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INTRODUCTION



Over the last two decades of its existence the Group of companies of Kazakhtelecom JSC grew up to become a leader of the telecommunications market of the country, significantly strengthened its positions across all major indicators and has legitimately earned the reputation of being a Company that is developing on sustainable and stable basis with a high level of technical capabilities.

We are proud of being an undoubted leader in the market for fixed communications. We have the largest coverage of our population with telecommunications services, the unparalleled wired infrastructure in the country. We are the only company in the country that has an LTE license, well-developed network of points of sales and subscribers servicing, recognizable brand.

IN THE LIGHT OF CHANGES IN THE COUNTRY'S ECONOMY, OF NEW TENDENCIES IN THE MARKET, THE NEED TO RETHINK WHETHER OR NOT WE RUN OUR BUSINESS CORRECTLY ARISES. TO WHAT EXTENT OUR OPERATING EFFICIENCY IS PERFECT? CAN WE TIMELY AND FLEXIBLY RESPOND TO THE CHALLENGES OF THE MARKET? ARE OUR CUSTOMERS BEING SATISFIED?

The year 2014 opened a new critical era in the life of the Group of companies of Kazakhtelecom JSC. The modernization program called "Orleu" was developed with an assistance of leading international consulting companies that were attracted to help develop the program.

The major task of the program "Orleu" consists in updating the model of running the business that will allow the Group of companies of Kazakhtelecom JSC to obtain competitive advantage in the market: to retain leading positions in the fixed business, increase efficiency of processes, expedite introduction of innovations, and, to the highest extent possible, meet the customers' needs and demands.

We want to:

- Offer our customers the services of the highest quality;
- Enhance orientation towards customers and focus on the need of the market's segments;
- Guarantee responsibility for customers' experience from start-to-end;
- Revive and optimize key processes;
- Liquidate duplication and unnecessary double work;
- Improve management, precise roles (duties) and responsibilities;
- Expedite introducing innovations;
- Raise foresight and ability to react to market changes;
- Expedite decision-making process and approval procedures.

With a view to achieving the set objectives, 4 strategic tasks were developed within which the multitude of various projects will be implemented:

- Supermarket of services for the whole family: we create packet offerings to our users which are designed to completely satisfy the households' needs in communications, information, entertainments. We work on how to increase the user's experience and subscribers' loyalty;
- Information foundation of the Kazakhstani business: we extend products range and provide complex solutions that meet all needs of our corporate clients; become more client-oriented company;
- Building an integrated operator: we will gain competitive advantage owing to synergy of mobile and fix communications;
- Modernization of business model: we change our business model by enhancing efficiency of structural organization, processes and corporate culture. This is a necessary condition for Kazakhtelecom to achieve the set strategic objectives. The changes will directly impact the financial indicators and will provide for necessary conditions for implementation of the important strategic initiatives mentioned above.

WE CHANGE OURSELVES IN ORDER TO BECOME BETTER AND MORE EFFICIENT.

DECADE-STEP EXCHANGE. 1974

A decade-step exchange's design was based on moving electromechanical elements that produced an uninterrupted noise and high temperature in premises in which it was installed and operating, and a failure (breakdown) of that exchange with a various degree of gravity was a normal phenomenon. And it is notable that such an exchange with a capacity of only 10 000 subscribers occupied the area of around 1 600 m².



DIGITAL EXCHANGE. 2014

The analogue Central Offices (COs) were replaced by digital ones, where management and switching processes became fully automatic due to digital coding and utilization of a computer. Modern COs have a great deal of advantages, where a significant reduction in size is one of them to be mentioned. For instance, to handle the same 10 000 subscribers will now require a couple of cabinets rather than a whole building.

BRIEF INTRODUCTION OF THE COMPANY



BRIEF INTRODUCTION OF THE COMPANY

OFFICIAL FULL NAME:

JOINT STOCK COMPANY KAZAKHTELECOM.

REGISTERED ADDRESS:

12, SAURAN STREET, ESIL DISTRICT, ASTANA, 010000,
REPUBLIC OF KAZAKHSTAN.

JOINT STOCK COMPANY
KAZAKHTELECOM IS THE LARGEST
TELECOMMUNICATION OPERATOR
OF THE REPUBLIC OF KAZAKHSTAN
PROVIDING A WIDE RANGE
OF INFO-COMMUNICATION
SERVICES ACROSS THE WHOLE
TERRITORY OF THE COUNTRY.

Kazakhtelecom JSC (Company, Kazakhtelecom) possesses a powerful modern communications network of a nationwide scale that covers all major target consumer markets for info-communications services. The Company is the largest telecommunications operator of fixed telephony in Kazakhstan, the recognized leader in providing telecommunications services, including in rural area, and one of the largest operators of the National data communications network.

THE COMPANY IS ACTING UPON
THE GENERAL LICENSE
№14014826 AS OF 09.10.2014,
ISSUED BY THE COMMUNICATION,
INFORMATIZATION AND
INFORMATION COMMITTEE OF
THE MINISTRY OF INVESTMENT
AND DEVELOPMENT OF THE
REPUBLIC OF KAZAKHSTAN.

Samruk-Kazyna JSC, with 100% of interest (share of participation) of the state in the Company's authorized capital, holding 51% of the Company's ordinary shares is the major shareholder of Kazakhtelecom JSC.

KEY PERFORMANCE INDICATORS

Finance indicators (consolidated)*	Unit	2014	2013	2012	2011	2010
Revenues from sale of services	mIn KZT	208 223	190 867	175 669	173 344	152 732
Net profit	mIn KZT	7 484	19 614	222 130**	50 167	34 220
EBITDA	mIn KZT	61 580	65 829	69 068	66 015	53 897
EBITDA margin	%	29.6	34.5	39	38	35
EBITDA adjusted for non-cash expenses on accrual of the allowance for the fixed and intangible assets	mIn KZT	64 023***	65 829	69 068	66 015	53 897
EBITDA margin adjusted for non-cash expenses on accrual of the allowance for the fixed and intangible assets	%	30.7***	34.5	39	38	35
CAPEX	mIn KZT	55 154	61 503	63 270	43 641	34 078

Efficiency indicator	Unit	2014	2013	2012	2011	2010
ROACE	%	6.1	7.1	62.5**	16.6	13.5
Average revenue per user (ARPU)	KZT/month	3 413	3 086	2 823	2 856	2 661
ARPU per mobile subscriber	thousand KZT/month	602	667	719	788	903
Number of employees	persons	29 000	29 847	29 237	29 510	29 855
Total revenues per employee	thousand KZT	7 180.1	6 394.8	6 008.4	5 874.1	5 115.8

Information about assets	Unit	2014	2013	2012	2011	2010
Total assets	mIn KZT	417 693	416 135	419 259	421 696	370 562
Long term loans	mIn KZT	56 426	36 029	63 786	59 680	57 971
Own capital	mIn KZT	270 309	265 503	276 748	282 902	238 592

Technical indicators	Unit	2014	2013	2012	2011	2010
Number of fixed lines	lines	4 063 258	4 085 811	4 047 566	3 948 625	3 802 916
Level of digitization of local network	%	99.06	98.2	97.2	96	92.84
Number of fixed broadband Internet access subscribers	subscribers	1 543 138	1 467 520	1 203 897	970 912	877 329
Number of mobile subscribers	subscribers	851 264	628 521	1 125 991	1 383 653	1 229 772
Number of mobile broadband Internet access subscribers (EVDO, LTE, UMTS)	subscribers	410 133	112 373	75 966	80 083	24 767
Number of Pay TV subscribers	points of connection	530 630	455 378	148 649	83 959	33 078

Macroeconomic indicators	Unit	2014	2013	2012	2011	2010
Population of Kazakhstan, total	thousand people	17 417.4	17 165.2	16 911.91	16 674.96	16 433.79
GDP, growth rate	%	104.3	106.0	105.0	107.5	107.0
Consumer Price Index	%	107.4	104.8	106.0	107.4	107.8
KZT/USD exchange rate, average per year	KZT	179.19	152.13	149.11	146.62	147.35

* The Company's finance indicators pursuant to IFRS.

** Including sale of Kazakhtelecom JSC's ownership interest in GSM Kazakhstan OJSC Kazakhtelecom LLP.

*** Allowance for the disposal of the capital work in progress "Smart Kazakhstan", allowance for the impairment of fixed and intangible assets of NURSAT JSC and DIGITAL TV LLP in the amount of KZT 2 442 million.



ADDRESS OF CHAIRMAN OF THE BOARD OF DIRECTORS

DEAR SHAREHOLDERS, INVESTORS, CUSTOMERS, AND PARTNERS!

We hereby present the annual report in which you'll find the generalized results of Kazakhtelecom JSC's activity in 2014.

Owing to productive work of the efficient team the Company successfully fulfilled all the tasks on achieving the set indicators. Specifically, a number of important infrastructure projects aimed at developing and modernizing the telecommunications network was implemented. Namely, the network based upon the CDMA-450 standard was rolled out across the whole territory of Kazakhstan, **the implementation of a nation-wide project on construction of fiber-optical network of access** was completed, the DWDM and LTE/GSM/UMTS networks were brought into operation, a huge work on developing operators segment was carried out: the opportunities and capacity (throughput) of the backbone network extended, the capacity of transit channels increased, new joints were organized.

The intensified competition in the telecommunications market has just mobilized us, made us to take nonstandard decisions that will allow us in the future and in any economic situation to feel more sustainable and calm. We will continue developing our advantages, taking all necessary measures to secure high level of corporate governance, transparency of financial activity, information openness, enhancing the level of the corporate social responsibility and further developing the innovation processes management system. The Company has in its possession all necessary tools to achieve the set objectives aimed at implementing planned actions. Highly professional staff, support and trust of the state and shareholders, clear strategic objectives of the Company are all considered to be the components of a success that will contribute to dynamic development of Kazakhtelecom JSC.

We understand the market and therefore are ready for tomorrow by directing our knowledge, competence and energy to implementing the Company's strategy. At the same time we constantly analyze our work in order to provide for planning and implementation of the Company's activities in all directions. Our shareholders can be assured that the Board of Directors will contribute to further development and increase of the Company's value securing protection of the rights and interests of all shareholders.

In conclusion I want to express my gratitude to all employees of the Company for the results that you achieve every day. There is no doubt that this is a manifestation of maturity of the whole staff, high professionalism of its employees and efficient management that has been able to ensure good conditions for work and further development. I also want to thank our partners and customers for trust and support, for your demand that pushes us up to seek for new and innovative ways to meet that demand which makes us more efficient and yet more stronger. Only together we would be able to retain the leading positions in the market and continue moving forward with confidence!

Bidauletov N.

**Chairman of the Board of Directors
Kazakhtelecom JSC**

A handwritten signature in blue ink, consisting of stylized, flowing letters.



ADDRESS OF CHAIRMAN OF THE MANAGEMENT BOARD OF KAZAKHTELECOM JSC

DEAR SHAREHOLDERS, CUSTOMERS AND PARTNERS!

