.



## 6.2. AzerTelecom

AzerTelecom has sustainable and diversified local and international network. The company's local fiber-optic cable network covers all major regions and cities of Azerbaijan, including Nakhchivan Autonomous Republic. The international network of AzerTelecom is connected to international destinations through different directions and has the capacity to be connected to all major international telecommunications hubs.

AzerTelecom has a significant market share in the telecommunications sector of Azerbaijan and, if to be precise, in the internet backbone market of the country. The company provides customers in the corporate and government sector with advanced telecommunications services, and holds relevant licenses. Provided services are listed below:

- **Wholesale Internet:** AzerTelecom has a license that allows to bring the internet traffic to Azerbaijan and sell it in the local market to corporate customers like Internet Service Providers and other organizations.
- **Mobile Backhaul:** The company's mobile backhaul service is provided via wide MPLS/DWDM/SDH networks.
- **Leased Line Services:** The Leased Line services of AzerTelecom are provided across the country and internationally.
- **FTTx:** The company that has a wide infrastructure network across the country realizes the laying of fiber-optic cable to various points in Azerbaijan.
- **DDOS Protection Service:** The DDOS (a denial of service attack) protection service offered by the company provides reliable service protection during cyber-attacks.
- **International Transit:** The company's network is interconnected with the operators of Russia, Turkey, Georgia and Iran. This allows the customers to use the territory of Azerbaijan as a quality transit means.
- **SIP Telephony:** AzerTelecom provides the customers with a SIP telephoning service. Unlike traditional telephoning, this service allows the number to be transported to any address without any additional costs.
- **Data Center Services:** The colocation, secure infrastructure and hosting services offered by the company to small and medium businesses enable customers to strengthen their business and ensure their security.
- **VPN (Virtual Private Network):** Through VPN, customers are able to create their own virtual private networks.

AzerTelecom regularly participates at different local and international exhibitions, conferences and seminars. The Company attaches specific attention to the implementation of Corporate Social Responsibility strategy on its operation and supports a variety of projects implemented in ICT and other sectors.

AzerTelecom is a member of such influential organizations like Caspian European Club (CEC), American Chamber of Commerce in Azerbaijan (AmCham) and German-Azerbaijani Chamber of Commerce (AHK Azerbaijan).



**azerconnect**

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AzerConnect provides diversified range of services in IT, telecommunications and high-tech solutions in full compliance with international standards.

### 6.3. AzerConnect

AzerConnect provides a wide range of services in the area of telecommunications, ICT and high-tech solutions in full compliance with international standards. One of the main priorities of business activity of the company, which employs almost 1400 local and foreign professionals, is to bring the most successful global experiences and optimal solutions in the area of IT to Azerbaijan.

Provision of reliable and efficient employment opportunities as well as a high-class service and customer experience is among the main advantages of AzerConnect. The company is flexible and able to react to the modern business processes on time. Currently, we deliver different services to the companies active in technologies and telecommunications sector.

Customers of AzerConnect are mobile and fixed-line operators, internet-telecommunications services providers, as well as other companies representing ICT and other business areas.

AzerConnect uses all skills, insights and energy to find out customer needs, and brings products and services to its clients in a timely and relevant manner. The company develops the best products, services, systems and people.

AzerConnect is the first B2B company in the ICT industry of Azerbaijan which provides the widest range of services in accordance with different customer needs. There are five core values that unify AzerConnect's culture:

- **Customer Focused.** Being customer focused is the main target, which in turn is attainable only by understanding the needs of customers correctly and providing required products and services on time and with quality.
- **Innovative.** AzerConnect is innovative in technical field as well as in ideas and behavior, development and proactivity of its employees.
- **Reliable.** The company is reliable with its network, services, call center, and services staff.
- **Brave.** AzerConnect is certain in its activities, promises and deeds, therefore, honesty and transparency are the main principles of the company.
- **Collaborative.** AzerConnect employees act together for creating and working better.