Summarizing the Kazakhtelecom JSC's activity in 2014, I want to note that the Company successfully implemented the tasks on achieving strategic goals and strengthening its positions in the country's telecommunications market. Specifically, in the reported period, the market share of the Group of companies of Kazakhtelecom JSC in terms of revenues grew by 1.6% and made up 33.9%. In 2014, the Company focused on the Strategy of the Group of companies of Kazakhtelecom JSC, determined the fields where the business activity should be improved, built target business model of the Group of companies, and developed approaches to new business directions.

Productive work of the Company's staff made provision for further increase of key performance indicators. Pursuant to financial statements for 12 months of 2014, the consolidated revenues from sales of services across Kazakhtelecom JSC made up KZT 208 223 mln. Net profit exceeded twice as much the planned indicators and made up KZT 7 484 mln.

With a view to developing and modernizing the telecommunications networks, the Company proceeded with the work on strategic projects. To date, the network based on the CDMA-450 standard, for instance, was rolled out on the whole territory of the Republic of Kazakhstan. This project enabled to cover with telecommunications services as many as around 6 100 rural settlements, including with the Internet based on EVDO technology – over 3 600 RS (rural settlements).

As far as the construction of FTTH networks is concerned, the Company completed the large-scale project on construction of fiber-optical networks of access. The networks are deployed in the cities of Astana, Almaty, in all oblast centers and towns of oblast significance with a total coverage of over 22 745 blocks of flats and around 16 471 cottages. The number of subscribers connected to the Internet on FTTH technology made up 462 098 people.

The Company launched the DWDM network of new generation that enables to provide for a launch of 100G channels for a distance of up to 3 thousand kms, for construction of LTE/GSM/UMTS networks, the Company constructed as many as 1 108 kms of zone and rural FOCLs in Akmolinskaya, Aktyubinskaya, East-Kazakhstan, Kostanaiskaya, North-Kazakhstan, and South-Kazakhstan oblasts. The level of digitization of the network came up to the level of 99.06%.

We take a particular pride in launching the innovative LTE/GSM/UMTS network that took place in May 2014. The network covers the cities of Astana, Almaty, all oblast centers of the country, and 12 towns with population of over 50 thousand people, and also more than 170 rural settlements. In a whole, the coverage of the territory of Kazakhstan made up 62%, or 10.6 mln people. The number of registered LTE subscribers as of the beginning of the current year made up over 471 thousand people.

In the reported period, the Company extended joints with international telecommunications operators – China Telecom and China Mobile (China Tietong). Besides, through the joint with ГКЭ (state company) "Turkmentelecom", the service of Internet-transit for ГКЭ "Turkmentelecom" and HK (national company) "Afghantelecom" was organized. Also, on the border of Kazakhstan with the Russian Federation, the joints with alternative Russian operators were organized. Within the framework of the international project on organization of high speed data communications called DREAM launched jointly with Megaphone OJSC in 2013, the high speed channels in the direction Europe – South-East Asia were organized.

In 2014, the two leading international rating agencies "Fitch Ratings" and "Standard&Poor's" changed their forecast on the long term rating for default of the issuer Kazakhtelecom JSC from "Stable" to "Positive" and confirmed the rating at "BB" level. At the same time, the agencies raised the Company's national long term rating from the "A(kaz)" to "A+(kaz)" level and assigned the "Positive" forecast on the rating. Revision of the forecast towards "Positive" reflects the enhancement of the Company's liquidity, the narrowing of the gap between the proceeds in the national currency and the debt in foreign currency, the improvement of cash flow, successful launch of mobile communications services and, consequently, decrease of risks of implementing the plans associated with further extension of the mobile segment. International analysts noted that strong positions of Kazakhtelecom JSC as a traditional telecommunications operator did contribute to a positive forecast on the broadband communications sector emphasizing absolute leadership of the operator in this segment with the market share of over 70%.

We are prepared for changes and improvements: the last year, the Group of companies Samruk-Kazyna JSC launched a transformation program with our modernization program called "Orleu" becoming the pilot project of this transformation program. Its implementation objective consists in enhancing efficiency of operational activity and investment policy in order to increase the Company's shareholding value.

I want to emphasize that the year 2014 was a jubilee year of our company and every employee, in addition to taking proud in the Company's achievements, felt like being personally responsible for the projects and transformation being implemented and taking place in Kazakhtelecom, as well as taking personal commitment to achieving the Company's goals. In fact, we did achieve something to be proud of. By applying advanced technologies, following the best world practice in running its business, Kazakhtelecom JSC did earn, over the last 20 years of its existence, the reputation of being a stable and constantly developing company building up its technological capacity and creating new opportunities for population and businesses. All that became possible due to the team of professionals who choose the Company as an employer and reliable partner, due to our customers who make their choice in favor of the services provided by Kazakhtelecom JSC. I am confident that the blend of all these factors will contribute to further development of the Company and the info-communications industry as a whole!

Regards

Yessekeyev K.

**Chairman of the Management Board
Kazakhtelecom JSC**



OPTICAL FIBER. 2014
STANDARD RATE: over 100 Gbps.
The frequency spectrum for using fiber-optical wires has been significantly widened. It takes 0.08 seconds to download the information of 1 GB.

TELEPHONE CABLE. 2000
DATA COMMUNICATIONS RATE: 7.5 Mbps.
Despite the relatively high throughput capacity, the data communication was limited by two copper wired channels. And it would take 18 minutes to download a 1 GB movie.



MAJOR EVENTS AND ACHIEVEMENTS IN 2014



MAJOR EVENTS AND ACHIEVEMENTS IN 2014

In 2014, the Company marked its 20th anniversary. Over 20 years of continuous development and innovations, Kazakhtelecom went through difficult pass of transformation and formation under new conditions of free market. Modernizing and developing info-communications infrastructure all these years, the Company has been making its contribution to forming Kazakhstan as a full-fledged participant of the international telecommunications community.

IN THE REPORTED PERIOD KAZAKHTELECOM JSC PROCEEDED TO IMPLEMENTING THE MODERNIZATION PROGRAM CALLED "ORLEU" DIRECTED AT SECURING LONG TERM SUCCESS OF THE COMPANY AND STRENGTHENING THE LEADERSHIP IN THE MARKET. THE PROGRAM IS BUILT UPON THREE BASIC PRINCIPLES – CLIENT DIRECTEDNESS, EFFICIENCY AND SPEED OF BRINING INNOVATIONS INTO OPERATION.

The share of the Group of companies of Kazakhtelecom JSC in the telecommunications market of the country increased and made up 33.9%. The leadership positions of Kazakhtelecom JSC in the national telecommunications market over the last 20 years are ensured by everyday work of the Company's multi-thousand staff. Owing to professionalism of the Company's employees, the Company has always been able to meet customers' demand for required services.

ON MAY 15, 2014, ALTEL JSC, THE KAZAKHTELECOM JSC'S SUBSIDIARY, ANNOUNCED THE LAUNCH OF THE LTE/GSM/UMTS NETWORK. THE FIRST EVER IN KAZAKHSTAN CONVERGENT NETWORK WITH CONCURRENT SUPPORT OF THE 4G/3G/2G TECHNOLOGIES WAS ROLLED OUT IN THE CITIES OF ASTANA, ALMATY, IN ALL OBLAST CENTERS OF THE COUNTRY AND IN TOWNS WITH POPULATION OF OVER 50 000.

In 2014, Kazakhtelecom JSC implemented a number of important infrastructure and innovative projects directed at further strengthening the info-communications infrastructure of the country. Within the framework of the modernization program, in 2014, we took a number of measures aimed at increasing throughput capacity of backbone and transit networks and developing fiber-optical communications lines.

THE COMPANY CONTINUED EXTENDING THE NATIONAL INFORMATION SUPER BACKBONE (NISB) BASED ON DWDM TECHNOLOGY. IT ALSO EXTENDED THROUGHPUT CAPACITY OF THE BACKBONE DWDM NETWORK FOR INTERNAL NEEDS OF THE COMPANY, INCREASED TOTAL CAPACITY OF EXTERNAL CHANNELS OF THE INTERNET. BESIDES, IN 2014, THE COMPANY LAUNCHED DWDM NETWORK OF NEW GENERATION BASED ON COHERENT TECHNOLOGIES. THIS NETWORK IS USED FOR ORGANIZATION OF TRANSIT CHANNELS IN THE DIRECTION OF RUSSIA – CENTRAL ASIA, WEST EUROPE – CHINA.

IN THE REPORTED PERIOD, THE COMPANY COMPLETED THE PROJECT CALLED "CONSTRUCTION OF FTTH NETWORKS OF KAZAKHTELECOM JSC". THE NETWORK OF FIBER-OPTICAL ACCESS WAS CONSTRUCTED IN THE CITIES OF ASTANA, ALMATY, IN ALL OBLAST CENTERS AND CITIES OF OBLAST SIGNIFICANCE.

As a result of the implementation of the project on construction of the wireless networks based on CDMA-450 standard, the network was rolled out across the whole territory of the Republic of Kazakhstan, as many as 6 100 rural settlements (RS) are covered with telecommunications services, including over 3 600 RS – with the broadband access to the Internet services on EVDO technology.

In the year of celebrating its 20th anniversary, the Company undertook a large-scale intelligent action within the framework of the project "World business elite – to Kazakhtelecom" that included master-classes of the management Guru of the world class Itshak Kalderon Adizes, Yonas Ridderstrale for top-management, personnel reserve, members of the youth organization "Zhastelecom", and publication of books bearing jubilee symbolic. Along with this action the Company laid own the foundation for corporate library, issued the following books: "Business forever in the funk style. Capitalism for pleasure", "Ideal manager: Why you cannot become the one and what follows from that", "The blue ocean strategy". The publications form new philosophy in the management system, change the whole era in the business, help better understand technological innovations and ongoing global changes. The objective of holding master classes consists in providing the employees with educational training of the best world practice of corporate governance, successful management of business, leadership and development of personal efficiency.

IN 2014, KAZAKHTELECOM JSC LAID DOWN THE FOUNDATION FOR CORPORATE VOLUNTEERSHIP.

ACCORDING TO THE VERSION OF THE RESEARCH AGENCY RATING.KZ, KAZAKHTELECOM JSC TOOK THE SECOND PLACE IN THE RATING OF NATIONAL COMPANIES OF KAZAKHSTAN AS OF THE END OF THE FOURTH QUARTER 2014.

The key criterion in evaluating quality of work of national companies were, in experts view, successes of the national company in implementing development programs and separate industrial projects, prospects for economic development, quality of work with end users of consumer services of the Company. Such criterion as availability of breakthrough projects, personal and professional qualities of a manager and quality of interaction with state bodies are also considered to be having a significant value. The agency noted that the entry of Kazakhtelecom JSC into the pool of leaders is attributed to the Company's subsequent plans of a large-scale nature. Specifically, the reference is made to the modernization program called "Orleu" aimed at securing long term success and strengthening the leadership in the market.

IN DECEMBER 2014, THE INSTITUTE OF CERTIFIED FINANCIAL MANAGERS, UK, RECOGNIZED KAZAKHTELECOM JSC AS "THE BEST EMPLOYER OF 2014".

DATA CENTER. 2014

Modern data centers are installed in specially constructed buildings with sophisticated infrastructure that includes air-conditioning, uninterrupted power and security systems. And yet, compared to the data centers of previous decades, all these systems are stand-alone ones, i.e., they operate autonomously, personnel is required to control and fix problems. The data center's services can be used by anyone who wants to lease digital space on the company-provider's server.



DATA CENTERS. 1975

Having a small computing capacity, compared to what they have today, the old data centers occupied much greater area and required specific conditions for their operation with a huge volume of wires. In addition to that, given the complexity of management, a big staff was required to operate such a data center. The data centers of the 70th were installed mainly in reequipped offices and utilized by large organizations to address sophisticated and critically important issues.

PROFILE OF THE COMPANY



PROFILE OF THE COMPANY

HISTORY AND BASIC FACTS

The National joint stock company Kazakhtelecom was founded pursuant to the resolution of the Cabinet of Ministers of the Republic of Kazakhstan № 666, as of June 17, 1994 "On founding the national joint stock company Kazakhtelecom" by transferring property of state enterprises, joint stock companies, and telecommunication entities to the charter fund of the founded national joint stock company set to provide a wide range of communications services across the whole territory of the country.

The initial state registration at the department of justice of the Republic of Kazakhstan was made on December 1, 1994.

IN MARCH 1996, THE PRIMARY EMISSION OF SHARES EQUALING TO THE CHARTER FUND OF KZT 12.1 BLN WAS REGISTERED.

Pursuant to the Law of the Republic of Kazakhstan as of May 13, 2003 "On joint stock companies", the company was reregistered as joint stock company Kazakhtelecom (hereinafter – Kazakhtelecom JSC). Certificate of state re-registration of a legal entity № 6924-1901-AO as of April 1, 2004 was issued by the Department of Justice of the city of Astana.

On January 26, 2012, due to establishment of the Administration of justice of the Saryarka district of the Department of justice of the city of Astana, a new certificate of registration of a legal entity № 570-1901-01-AO was issued to the Company. Due to a change of the legal address of Kazakhtelecom JSC, the certificate on state re-registration of a legal entity was issued by the Department of justice of the city of Astana as of August 18, 2014.

Kazakhtelecom JSC is a legal entity with a centralized management system that has 23 affiliated branches and representation offices in the Russian Federation and the People's Republic of China.

The Company's central office is located in the city of Astana, the capital of Kazakhstan. The company employs about 27 thousand people. Kazakhtelecom JSC has got regional branches in each oblast of the country thereby ensuring provision of telecommunications services across the whole territory of the country.

Over the last two decades of its own existence the Company grew up to become a leader of the telecommunications market of the country, significantly strengthened its position across all key performance indicators and legitimately gained the reputation of being sustainable and steadily developing company with high level of technical capabilities.

TO DATE, KAZAKHTELECOM JSC PROVIDES FIXED TELEPHONY TO AS MANY AS 4 MLN SUBSCRIBERS, AND ACCESS TO THE INTERNET – TO OVER 1.5 MLN SUBSCRIBERS ACROSS ALL CITIES AND SETTLEMENT OF THE COUNTRY.

Networks of more than 120 operators of the Republic of Kazakhstan are connected to the Company's telecommunications network. Moreover, Kazakhtelecom JSC also cooperates and interacts with more than 40 operators from overseas and neighboring countries.

ORGANIZATIONAL STRUCTURE OF KAZAKHTELECOM JSC



STOCK CAPITAL STRUCTURE AND SECURITIES

The Company's stock capital makes up KZT 12 136 529 thousand and is comprised of 10 922 876 ordinary shares and 1 213 653 preferred shares with the nominal value of KZT 1 000 tenge per share. The fraction of the Company's preferred shares out of the total number of issued shares totals 10%.

The Company's ordinary and preferred shares were included onto the official list of category "A" of the Kazakhstani Stock Exchange (KASE) as of October 16, 1997, and from September 1, 2008, they were transferred to the first category of the official list of KASE. Since October 30, 2009, the securities of Kazakhtelecom JSC are included on the Exchange's list on the category "Rated long term securities".

On December 26, 2014, the First issue of the bonding program on the amount of KZT 90 000 000 000 and the first issue of bonds within the framework of the first bonding program on the amount of KZT 21 000 000 000 were included on to the official list of the Stock exchange on the category "Rated long term securities".

On April 28, 2006, the state block of shares of Kazakhtelecom JSC was transferred to Kazakhstan Holding for Management of State Assets "Samruk" JSC, founded in accordance with the Enactment of the Government of the Republic of Kazakhstan as of February 23, 2006 № 117 with a view to effectively managing the state shares in a number of the largest companies of Kazakhstan.

Following the Enactment of the Government of the Republic of Kazakhstan, № 962, as of October 17, 2008, "On measures for implementation of the Decree of the President of the Republic of Kazakhstan № 669", as of October 13, 2008, Sovereign Wealth Fund Samruk-Kazyna (hereinafter referred to as SWF "Samruk-Kazyna" JSC, the Fund) was founded by merging Kazakhstan Holding for Management of State Assets "Samruk" JSC with Fund of sustainable development "Kazyna" JSC.

TO DATE, THE FUND IS THE COMPANY'S LARGEST SHAREHOLDER.

Structure of shareholders

As of December 31, 2014, SWF "Samruk-Kazyna" JSC held 5 570 668 ordinary shares or 51% out of the total number of ordinary shares, with 16.87% of shares being held by BODAM B.V., 7.60% by Deran Services B.V., 9.81% being in nominal holding of Bank of New York Mellon, with 14.72% being the share of other voting shareholders.

Owners of Kazakhtelecom JSC's ordinary shares as of 31.12.2014

Shareholders	Number of shares	Fraction or share (%)
SWF "Samruk-Kazyna" JSC	5 570 668	51.0
BODAM B.V.	1 842 725	16.87
Deran Services B.V.	829 867	7.60
BNY Mellon (nominal holder)	1 071 860	9.81
Other shareholders with a fraction (share) of less than 5%	1 607 756	14.72
Total ordinary shares announced	10 922 876	100

As of 01.01.2015 members of the Company's Management Board and Board of Directors are not owners of ordinary shares of Kazakhtelecom JSC, cross-ownership of shares is absent.

Structure of other shareholders holding ordinary shares with the share (portion) of less than 5% as of 01.01.2015

Types of entity	Number of shares	Share (portion) in %
Legal entities, of which:	1 120 465	69.69
Banks	395 107	24.58
Insurance companies	54 414	3.38
Investment companies	78 780	4.90
Pension funds	350 468	21.80
Other legal entities	241 696	15.03
Shares repurchased (redeemed) by the issuer	210 180	13.07
Natural persons	140 338	8.73
Central depository (the owners, information of which has not been disclosed)	136 773	8.51
Total	1 607 756	100.00

MISSION, VISION, STRATEGIC TASKS

Mission of the Group of companies of Kazakhtelecom JSC (the Group):

**TO BECOME INDISPENSABLE AND HABITUAL PART OF EVERYONE'S LIFE
CHANGING ITSELF AND SURPRISING AND SURPASSING EXPECTATIONS!**

Key notions of the mission:

TO BECOME –

to lay down the foundation for transforming the Company in accordance with its strategy;

INDISPENSABLE –

to compete by offering a unique service in the market owing to its leadership in innovation, prices, geography and complex of services;

HABITUAL –

convenience, affordability (availability), stability;

PART OF EVERYONE'S LIFE –

creation of communication environment, receipt and exchange of information, management of knowledge, entertainment and social orientation;

EVERYONE'S (LIFE) –

all segments, differentiated approach;

CHANGING ITSELF –

structure and processes of the Company oriented towards flexible and timely reaction to changes in technology, market, demand and competitive situation;

SURPRISING –

achievement of a unique client experience;

SURPASSING EXPECTATIONS –

formatting and meeting demand, dominance in innovations.

Vision of the Group of companies of Kazakhtelecom JSC

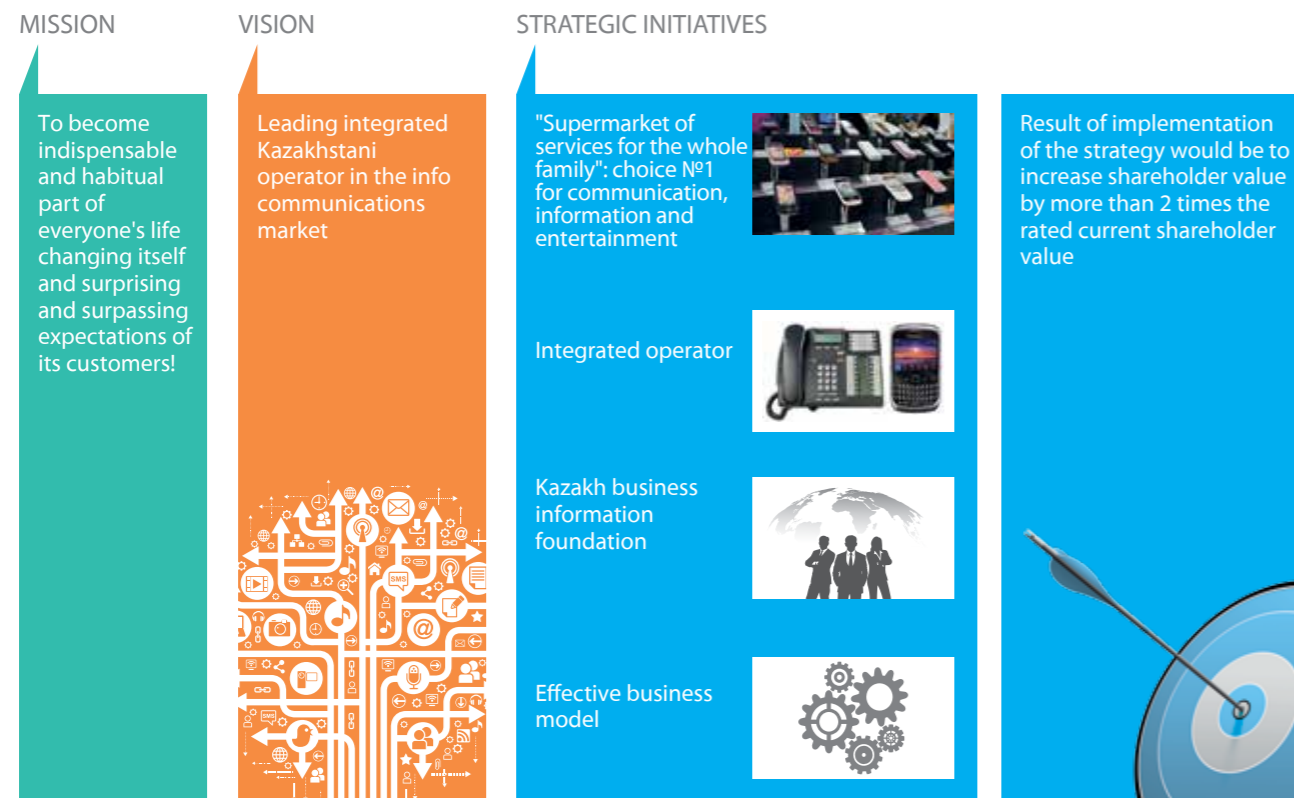
The Group of companies of Kazakhtelecom JSC is a large regional integrated operator in the market for info-communication services creating value for its shareholders by:

- strengthening and forming leading positions in all key segments of the info-communications market of Kazakhstan;
- turning itself into "supermarket of services for the whole family": choice №1 for communication, information, entertainments;
- building up information foundation of the Kazakhstani business;
- building up integrated operator;
- modernizing business-model.