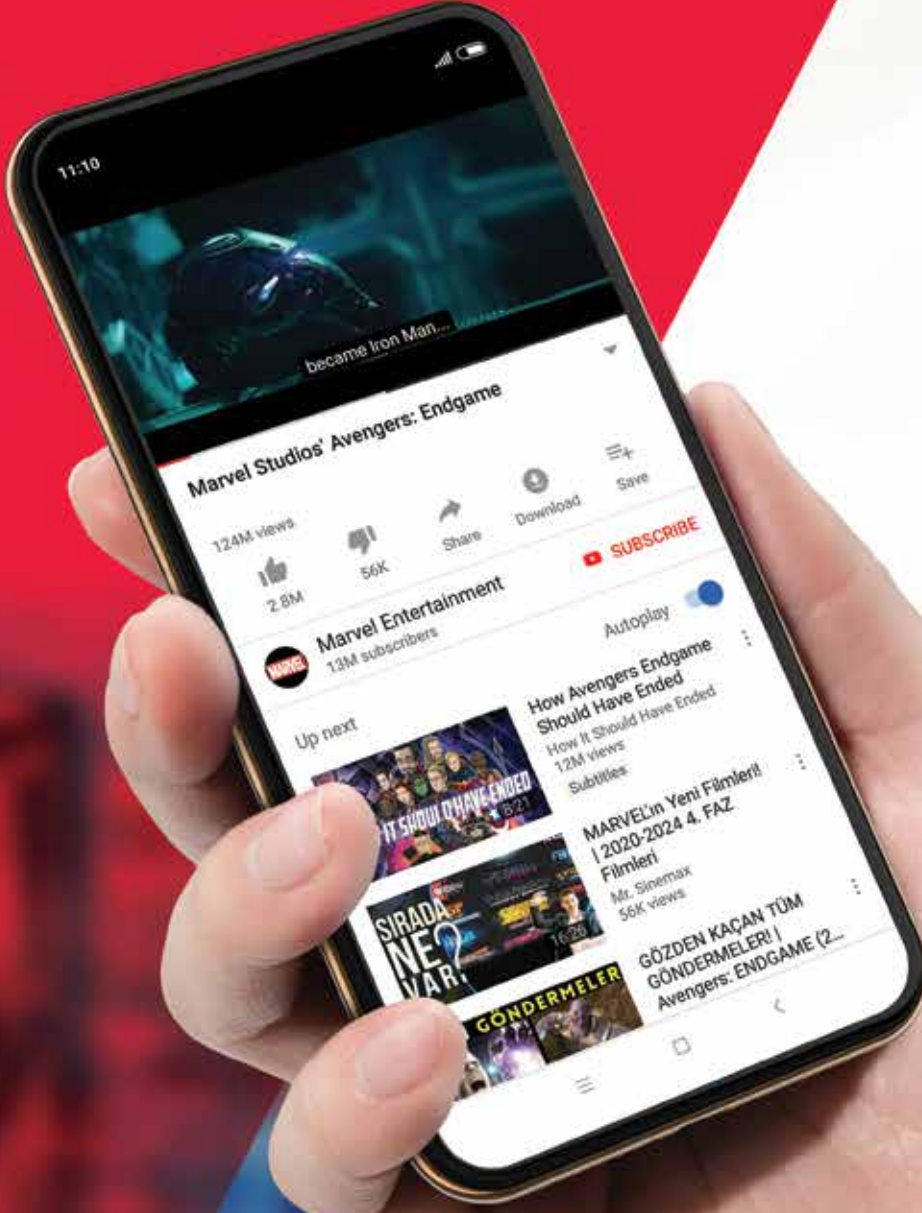
AzerConnect plays a significant role in ICT industry of Azerbaijan. The company takes part in different local and global seminars, conferences and job fairs.

# To a better future with innovation in network...

## **4G service introduced by Bakcell for the first time in Azerbaijan in Baku subway**

In 2018, Bakcell introduced the high-quality 4G LTE services to its customers who use the subway. Now they are able to continue enjoying ultra-fast mobile internet network even on the platforms while waiting for the train.

Bakcell's 4G services enable the customers to enjoy the state-of-art LTE network of Bakcell, while downloading and uploading large files almost instantly, streaming music without buffering, and even playing online games, thanks to the low latency. This service had been highly appreciated by users, who want to be mobile at all times and have access to high-speed broadband internet everywhere and at all times.



11:10

became Iron Man...

Marvel Studios' Avengers: Endgame

124M views

2.8M

56K

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How Avengers Endgame  
Should Have Ended  
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Subtitles



MARVEL'in Yeni Filmleri  
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Filmleri  
Mr. Sinemax  
56K views



GÖZDEN KAÇAN TÜM  
GÖNDERMELERİ |  
Avengers: ENDGAME (2...



# CLOSING REMARKS

## 7. Closing Remarks

Our ambition in writing and publishing our first Annual Sustainability Report was to make it useful and informative for our stakeholders. We hope this Report will achieve its end goal, and will help us **to become a better and more sustainable corporate citizen**. During the compilation and disclosure of data in this Report **our guiding principles were honesty, transparency and balance**. We are proud of the achievements Bakcell Group has reached over the past **twenty years**, but we are equally looking forward to carrying that momentum forward into our future.

We are aware that **we are at the beginning of our sustainability journey**, but we are in for the long haul. Our primary focus over the next reporting periods will be on advancing our data collection and reporting on environmental performance indicators, and increasing awareness on it. Particularly, we will look at ways **to establish robust and effective methods for measuring the environmental impact of our products and services**, which currently remains the least developed part of our sustainability management model.

As one of the leading communications providers in Azerbaijan, we commit to doing our part – both at work and in our communities – **to ensure that future generations will have enough resources to meet their needs**.

## Report Disclaimer

This annual sustainability report contains forward-looking statements that relate to the current plans, objectives, forecasts and management estimates. These statements only consider information that was available up and including the date that this report was prepared. The management of Bakcell Group makes no guarantee that these forward-looking statements will prove to be right. The future development of the Group and the results that are achieved are subject to a variety of risks and uncertainties which could cause actual events or results to differ significantly from those reflected in the forward-looking statements. Many of these factors are beyond the control of the Group and therefore cannot be precisely predicted. Such factors include, but are not limited to, changes in economic conditions and the competitive situation, changes in the law, interest rate or exchange rate fluctuations, legal disputes and investigations, and the availability of funds.

Some subsequent events that happened after the reporting period have also been included in the Report due to their scale and importance to relevant stakeholders.

Bakcell Group neither intends to nor assumes any separate obligation to update forward-looking statements or to change these to reflect events or developments that occur after the publication of this annual sustainability report.



## GRI Content Index

GRI Standard	Disclosure	Disclosure status and page reference	Notes
<b>GRI 102: General Disclosures – Organizational profile</b>	102-1. Name of the organization	Disclosed p. 26	
	102-2. Activities, brands, products, and services	Disclosed p. 27	
	102-3. Location of headquarters	Disclosed p. 27	
	102-4. Location of operations	Disclosed p. 27	
	102-5. Ownership and legal form	Disclosed p. 44	
	102-6. Markets served	Disclosed p. 27	
	102-7. Scale of the organization	Disclosed p. 27	
	102-8. Information on employees and other workers	Disclosed p. 68-72	
	102-9. Supply chain	Disclosed p. 41-43	
	102-10. Significant changes to the organization and its supply chain	Not applicable	This is the first Sustainability Report of Bakcell Group
	102-11. Precautionary Principle or approach	Disclosed p. 15	
	102-12. External initiatives	Disclosed p. 29	
	102-13. Membership of associations	Disclosed p. 28	
<b>GRI 102: General Disclosures – Strategy</b>	102-14. Statement from senior decision-maker	Disclosed p. 8	
	102-15. Key impacts, risks, and opportunities	Disclosed p. 48	
<b>GRI 102: General Disclosures – Ethics and integrity</b>	102-16. Values, principles, standards, and norms of behavior	Disclosed p. 44-47	
	102-17. Mechanisms for advice and concerns about ethics	Disclosed p. 47	
<b>GRI 102: General Disclosures – Governance</b>	102-18. Governance structure	Disclosed p. 44	
	102-19. Delegating authority	Disclosed p. 44-48	
	102-20. Executive-level responsibility for economic, environmental, and social topics	Disclosed p. 44-48	
	102-21. Consulting stakeholders on economic, environmental, and social topics	Disclosed p. 17	
	102-22. Composition of highest governance body and its committees	Disclosed p. 46-47	