Strategic initiatives and objectives

The strategy of the Group of companies of Kazakhtelecom JSC is aimed at preserving leading positions in fixed business, developing mobile business with staged construction (formation) of integrated operator, using synergy with major business for punctuated development of adjacent to telecommunications industry branches, with the task being set to maintain operational efficiency of business at the higher than average level for companies-analogues and to increase efficiency of capital investments.

MISSION, VISION AND STRATEGIC INITIATIVES OF THE GROUP



TO ACHIEVE THE SET OBJECTIVES AND SUCCESSFULLY MEET FUTURE CHALLENGES, THE FOLLOWING STRATEGIC INITIATIVES THAT FORM THE GROUP'S VISION ARE BEING CONTEMPLATED FOR IMPLEMENTATION:



1. THE GROUP OF INITIATIVES "SUPERMARKET FOR SERVICES FOR A WHOLE FAMILY" ASSUMES:

- promotion of packet offerings of telecommunications and other services to households that will completely meet the demand of all members of a household for communication, information, entertainments;
- increase of user experience and subscriber loyalty.



2. THE GROUP OF INITIATIVES "INFORMATION FOUNDATION OF THE KAZAKHSTANI BUSINESS" INCLUDES:

- extension of the production range and provision of complex solutions that meet info-communications needs from various types of corporate clients;
- shift (switch) from a product approach in the work with corporate segment to client- and segment-oriented approach;
- development of operators business.



3. THE GROUP OF INITIATIVES "BUILDING UP AN INTEGRATED OPERATOR" MAKES PROVISION FOR:

- development of mobile business to such a degree that would enable to make significant contribution to the Group's financial results;
- achieving a synergy effect at the expense of gradual integration of mobile and fixed segments of the business.



4. "MODERNIZATION OF A BUSINESS MODEL"

is a necessary condition for the Group to achieve the set strategic objectives both in terms of direct impact on financial indicators, and in terms of provision for necessary conditions for implementing the most important strategic initiatives, mentioned earlier. Modernization of a business model implies a complex of initiatives aimed at enhancing efficiency in organization of work and labor productivity, improvement of processes and corporate culture of the Group.

ULTRA HD TELEVISION. 2014
DIAGONAL OF A SCREEN: 266 cm.
CHROMA: colour.

A huge screen with a resolution of 5120×2160 pixels allows to perceive (make out) the smallest details. Modern technologies provide for the most accurate color reproduction, images look like natural and real.



TV LAMP. 1961
DIAGONAL OF A SCREEN: 48 cm.
CHROMA: black-and-white.
Image was small (compared to modern one of 720×576 pixels) and produced only 256 color casts of grey color.

BUSINESS REVIEW



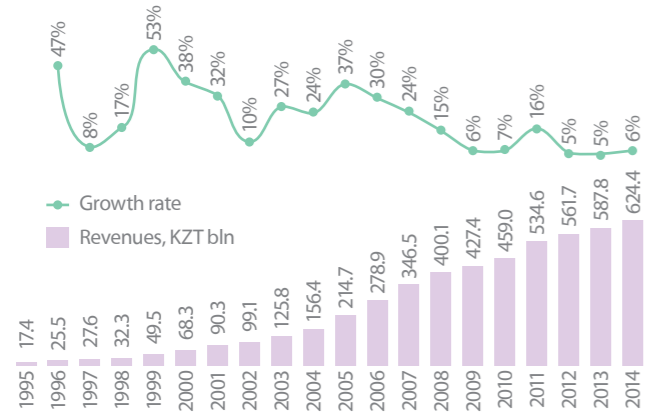
BUSINESS REVIEW

REVIEW OF THE TELECOMMUNICATIONS MARKET

(based on the data collected by iKS-Consulting following the marketing research made at the request of Kazakhtelecom JSC)

According to the estimates of iKS-Consulting, the volume of the telecommunications market of the Republic of Kazakhstan in 2014 made up KZT 624.44 bln, which is 6.1% higher compared to 2013.

Volume and growth rate of the telecommunications market of RK, 1995–2014



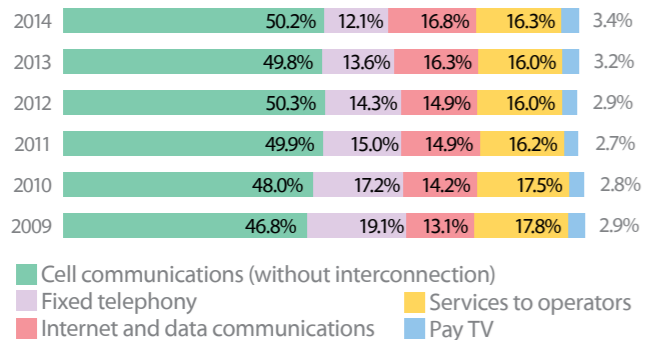
Source: data provided by iKS-Consulting

Apart from the internal factors that made impact on development of the telecommunications market reflected in the growth rate of the market of 7.9% due to intensive growth of the data communications market and Internet, there are other macro-economic factors that contributed to this growth:

1. increase of the growth rate of GDP in RK for January – December 2014 compared to the same period of the previous year (estimates suggest that the increase made up 104.3% in real terms);
2. the average per capita nominal cash income of the population, as of December 2014, increased by 10.2% compared to the same period of 2013. Real cash income increased by 2.6%.

In the structure of revenues across various types of services, in 2014, the share of revenues from mobile and data communications services increased, while the share of revenues from fixed telephony decreased. This trend was expected and is considered to be natural for a matured telecommunications market, the trend that will only intensify in the years to come.

Structure of revenues of the telecommunications industry of the RK across various services, 2009–2014



Source: data provided by iKS-Consulting

Situation in the market across various segments of the market

Fixed telephony. In accordance with the preliminary data of iKS-Consulting, in 2014, the revenue from fixed telephony services made up KZT 75.68 bln, which is 4.5% lower compared to 2013.

Development of the market for fixed telephony, in 2014, was of inertial character. Decrease of the market's volume is attributed to the decrease of the LDD/LDI (long distance domestic/long distance international) communications services consumption volume in traditional networks, and the active substitution on the mobile and SIP-telephony side. The largest decrease of revenues was observed from the calls within RK, which is attributed to mass dissemination of limitless packets on calls in this particular direction among the Kazakhtelecom's subscribers. A small increase of revenues in the segment of local communications is attributed to the increase of revenues from additional services – the services of call centers, intelligent services, etc.

In the structure of revenues from fixed telephony services, in 2014, the growth of revenues from local communications continued, which is quite natural for a matured market, the proceed from which, formed at the expense of fixed subscriber fee, are stable and guaranteed. As of the end of 2014, the revenues from local communications made up 72% out of the total revenues from fixed telephony.

In 2014, the number of fixed telephone lines, according to estimates of iKS-Consulting, made up 4 362 thousand, which is 0.5% lower compared to 2013. Thus, the year 2014 became a watershed year in development of the market for fixed telephony, being marked, for the first time ever, by the predominance of the outflow of subscribers over new connections (new subscribers). Net outflow as of the end of the year made up 23 thousand subscribers.

The outflow of the fixed telephony subscribers at the current stage of development of the telecommunications market of the country is considered to be not a negative trend and is not of a dangerous character. Quite opposite, it is consistent with the scenario of development of the world's telecom markets and is indicative of the extent to which mobile communications services have spread across the world and become accessible to people. In other words, a small outflow of the fixed telephony subscribers in the face of general development of the market characterizes it as being sound and properly developing in topical directions.

Mobile communications. The volume of the cellular market in Kazakhstan amounted to 367.3 billion in 2014, which is an increase of 5.3% compared to that of the previous year.

In 2014, the impetuous growth was demonstrated by the revenues from the mobile Internet: their share in the general structure grew up from 14% in 2013 to 19%. The revenues from the basic services continued dominating, although their share in 2014 decreased down to 56% compared to 60% in the previous year. The share of revenues from interconnection also decreased – from 16% in 2013 to 15% in 2014. The share of revenues from VAS remained at the level of 2013 and made up 10%.

Significant contribution to the revenue increase in 2014 was made by ALTEL with the Internet access service becoming its key service after the launch of 4G/LTE network.

Impetuous increase of a number of smart-phone users became a natural driver of development of the mobile Internet market. In 2014, they provided for 67.8% of all revenues from mobile data communications. Just to compare, in 2013, smart-phone users generated just over half the total revenue (51.4%). As a

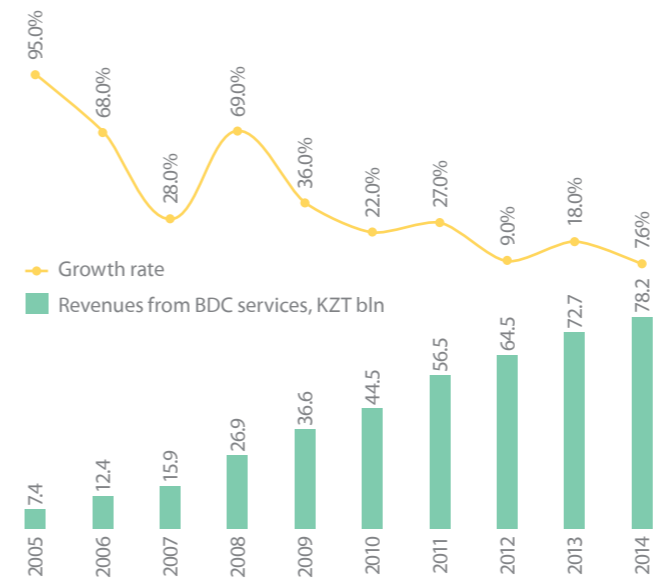
result, in 2014, the revenues' structure from mobile Internet underwent a significant shift, i.e., the share of revenues from USB-modems and tablets users decreased from 36.5% down to 26.2%, and the users of traditional telephones and M2M devices generated in aggregate only 6% of the total revenues. Pursuant to iKS-Consulting, as of the end of 2014, the total number of active subscribers in Kazakhstan made up 26 226 thousand. This corresponds to the increase of 7.6% compared to 2013.

Data communications and access to the Internet. As of the end of 2014, the total volume of the market for data communications, including access to the Internet, channel lease, IP/SIP-telephony and switched access services made up KZT 105.13 bln making an increase of 9.7% compared to 2013.

The total volume of the market for data communications considering the revenues from the services generated in mobile networks made up, in 2014, KZT 176.13 bln, which corresponds to the increase of 23% compared to the previous year.

Broadband access to the Internet. Pursuant to the preliminary estimates of iKS-Consulting, the volume of the Kazakhstani market for broadband data communications (BDC) in 2014 made up KZT 78.2 bln, making an increase of 7.6% compared to the previous year.