<b>GRI Standard</b>	<b>Disclosure</b>	<b>Disclosure status and page reference</b>	<b>Notes</b>
<b>GRI 102: General Disclosures – Governance</b>	102-23. Chair of the highest governance body	Disclosed p. 46	
	102-24. Nominating and selecting the highest governance body	Disclosed p. 44-46	
	102-25. Conflicts of interest	Disclosed p. 47	
	102-26. Role of highest governance body in setting purpose, values, and strategy	Disclosed p. 33-35	
	102-27. Collective knowledge of highest governance body	Disclosed p. 44-46	
	102-28. Evaluating the highest governance body's performance	Disclosed p. 44-46	
	102-29. Identifying and managing economic, environmental, and social impacts	Disclosed p. 15	
<b>GRI 102: General Disclosures – Governance</b>	102-30. Effectiveness of risk management processes	Disclosed p. 48	
	102-31. Review of economic, environmental, and social topics	Disclosed p. 15	
	102-32. Highest governance body's role in sustainability reporting	Disclosed p. 44-46	
	102-33. Communicating critical concerns	Disclosed p. 15	
	102-34. Nature and number of critical concerns	Disclosed p. 15-16	
	102-35. Remuneration policies	Disclosed p. 46	
	102-36. Process for determining remuneration	Disclosed p. 46	
	102-37. Stakeholders' involvement in remuneration	Disclosed p. 46	
	102-38. Annual total compensation ratio	Disclosed p. 46	
	102-39. Percentage increase in annual total compensation ratio	Disclosed p. 46	
<b>GRI 102: General Disclosures – Stakeholder engagement</b>	102-40. List of stakeholder groups	Disclosed p. 17	
	102-41. Collective bargaining agreements	Disclosed	There are no collective bargaining agreements at Bakcell Group
	102-42. Identifying and selecting stakeholders	Disclosed p. 17	

GRI Standard	Disclosure	Disclosure status and page reference	Notes
<b>GRI 102: General Disclosures – Stakeholder engagement</b>	102-43. Approach to stakeholder engagement	Disclosed p. 17	
	102-44. Key topics and concerns raised	Disclosed p. 15	
	102-45. Entities included in the consolidated financial statements	Disclosed p. 26	
<b>GRI 102: General Disclosures – Reporting practice</b>	102-46. Defining report content and topic Boundaries	Disclosed p. 15	
	102-47. List of material topics	Disclosed p. 15	
	102-48. Restatements of information	Not applicable	This is the first Sustainability Report of Bakcell Group
	102-49. Changes in reporting	Not applicable	This is the first Sustainability Report of Bakcell Group
	102-50. Reporting period	Disclosed p. 15	
	102-51. Date of most recent report	Not applicable	This is the first Sustainability Report of Bakcell Group
	102-52. Reporting cycle	Disclosed p. 15	
	102-53. Contact point for questions regarding the report	Disclosed p. 111	
	102-54. Claims of reporting in accordance with the GRI standards	Undisclosed	This Report is not written in accordance with GRI Standards, however the Standards have been considered as a point of reference
	102-55. GRI content index	Disclosed p. 95	
	102-56. External assurance	Undisclosed	Since this is the first Report, it has not been externally assured. External assurance will be provided on upcoming reports

GRI Standard	Disclosure	Disclosure status and page reference	Notes
<b>GRI 103: Management Approach</b>	103-1. Explanation of the material topic and its Boundary	Disclosed p. 15-17	
	103-2. The management approach and its components	Disclosed p. 28-32	
	103-3. Evaluation of the management approach	Disclosed p. 28-32	
<b>GRI 201: Economic Performance</b>	201-1. Direct economic value generated and distributed	Undisclosed	Will be revisited in the upcoming reporting periods
	201-2. Financial implications and other risks and opportunities due to climate change	Undisclosed	Will be revisited in the upcoming reporting periods
	201-3. Defined benefit plan obligations and other retirement plans	Undisclosed	Will be revisited in the upcoming reporting periods
	201-4. Financial assistance received from government	Undisclosed	Will be revisited in the upcoming reporting periods
<b>GRI 202: Market Presence</b>	202-1. Ratios of standard entry level wage by gender compared to local minimum wage	Disclosed p. 46	
	202-2. Proportion of senior management hired from the local community	Undisclosed	
<b>GRI 203: Indirect Economic Impacts</b>	203-1. Infrastructure investments and services supported	Disclosed p. 90	
	203-2. Significant indirect economic impacts	Disclosed p. 74	
<b>GRI 204: Procurement Practices</b>	204-1. Proportion of spending on local suppliers	Disclosed p. 41	
<b>GRI 205: Anti-corruption</b>	205-1. Operations assessed for risks related to corruption	Disclosed p. 47	
	205-2. Communication and training about anti-corruption policies and procedures	Disclosed p. 47	
	205-3. Confirmed incidents of corruption and actions taken	Disclosed p. 47	
<b>GRI 206: Anti-competitive Behavior</b>	206-1. Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	Disclosed	There have been no such cases during the reporting period