Revenues from Broadband Data Communications services, 2005–2014



Source: data provided by iKS-Consulting

Despite the wavy character of the dynamic of growth rate of the revenues from the BDC services with its ups and downs recurring periodically, the general trend explicitly shows revenues growth impairment which is indicative of the market going through the regular saturation in the segment being developed. The primary saturation of the market was in 2010, when the main focus of operators in corporate segment was on yet unconnected enterprises of SMBs, and in private segment on the most profitable households located in major cities.

Period from 2010 through 2014 is characterized by active development of the mass users segment and by large-scale regional expansion of the BDC providers. That was the period of major changes in the terms of connection – speed thresholds were raised (and then completely removed), rate of access increased with the prices of services not only raising but even

going down. Thus, subscribers consumed more services for the same price.

In a whole, development of the Kazakhstani market for BDC in 2014 can hardly be called dynamic. It was rather inertial which is attributed to the segment of mass local users approaching saturation, on one hand, and the intensified competition in the market for mobile BDC to which the key players of the market for fixed BDC – Kazakhtelecom and Beeline shifted their focus, on the other hand.

Market shares of key BDC operators, 2014

Operators	Market share	
	Subscribers	Revenues
Kazakhtelecom	84.7%	82.3%
Beeline	10.9%	7.5%
Transtelecom	0.9%	1.8%
KazTransCom	0.3%	1.5%
Arna	0.2%	0.8%
Alma-TV	1.3%	1.1%
Icon	0.4%	0.4%
ASTEL	0.2%	1.6%
Others	1.2%	3.0%
Total	100%	100%

Source: companies data, estimated of iKS-Consulting

In the next 3–4 years, the Kazakhstani market for BDC will enter the final stage of its growth that will be supported mainly by inhabitants of small towns and settlements, including rural ones. It is obvious that at this stage the growth rate of a number of subscribers will significantly exceed the growth rate of revenues, because the market will be growing at the expense of the subscribers with low income.

Channel lease. In 2014, pursuant to preliminary data of iKS-Consulting, the volume of the channel lease market made up KZT 19.2 bln, making an increase of 11.6% compared to 2013.

The market for channel lease is considered to be a settled segment of the telecommunications market of RK. It is formed by five major suppliers competing between each other for key business clients, but having geographic and technological specialization that allows them to retain the major subscriber base that has been formed.

The company Transtelecom possessing fiber optical infrastructure with unique topology that corresponds to the railway network of RK, provides for the channel lease services to enterprises of the railway industry, being regarded as single supplier for them.

The company KazTransCom originally founded as a departmental operator for servicing enterprises in oil and gas extraction and processing (refining) industry, continues to specialize in this segment despite the intense attempts of the company to extend the boundaries of the consumer market.

The company ASTEL, operator of the republican satellite communications network, firmly holds leadership in the segment developing itself within this network and trying to enter the adjacent technological markets.

Pay TV. As of the end of 2014, the volume of pay market in Kazakhstan made up KZT 21.36 bln, making an increase of 15.4% compared to 2013.

The model of development of the market for Pay TV, with every passing year, more and more approaches the model of the market for fixed BDC. Its major feature is the concentration of the market around large players of nation-wide scale.

In the segment of satellite TV, the state project "OTAU-TV" designed for various strata of the society is regarded as being the absolute leader.

Like operators of fixed and mobile BDC, the operators of pay TV actively used the cooperation with trade networks to hold cross marketing promotion actions. For example, buyers of television sets of a particular model in the trade network "Sulpak" were given a package OTAU-TV as a present.

Operators market for telecommunications services.

In the segment of services to operators, the revenues are formed at the expense of the following group of services:

- Lease of backbone communications channels;

- Provision of channel of access to the Internet (IP-transit);
- Connection and throughput of telephone traffic;
- Mobile interconnect;
- Transit of international traffic.

Pursuant to iKS-Consulting's estimates, in 2014, the volume of the market for services to operators (considering interconnect in cell communications networks) made up KZT 101.62 bln, which is 6.7% higher than the indicator of 2013.

The key players in the market for services to operators in the last years are the following:

- Kazakhtelecom JSC
- Transtelecom JSC
- KazTransCom JSC
- Arna JSC
- Beeline (GC)
- ASTEL JSC
- Operators of cell communications

Major technological tendencies in development of the industry

Extensive introduction of mobile networks on LTE technology, increase of penetration of devices with support of 4G

As of the end of 2014, as many as 360 commercial LTE networks were registered in the world¹. Most of the LTE networks are deployed in the range of frequency of 1 800 MHz, LTE Band 3. There are as many as 160 LTE networks of 1 800 MHz in the world deployed in 76 countries. Most of the networks being deployed use LTE FDD, the LTE technology with frequency division of sub-carriers.

More than 2 200 various models of devices support LTE. The share of smart-phones supporting LTE is on rise.

Qualitative development of LTE networks is linked to the beginning of commercial introduction of LTE-Advanced technology, continuation of development of the LTE technology (3GPP Release 10), that can be considered as full-fledged 4G-technology. As of the end of 2014, there were as many as 49 commercial introductions of LTE-Advanced in the world in 31 countries. Around 30% of operators have already introduced LTE and invest to introduction of LTE-Advanced.

One of the drivers of LTE development is the technology of packet transmission (communication) of voice over LTE – VoLTE. Communication of voice over LTE enables to fully implement the function "voice of high quality" (HD Voice) for mobile networks, which did 14 operators across the world.

In Kazakhstan, the LTE network is deployed by Kazakhtelecom JSC through its subsidiary "ALTEL".

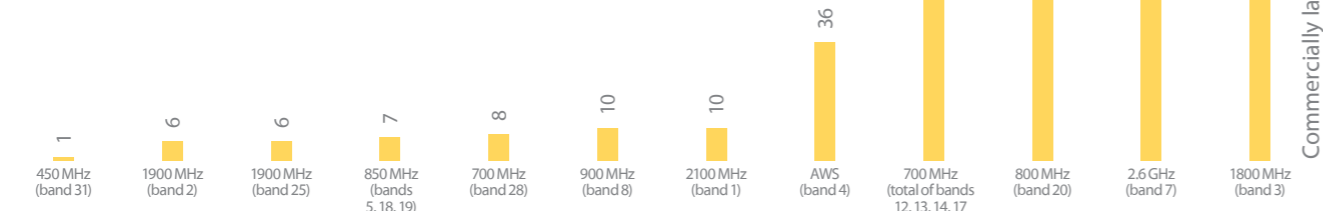
Spectrum used currently in 360 commercially launched LTE networks

Most widely used contiguous FDD bands:

1. 1 800 b3 in 43.8% of LTE networks
2. 2 600 b7 (25.3%)
3. 800 b20 (18.9%)
4. AWS b4 (10%)

312 operators launched FDD mode only
31 operators launched TDD mode only
17 operators launched FDD&TDD modes

360 commercially launched LTE networks



Source of data: GSA's Evolution to LTE report - 7th of January, 2015. Global mobile Suppliers Association www.gsacom.com

¹ According to the data of GSA (Global Mobile Suppliers Association)

Wide usage of data on subscribers (Big Data)

Currently, the volume of data increases exponentially and doubles every two years².

To date, 2.3 trillions of gigabyte of information come into service every day.

Growth of the Big Data market, in 2014, makes up over 25%³ with a total volume being estimated at around \$16 bln.

The major trends in development of the Big Data technology for operators, in 2014, include:

- use of "big data" for advancing services to subscribers, specifically, OTT services (online-television and other content operating over Internet connection);
- tactical marketing: management of outflow, micro-companies, etc;
- personalization of services, development of SDP-platform;
- optimization of the network infrastructure (for instance, adaptation of networks to a more flexible processing of traffic online video).

Other trends for operators in 2014:

- Active development by operators of partnership business on the basis of the revenue sharing principle, specifically for the services Over The Top (multi-media content transmitted over Internet channels);
- General implementation of the virtualization and SDN technology, including data centers, backbone and servicing networks;
- Active introduction of convergent transportation technologies (multi-terabit DWDM for super-long communications).

In 2014, Kazakhtelecom JSC constructed DWDM network by applying convergent method and digital filtration. The network is built upon the 100G channels basis and designed to provide for multi-terabit throughput capability. Minimum number of regenerations and optimum routes for traffic transportation make the network highly efficient providing for minimum delays and scalability.

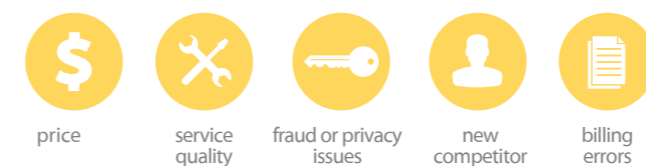
• Maximum localization of traffic on operators' side, especially, with regard to multi-media traffic, in order to reduce its cost.

Kazakhtelecom JSC introduced the traffic localization systems with its partners such as Google, Akamai, Megogo. Now, multi-media content is localized in Kazakhstan and accessible from local servers, which enhances quality of access thereto and reduces its cost for the Company.

- Development of M2M services including video surveillance with cloud data storage.
- Development of electronic commerce.

CONTRIBUTORS TO CHURN

Churn is a cost of doing business - but it doesn't have to be so costly



RATES OF CHURN

the average mobile customer switches service providers every 27 months
prepaid customers last 17 months
44% of customers switch providers each year

WHY BATTLE CHURN?

It is more costly to find and add a customer than to maintain and grow an existing one



² Pursuant to the data of JSon & Partners

³ Pursuant to the data of IDC

REVIEW OF THE INDUSTRY'S REGULATORY ENVIRONMENT

The Committee for Communication, Informatization and Information of the Ministry on Investments and Development of the Republic of Kazakhstan (hereinafter referred to as "CCII MID RK") that performs duties, within its own terms of reference, on formation and pursuance of an efficient state policy in the field of communications, informatization and information with a view to developing info-communications complex, is an authorized body in the field of telecommunications industry.

CCII MID RK is responsible, within its own terms of reference, for state regulation of the activity in the field of communications, informatization, and e-government, implementation of state policy and state regulation and control in the field of natural monopolies and in the regulated markets in the field of telecommunications, etc.

In the telecommunications industry, state regulation applies to the following types of services:

Services in the sphere of natural monopolies

Pursuant to the enactment of the government of RK as of March 14, 2006, № 155 "On approval of the List of regulated services (goods, works) of subjects of natural monopolies", the following services are attributed to the services in the sphere of natural monopolies in the field of telecommunications:

1. Connection to the public telecommunications network of the equipment (points of access) of IP-telephony operators (the Internet-telephony) at the international level;
2. Pass by the connecting telecommunications operators of telephone traffic from (to) equipment (points of access) of the connected IP-telephony operators (the Internet-telephony);
3. Making telephone cable-conduit system available for use.

Services included in the Registrar of subjects of market occupying dominant or monopolistic positions

Pursuant to the Law "On competition", the Company is also subject to regulation by a body responsible for monitoring the services that are on the list of the Registrar of subjects occupying dominant or monopolistic positions:

1. Services on connecting subscribers of local telephone communications with subscribers of cell communications;
2. Local telephone communications services;
3. Access to the Internet services for end users;
4. Services on provision of long distance domestic (intrazone) telephone communications through local telephone communications;
5. Services on provision of long distance international telephone communications through local telephone communications;
6. Services on leasing direct line (lines);
7. Services on connecting telecommunications networks of operators at intercity and international level;
8. Services on passing through of incoming telephone traffic from cell communications operators' networks;

9. Services on passing through of incoming trunk (intercity), international telephone traffic from fixed telecommunications operators connected at local, intercity (trunk) and international levels;
10. Services on passing through of intercity, international and cell telephone traffic through Kazakhtelecom JSC's telecommunications networks from \ to telecommunications networks of operators connected at local and/or international levels (transit);
11. Services of primary access to the Internet (for telecommunications operators);
12. Services of operational and technical maintenance of reporting facilities (warning system);
13. Services of telegraph communications.

Universal telecommunications services

The List of Universal Telecommunications Services approved by the Enactment of the Government of the Republic of Kazakhstan as of March 31, 2009 № 451 includes the following type of services:

1. Local communications services;
2. Services of individual wireless Internet access with the speed of connection of at least 1 024 Kbps (starting from 01.01.2015 of at least 1 536 Kbps);
3. Collective access to the Internet services at a connection rate of not less than 1024 Kbps.

Services provided to law enforcement structures

Pursuant to the Rules for regulating prices (tariffs) on provision of lines and communications channels, channels in cable ducts and premises for technical facilities for needs of authorized state bodies, military command centers, national security and internal affairs' agencies of the Republic of Kazakhstan, approved by the RK government enactment as of April 14, 2009 № 514, the Authorized body is charged with a duty to regulate the following types of services:

1. Making available for use the premises required to install technical facilities;
2. Lease of cable facilities in the cable ducts;
3. Leasing places (area) on aerial and mast structures and poles;
4. Leasing ground analogue and digital intercity and intrazone channels;
5. Leasing connecting lines;
6. Leasing direct wire.

THE COMPANY'S POSITION IN THE TELECOMMUNICATIONS MARKET

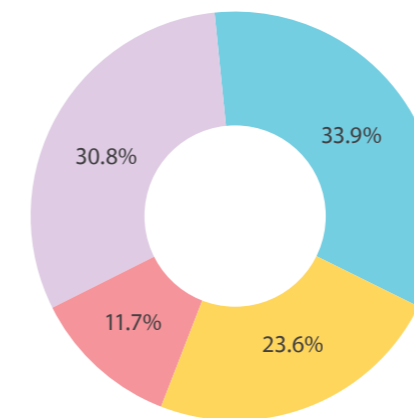
Competitive situation in the telecommunications market of Kazakhstan

Kazakhtelecom JSC has been pursuing its activity in the telecommunications industry since June 17, 1994, the date when the National joint stock company Kazakhtelecom was incorporated.

Currently, there are three key players in the telecommunications market of Kazakhstan: the Group of companies of Kazakhtelecom JSC with the market share of 33.9%, KCell JSC – 30.8%, Group of companies Beeline – 23.6%. Share of other operators as of the end of 2014 made up 11.7%.

KAZAKHTELECOM JSC IS THE LEADER OF THE MARKET WITH THE CAPABILITY OF PROVIDING ITS SERVICES PRACTICALLY IN ANY POINT OF THE COUNTRY BEING THE KEY ADVANTAGE OVER ITS RIVALS.

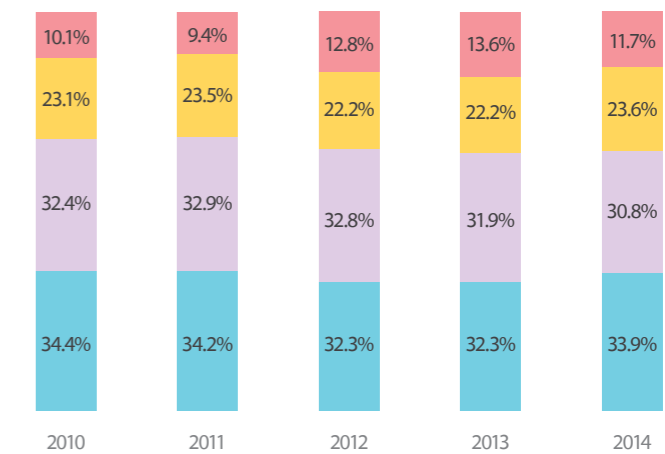
Share of the market across major operators of RK in 2014



- GC Kazakhtelecom JSC
- KCell JSC
- GC Beeline
- Other operators

In 2014, the Group of companies of Kazakhtelecom JSC strengthened its leading position by increasing its market share by 1.6 times compared to previous period to 33.9%. Growth of the market share is attributed to rapid development of the group in the market for cell communications, specifically, in the segment of mobile data communications. Kazakhtelecom JSC and its subsidiary ALTEL JSC implemented, in 2014, quite new offerings in the market in the FMC format, which enabled to attract significant number of users both to the fixed and mobile network of the Group.

Dynamic of the change in the telecommunications market structure of RK across major operators, 2010–2014



- GC Kazakhtelecom JSC
- KCell JSC
- GC Beeline
- Other operators

Source: data provided by iKS-Consulting

By 1.4 times, compared to previous year, increased the share of GK Beeline in 2014. Growth of revenues of the group was significantly supported by the revenues earned in the fixed networks.

KCell company, in 2014, lost 1.1 % of the market. In 2014, the operator marked the highest, over the last years, decrease of revenues from the voice communications services.

The market share of Kazakhtelecom JSC (in subscribers) across major telecommunications services, thousand, 2014

Services	Share of Kazakhtelecom JSC
Fixed telephony	92.2%
Cell communications	4.5% ⁴
Internet and DC, of which:	83.6%
BDC	84.7%
Data communications	64.8%
Pay TV	22.3%

Source: iKS-Consulting

Kazakhtelecom JSC is traditionally considered to be the leader in providing the fixed telephone communications services on the whole territory of Kazakhstan, including the local, intrazone, long distance domestic and international communications services. These services make up a significant share of the Company's business.

THE COMPANY ALSO HOLDS LEADING POSITIONS IN THE MARKET FOR FIXED ACCESS TO THE INTERNET AND DATA COMMUNICATIONS. THE COMPANY'S SHARE IN THE BROADBAND MARKET IN TERMS OF THE NUMBER OF SUBSCRIBERS AT THE YEAR-END 2014 AMOUNTED TO 84.7%, AT THE YEAR-END 2013 – 83.6%. AS OF JANUARY 1, 2015, THERE WERE OVER 400 THOUSAND ACTIVE SUBSCRIBERS (PORTS) CONNECTED TO THE ID-NET NETWORK. THIS MEANS THAT AS OF THE END OF A FIVE YEAR PERIOD OF MASS DEVELOPMENT BY OPERATORS OF THE SERVICES ON THE FTTH NETWORKS, KAZAKHTELECOM JSC CONFIDENTLY TOOK A LEADING POSITION IN THIS SEGMENT.

In the market for channel lease, the Company is also the leader with the capacity of providing services practically in any point of the Republic of Kazakhstan being its unconditional advantage over its rivalries.

In addition, with the acquisition of the "Digital TV" network at the end of 2013 Kazakhtelecom JSC became one of major players in the "wire" segment, surpassing the company ALMA-TV, having held a leadership position for over 10 years.

Market share of Kazakhtelecom JSC in revenues from telecommunications services, 2014

Type of services	Fixed networks	Market as a whole (fixed and mobile networks)
LDD/LDI communications and calls on to the cell communications networks	89.3%	23.1%
Access to the Internet and data communications	77.8%	50.4%
Services to operators	65.4%	32.7%

Source: iKS-Consulting

Legislative environment and its changes

Kazakhtelecom JSC in pursuing its activity follows the following fundamental legislative acts (laws) of the Republic of Kazakhstan:

1. The Law "On communications";
2. The Law "On natural monopolies and regulated markets";
3. The Law "On competition";
4. The Law "On joint stock companies".

Besides, the Company falls under the regulation of a number of sub-legislative regulatory acts that regulate the issues on provision of communications services, approval of tariffs, the rights and obligations of telecommunications operators, consumers of services and state, and other issues in the field of telecommunications.

In a whole, in 2014, there were some changes in the legislative environment both with regard to the issues related to the provision of services in the field of telecommunications, and the ones that have regulatory implication for the Company. There were some point changes that both simplified the regulatory load and complicated it.

Specifically, the Law of RK "On communications" was complemented with a regulation intended to regulate the order of suspension of operation of networks and (or) communications facilities in cases of using networks and (or) communications facilities for illegal purposes causing damage to the interest of an individual, society, and state, as well as for dissemination of the information that violates the legislature of the Republic of Kazakhstan on election, contains call for extremist and terrorist activity, mass disorders, and participation in mass (public) actions held in violation of the established order.

In December 2014, the changes were introduced to the Law of RK as of January 18, 2012 "On tele-radio-broadcasting" pursuant to which, from January 1, 2015, tariffs for services on dissemination of tele-radio-channels in multi-channel broadcasting are to be established by tele-radio-broadcasting operators themselves on the basis of reasonable expenses, unless otherwise provided for in the legislature of the Republic of Kazakhstan. Given that the Company closely cooperates with the corresponding operators in implementing tele-broadcasting projects, this will enable to more flexibly react to market conditions and establish necessary tariffs for the current period.

Impact of state on the Company's activity

Kazakhtelecom JSC is registered in the republican section of the State registrar of subjects of natural monopolies, the State registrar of subjects of market holding dominant or monopoly position in regulated markets, and it is also an operator of the "universal services" and its activity is subject to state regulation.

On the state's side the Company's activity is regulated and controlled by an authorized body – the Committee for Communication, Informatization and Information of the Ministry of Investments and Development of the Republic of Kazakhstan. CCII MID RK is also an authorized body in the field of natural monopolies in the field of telecommunications, thereby making control and regulation of the Company's activity as a subject of natural monopolies. Beside, in the part pertaining to protection of competition, the Committee for Regulation of Natural Monopolies and Protection of Competition of the Ministry of National Economy of RK, exercises its authority.

Activity of Kazakhtelecom JSC in tariffing policy is subject to state regulation across four directions:

1. Services in the field of natural monopolies

Pursuant to article 15 of the Law of RK "On natural monopolies and regulated markets" the tariffs for services of subjects of natural monopolies are subject to mandatory state regulation and approval by an authorized body in the field of telecommunications.

2. Services included into the Registrar of the subjects of market holding dominant or monopoly position

Regulation of tariffs for regulated telecommunications services included into the Registrar of the subjects of market holding dominant or monopoly position is to be carried out by an authorized body by way of setting a maximum level of tariff (price) in accordance with the Rules for pricing in regulated market approved by the enactment of the government as of March 3, 2009, № 238.

3. Universal telecommunications services

Pursuant to item 4 article 32 of the Law of RK "On communication", tariffs for universal telecommunications services are subject to mandatory state regulation and should be approved by an authorized body in the field of communications.