GRI Standard	Disclosure	Disclosure status and page reference	Notes
<b>GRI 206: Anti-competitive Behavior</b>	206-1. Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	Disclosed	There have been no such cases during the reporting period
	301-1. Materials used by weight or volume	Undisclosed	Will be revisited in the upcoming reporting periods
<b>GRI 301: Materials</b>	301-2. Recycled input materials used	Undisclosed	Will be revisited in the upcoming reporting periods
	301-3. Reclaimed products and their packaging materials	Undisclosed	Will be revisited in the upcoming reporting periods
<b>GRI 302: Energy</b>	302-1. Energy consumption within the organization	Disclosed p. 62	
	302-2. Energy consumption outside of the organization	Undisclosed	Will be revisited in the upcoming reporting periods
	302-3. Energy intensity	Disclosed p. 62	
	302-4. Reduction of energy consumption	Disclosed p. 62	
	302-5. Reductions in energy requirements of products and services	Undisclosed	Will be revisited in the upcoming reporting periods
<b>GRI 303: Water</b>	303-1. Water withdrawal by source	Disclosed p. 63	
	303-2. Water sources significantly affected by withdrawal of water	Disclosed	No such water sources have been identified
	303-3. Water recycled or reused	Undisclosed	Will be revisited in the upcoming reporting periods
<b>GRI 304: Biodiversity</b>	304-1. Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Undisclosed	Will be revisited in the upcoming reporting periods
	304-2. Significant impacts of activities, products, and services on biodiversity	Undisclosed	Will be revisited in the upcoming reporting periods

GRI Standard	Disclosure	Disclosure status and page reference	Notes
<b>GRI 304: Biodiversity</b>	304-3. Habitats protected or restored	Undisclosed	Will be revisited in the upcoming reporting periods
	304-4. IUCN Red List species and national conservation list species with habitats in areas affected by operations	Undisclosed	Will be revisited in the upcoming reporting periods
<b>GRI 305: Emissions</b>	305-1. Direct (Scope 1) GHG emissions	Disclosed p. 62-63	
	305-2. Energy indirect (Scope 2) GHG emissions	Disclosed p. 62-63	
	305-3. Other indirect (Scope 3) GHG emissions	Undisclosed	Will be revisited in the upcoming reporting periods
	305-4. GHG emissions intensity	Disclosed p. 62-63	
	305-5. Reduction of GHG emissions	Disclosed p. 62-63	
	305-6. Emissions of ozone-depleting substances (ODS)		Not applicable due to the nature of Bakcell Group's operations
	305-7. Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions		Not applicable due to the nature of Bakcell Group's operations
<b>GRI 306: Effluents and Waste</b>	306-1. Water discharge by quality and destination	Undisclosed	Will be revisited in the upcoming reporting periods
	306-2. Waste by type and disposal method	Undisclosed	Will be revisited in the upcoming reporting periods
	306-3. Significant spills		Not applicable due to the nature of Bakcell Group's operations
	306-4. Transport of hazardous waste		Not applicable due to the nature of Bakcell Group's operations
	306-5. Water bodies affected by water discharges and/or runoff		Not applicable due to the nature of Bakcell Group's operations
<b>GRI 307: Environmental Compliance</b>	307-1. Non-compliance with environmental laws and regulations	Disclosed p. 62	

GRI Standard	Disclosure	Disclosure status and page reference	Notes
<b>GRI 308: Supplier Environmental Assessment</b>	308-1. New suppliers that were screened using environmental criteria	Undisclosed	Will be revisited in the upcoming reporting periods
	308-2. Negative environmental impacts in the supply chain and actions taken	Undisclosed	Will be revisited in the upcoming reporting periods
<b>GRI 401: Employment</b>	401-1. New employee hires and employee turnover	Disclosed p. 68-72	
	401-2. Benefits provided to full-time employees that are not provided to temporary or part-time employees	Undisclosed	Will be revisited in the upcoming reporting periods
	401-3. Parental leave	Undisclosed	Will be revisited in the upcoming reporting periods
<b>GRI 402: Labor Management Relations</b>	402-1. Minimum notice periods regarding operational changes	Undisclosed	Will be revisited in the upcoming reporting periods
<b>GRI 403: Occupational Health and Safety</b>	403-1. Workers representation in formal joint management-worker health and safety committees	Disclosed	Currently no formal joint management-worker health and safety committees exist at Bakcell Group
	403-2. Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Disclosed p. 73	
	403-3. Workers with high incidence or high risk of diseases related to their occupation	Disclosed p. 73	
	403-4. Health and safety topics covered in formal agreements with trade unions	Disclosed	Currently no formal agreements with trade unions exist at Bakcell Group
<b>GRI 404: Training and education</b>	404-1. Average hours of training per year per employee	Disclosed p. 68	
	404-2. Programs for upgrading employee skills and transition assistance programs	Disclosed p. 68	
	404-3. Percentage of employees receiving regular performance and career development reviews	Disclosed p. 68-72	