4. Services provided to enforcement bodies

Tariffs for services set out in the Rules for regulation of prices (tariffs) for provision of communications lines and channels in cable conduit system and of premises required for deployment of technical facilities for the needs of authorized state bodies, military management bodies, national security and internal affairs bodies of the Republic of Kazakhstan, approved by the enactment of the government of RK as of April 14, 2009, № 514, are to be approved by an authorized body.

Besides, when performing works with a view to introducing new services, further upgrading the telecommunications networks, the Company is required to receive consent (permission) from state bodies on the issues related to getting permission for the use of radio frequency spectrum, numbering resource.

With that end in view the Company carries out the work on execution of permissive documents for use of radio frequency spectrum of RK, and for getting permission by an authorized body for use a number resource (Order of CCII MID RK). On the state portal elicence.kz the Company makes up corresponding request. The request is then to be considered by an authorized body within 30 calendar days upon which a corresponding permission is to be issued.

Subsidies and guarantees of the state in the telecommunications industry

As of today, the laws of the Republic of Kazakhstan currently in force provide for a mechanism of subsidizing unprofitable universal telecom services.

The Committee for Communications, Informatization and Information of the Ministry of Investments and Development of the Republic of Kazakhstan annually determines an operator of universal services on a competitive basis. Taking into account that the development of telecom services in rural areas is economically unattractive for other telecom operators and other telecom operators don't participate in the tender for determining an operator of universal services, these obligations were imposed on Kazakhtelecom JSC, which is the incumbent operator.

As a part of the scheme of subsidizing unprofitable universal telecom services currently in force, the Company annually receives subsidies from the funds provided for these purposes in the Republican Budget of the Republic of Kazakhstan.

The amount of KZT 6.2 bln provided for these purposes in the Republican Budget for 2014 has been fully spent by the Company.

⁴ Market share of ALTEL JSC – a subsidiary company of Kazakhtelecom JSC

BUSINESS PORTFOLIO

Kazakhtelecom JSC is uniquely positioned in the Kazakh market in terms of the infrastructure and regional competences for creating and offering to the market a range of telecom services with the best value for customers.

The Company continues to implement the long-term strategy aimed at providing people and enterprises with innovative high-tech telecom solutions for home and office. Business portfolio of Kazakhtelecom JSC includes the full range of services that is represented practically in all regions of the country and beyond its borders.

New services

In the era of mobilization and transformation Kazakhtelecom JSC is introducing and developing new services for different customer segments in order to create new opportunities for the customers of Kazakhtelecom Group. By offering new products we strive to make the life of our customers more convenient and focus on new technologies.

New broadband products include the following four main areas:

Converged Products:

Universal Number is a joint product of Kazakhtelecom JSC and ALTEL JSC, which combined a landline phone number for incoming calls (without outgoing calls) and mobile communications (full-featured mobile number, mobile Internet).

Single package, which includes LTE-based mobile broadband Internet access, is a joint product of Kazakhtelecom JSC and ALTEL JSC, which combined fixed-line services (telephony, broadband Internet access, TV) and LTE-based Internet access. The service is provided by Kazakhtelecom JSC (subject to entering into the contract for LTE-based Internet access services on behalf of ALTEL JSC).

iD Net Wireless is a service of LTE-based fixed broadband Internet. The service is provided by Kazakhtelecom JSC (subject to entering into the contract for LTE-based Internet access services on behalf of ALTEL JSC).

Mobile Office ensures protected wireless access to information resources of a customer's corporate network at a customer's point of presence. In general, there are two possible options for implementation of this service:

1. Extension of existing land-based corporate network by VPN points connected on the basis of LTE/CDMA450 EV-DO technology;
2. Organization of a backup connection of a customer end point on a corporate VPN network on the basis of LTE/CDMA450 EV-DO technology.

Cloud Services and IT-outsourcing:

Microsoft Products mean the sale of licenses for Microsoft Lync, Hosted Exchange, Sharepoint.

Data Storage System is the hosting in the "cloud" for storage, sharing and exchange of data.

Virtual Data Center is a set of computing resources (server hardware, data storage system, power supply, and network access) available by means of the protected or dedicated communication channels.

Printing Service is the service and support of copying and duplicating equipment.

Cloud Webinar is a videoconference with ample opportunities for presentations, seminars, reports and lectures.

Remote Access to IPKVM Switch Server allows customers of Dedicated and Colocation services to get access to the servers by means of the Internet anytime and anywhere in the world.

Dynamic Cloud Server is a service, which allows lease of virtual servers for building own cloud infrastructure by a customer.

Pay TV services:

iD TV Online is a service, which allows a user to watch TV channels and video content on various multimedia devices (PC, tablet, smartphone, media box, smart TV) connected to the broadband data network of Kazakhtelecom JSC.

HD is a package of TV channels of HD quality.

Additional Internet Services:

TurboSpeed is a service, which implies increase of the speed of the Internet access to external and internal resources up to 100 Mbps for subscribers of iD Net service.

Rental Software is the ability to use software remotely subject to payment of monthly fees.

SLA is a service for organization of MPLS VPN-based quality control over virtual and corporate networks.

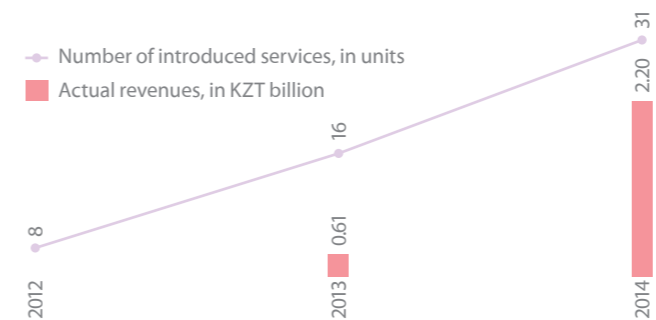
Service Delivery Platform (SDP) is a service platform; in the telecom sphere it is a set of components that control the service processes and allow a customer to manage sessions and protocols of various telecom equipment of a company.

Call from a website is a service, which allows a subscriber to organize free calls of its customers from a subscriber's website just like standard phone call (a customer should have a headset).

Internet for Public Authorities is a service, which allows centralized Internet connection through a single gateway for public authorities.

Tariff plan for individuals with the speed of 120 Mbps on the basis of FTTx technology is a tariff plan for subscribers, who prefer to download and watch movies on the Internet at high speeds.

Revenues from the introduced new products at year-end 2012–2014, excluding LTE and GSM products, amounted to about KZT 2.2 billion. The volume of supplied products amounted to about 31 units.



Major services of the Company

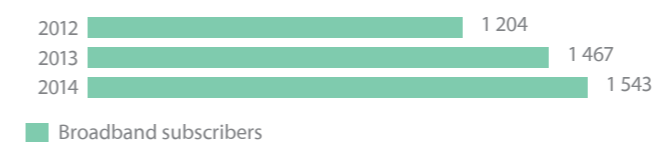
Internet access and data communication services

iD Net and Megaline are the services of broadband Internet access.

In 2005, for the first time, Kazakhtelecom JSC introduced to the mass market of individuals the service of broadband Internet access under the brand name "Megaline". By 2010, the Internet access service was launched on the basis of new high speed technology FTTx under the brand name "iD Net" in all oblast centers and large cities of Kazakhstan. The service is used by individuals and businesses.

In 9 years, the customer base of broadband services increased in more than 250 times from 6 thousand up to 1 543.1 thousand subscribers. To date, the broadband service under the brand name "iD Net" is provided in oblast centers and large cities of Kazakhstan.

Fixed broadband subscribers (2012–2014), thousand ports



Kazakhtelecom JSC offers to its customers the **Internet access service based on the following wireless solutions:**

- WLL CDMA EVDO;
- Megaline Wi-Fi;
- Wi-Fi Internet connection in public places.

The broadband WLL CDMA/EVDO-based service under the brand name "Megaline EVDO" was brought to the market with the aim of providing rural citizens with the access to Internet resources in those areas where fixed broadband services cannot be provided.

The Company offers to corporate customers the full package of telecom services, including digital and voice communications, multimedia communications (video broadcasting and video conferencing), as well as support of all data network protocols used in the market.

At year-end 2014, more than 20 thousand sites were interconnected into the corporate network in Kazakhstan and abroad based on **IP VPN** service of Kazakhtelecom JSC.

Today, Kazakhtelecom JSC provides the **TelePresence service**, which is a **high-quality video conferencing** service for organization of two-way and three-way video conference between the Russian Federation and the Republic of Kazakhstan (Moscow – Almaty, Moscow – Astana, Moscow – Almaty – Astana). This service allows the companies to save significantly travel expenses and solve all operating issues in the on-line mode.

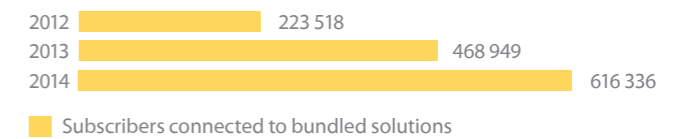
Bundled solutions

Kazakhtelecom Group continues to promote actively the concept of bundled Double Play and Triple Play services. Bundled Double Play Offer includes fixed and mobile broadband and telephony services, as well as bundled fixed broadband and Pay TV services.

Bundled Triple Play Offer includes broadband, Pay TV and telephony services under the brand name "iD Home". At year-end 2014, the customer base of subscribers connected to the bundled services increased in 1.3 times and amounted to 616 336 subscribers.

Bundled services allow the utmost satisfaction of the needs of our customers for telecom services.

Dynamics of the number of subscribers connected to bundled services for 2012–2014



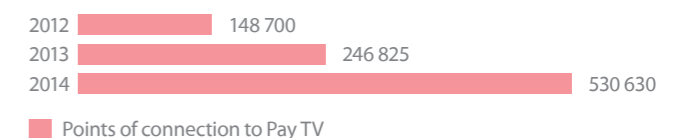
ICT services

Kazakhtelecom Group continues to implement and develop **ICT services.**

Today, the Data Center Network of Kazakhtelecom JSC covers the whole country and includes 15 sites on the basis of which the Company offers such services as Shared Hosting, VPS, Colocation, Dedicated, video conferencing system, Microsoft Hosted Exchange and Microsoft Hosted SharePoint.

In 2014, the Company continued the development and promotion of **Pay TV services.** By the end of 2014, Kazakhtelecom JSC took a sound position in the Wired Pay TV market after the current leader Alma-TV. The Company's market share is 22.3%. In 2014, the Company's Pay TV customer base increased twofold as compared with 2013 and amounted to more than 530 thousand subscribers.

Number of points of connection to Pay TV for 2012–2014



Traditional services

Local telephony. Kazakhtelecom JSC provides local telephony services for more than 20 years. Starting from 2009, the Company has brought to the market the services of virtual office telephony under the brand name "iD Phone". In remote regions of the country the Company provides telephony services based on CDMA technology.

Fixed telephony subscribers (2012–2014), thousand



Long-distance domestic and international telephony. Kazakhtelecom JSC provides long-distance domestic and international telephony services to its subscribers. Each subscriber can use this kind of services for communications in various directions both within Kazakhstan and abroad (CIS and overseas countries).