<b>GRI Standard</b>	<b>Disclosure</b>	<b>Disclosure status and page reference</b>	<b>Notes</b>
<b>GRI 405: Diversity and Equal Opportunity</b>	405-1. Diversity of governance bodies and employees	Disclosed p. 71	
	405-2. Ratio of basic salary and remuneration of women to men	Disclosed p. 46	
<b>GRI 406: Non-discrimination</b>	406-1. Incidents of discrimination and corrective actions taken	Disclosed p. 71	
<b>GRI 407: Freedom of Association and Collective Bargaining</b>	407-1. Operations and suppliers in which the right to freedom of associations and collective bargaining may be at risk.	Disclosed	No such operations have been identified
<b>GRI 408: Child Labor</b>	408-1. Operations and suppliers at significant risk for incidents of child labor	Disclosed	No such operations have been identified
<b>GRI 409: Forced or Compulsory Labor</b>	409-1. Operations and suppliers at significant risk for incidents of forced or compulsory labor	Disclosed	No such operations have been identified
<b>GRI 410: Security Practices</b>	410-1. Security personnel trained in human rights policies or procedures	Undisclosed	Will be revisited in the upcoming reporting periods
<b>GRI 411: Rights of Indigenous Peoples</b>	411-1. Incidents of violations involving rights of indigenous peoples	Disclosed	No such operations have been identified
<b>GRI 412: Human Rights Assessment</b>	412-1. Operations that have been subject to human rights reviews or impact assessments	Undisclosed	Will be revisited in the upcoming reporting periods
	412-2. Employee training on human rights policies or procedures	Undisclosed	Will be revisited in the upcoming reporting periods
	412-3. Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	Undisclosed	Will be revisited in the upcoming reporting periods
<b>GRI 413: Local Communities</b>	413-1. Operations with local community engagement, impact assessments, and development programs	Disclosed p. 91	
	413-2. Operations with significant actual and potential negative impacts on local communities	Disclosed	No such operations have been identified



GRI Standard	Disclosure	Disclosure status and Page reference	Notes
<b>GRI 414: Supplier Social Assessment</b>	414-1. New suppliers that were screened using social criteria	Undisclosed	Will be revisited in the upcoming reporting periods
	414-2. Negative social impacts in the supply chain and actions taken	Undisclosed	Will be revisited in the upcoming reporting periods
<b>GRI 415: Public Policy</b>	415-1. Political contributions	Disclosed	There have been no political contributions during the reporting period
<b>GRI 416: Customer Health and Safety</b>	416-1. Assessment of the health and safety impacts of product and service categories	Undisclosed	Will be revisited in the upcoming reporting periods
	416-2. Incidents of non-compliance concerning the health and safety impacts of products and services	Disclosed	There have been no incidents of non-compliance concerning the health and safety impacts of products and services
<b>GRI 417: Marketing and Labeling</b>	417-1. Requirements for product and service information and labeling	Disclosed p. 55-57	
	417-2. Incidents of non-compliance concerning product and service information and labeling	Disclosed p. 55-57	
	417-3. Incidents of non-compliance concerning marketing communications	Disclosed p. 55-57	
<b>GRI 418: Customer Privacy</b>	418-1. Substantiated complaints concerning breaches of customer privacy and losses of customer data	Disclosed p. 55	
<b>GRI 419: Socioeconomic compliance</b>	419-1. Non-compliance with laws and regulations in the social and economic area	Undisclosed	Will be revisited in the upcoming reporting periods





## Contact information

We are keen to improve the value of our reporting, and therefore welcome comments on this Report, and on our sustainability performance in general.

The Report can be found online at [www.bakcell.com](http://www.bakcell.com) and [www.azertelecom.az](http://www.azertelecom.az)

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