Kazakhtelecom JSC is continuously taking steps to reduce tariffs and improve the billing system in order to increase opportunities of subscribers to keep in touch with their nearest and dearest, colleagues and partners independently from their geographic location.

Intelligent services of Kazakhtelecom JSC are the universal solutions for businesses, which allow rapid collection or provision of any information by phone in automatic or semi-automatic mode, as well as provision of customers with other value added services, such as toll free, paid information services and televoting.

Services provided to telecom operators. Kazakhtelecom JSC provides services to telecom operators in strict compliance with the applicable laws and principles of mutually beneficial partnership. The Company is committed to maintenance and development of its competitive advantages, such as availability of the required amount of network resources for network interconnection and transmission of all types of traffic, extensive telecommunications network based on the latest digital equipment with high capacity, which ensures provision of high-quality and reliable services to operators and their subscribers.

There are the following major categories of services in this segment:

- organization of the Internet access for ISPs of the Republic of Kazakhstan;
- leasing of long distance domestic and international digital communications channels for customers.

DEVELOPMENT OF MOBILE SEGMENT

One of the main growth areas of Kazakhtelecom Group is strengthening its leading position in all key segments of ICT market of the country, including mobile market. The Group's mobile segment is developed on the basis of mobile operator ALTEL JSC.

Kazakhtelecom JSC jointly with ALTEL JSC, a subsidiary with 100% equity interest of the Company, is implementing the project on ensuring coverage of the mobile network of the fourth generation based on LTE standard across the Republic of Kazakhstan under the brand name "ALTEL 4G: GSM".

The main advantage of 4G network for consumers as compared with the mobile networks of previous generations is the higher speeds of mobile Internet. The fourth generation network allows creating for the subscribers the most comfortable, simple and favorable conditions for using high-speed mobile Internet connection for business, entertainment, communication, education and full range of opportunities offered by the world wide web.

In 2012, ALTEL became the first telecom operator, which brought into operation 4G/LTE network in Kazakhstan, whereby strengthening the reputation of Kazakhtelecom Group as the leader of the telecom market, which places stakes on innovations.

The coverage of LTE/UMTS/GSM networks:

2012 – 2013

- **Astana, Almaty and 6 oblast centers:** Almaty, Astana and their suburbs, and also Aktau, Aktobe, Atyrau, Karaganda, Oskemen, Shymkent;
- **8 oblast centers:** pilot and commercial zones were rolled out.

2014

- **8 oblast centers:** Kokshetau, Kostanai, Kyzylorda, Pavlodar, Petropavlovsk, Taldykorgan, Taraz, Uralsk, and their suburbs;
- **12 settlements with population of over 50 thousand:** Balkhash, Zhanaosen, Zheskazgan, Kentau, Kulsary, Ridder, Rudnyi, Satpaev, Semei, Temirtau, Turkestan, Ekibastuz and their suburbs.

On November 15, 2014, with the launch of LTE network in the towns of Turkestan and Kentau, the plan for 2014 on securing the coverage of RK and provision of LTE services was completed ahead of schedule.

LTE/UMTS/GSM network as of the end of 2014:

- the first multi-technological converged network 4G+3G+2G;
- 200 settlements are covered by the network in Kazakhstan;
- LTE/GSM/UMTS network includes 2 302 base stations;
- coverage of population by LTE/GSM network is 62%, and by UMTS network – 51.3%;
- LTE/GSM/UMTS network covers Astana, Almaty, 14 oblast centers and their suburbs, as well as 18 regional centers;
- more than 1 million active subscribers;
- in 2014, data traffic increased by 300% and reached 60 Gbps.

In 2015–2017 it is planned to continue the expansion and construction of LTE/GSM/UMTS network in 142 regional centers.

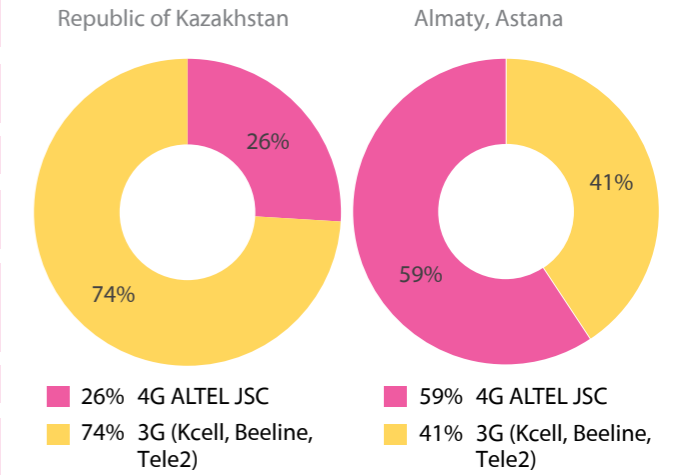
Convergent development of the Altel JSC and Kazakhtelecom JSC's networks is carried out and joint services (iD Net Wireless, joint packet) are provided.

Synergy of the project on construction of LTE network with the FTTH project of Kazakhtelecom JSC:

- high throughput of FTTH network enabled to ensure high rates on LTE network;
- widely spread FTTH network provided for rapid development of LTE network in regions;
- unique throughput capability of LTE network built upon the distributed optical transportation network itself in RK from Kazakhtelecom JSC.

4G/LTE from Altel is a unique technology associated with innovative notions of speed, quality of communications, comfort communication – the technology used by dozens of thousands of inhabitants of the country.

Position of ALTEL JSC in the telecommunications market of Kazakhstan, 2014

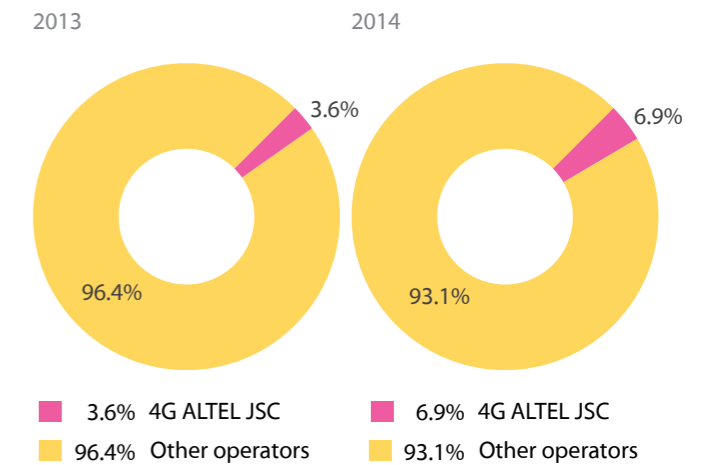
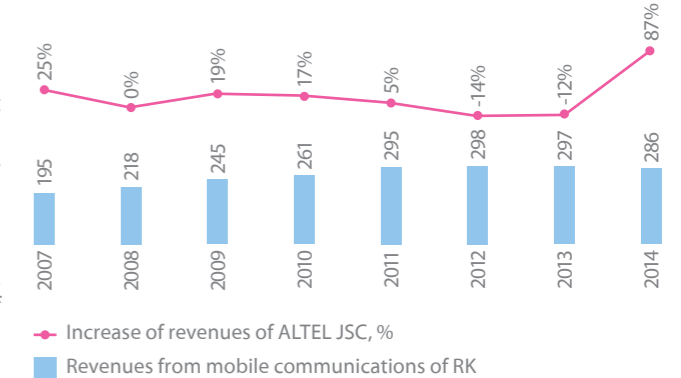


Estimates as of December 31, 2014 based on the data of McKinsey

Market share of ALTEL JSC on revenues

The revenues of ALTEL JSC increased twice as much in 2014 against the background of decreasing revenues in the market for mobile communications of RK.

Market for mobile communications of RK, KZT, bln



4G WIRELESS MOBILE TECHNOLOGIES. 2014

SIGNAL TYPE: digital.

DOWNLOAD SPEED: up to 100 Mbps.

Global introduction of 4G wireless mobile technology has begun in 2010 and is continuing to this day. This technology implies a broadband method of connection, i.e. information is transmitted simultaneously over multiple channels allowing high download speeds.

Most of modern smartphones support 4G, so we can enjoy all the benefits of the Internet while having absolute freedom of movement.



1G WIRELESS MOBILE TECHNOLOGIES. 1980

SIGNAL TYPE: analog.

DOWNLOAD SPEED: 2.4 Kbps.

The advent of the wireless mobile technology has become a real revolution in the world of communications. Now, people were no longer limited to the wires and were able to move freely while making calls. However, the only one function of the network was to make calls. Nobody even thought about transmission of data.

The most outstanding representatives of this generation were the phones of Motorola, especially Motorola MicroTAC 9800x. This was the first truly mobile cell phone.

STRUCTURE OF THE
COMPANY'S ASSETS:
SUBSIDIARIES/DEPENDENT
ORGANIZATIONS

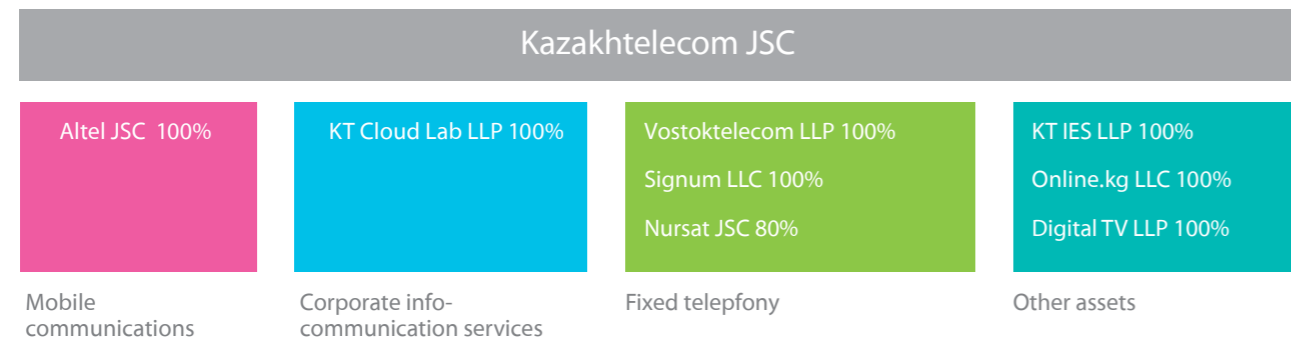


STRUCTURE OF THE COMPANY'S ASSETS: SUBSIDIARY/DEPENDENT ORGANIZATIONS

The restructuring of subsidiary organizations is an important element of strategic initiatives on transformation of Kazakhtelecom JSC with a view to achieving strategic parameters of development of the Group of companies

In 2014, subsidiary companies pursued their activity in key segments of the info-communications market in accordance with strategic objectives of the Group of companies of Kazakhtelecom JSC.

STRUCTURE OF THE GROUP OF COMPANIES: SUBSIDIARY ORGANIZATIONS AS OF 31.12.2014



In 2014, construction of the system of management of subsidiary organizations was carried out in accordance with the Program for restructuring subsidiary organizations of Kazakhtelecom JSC approved as a part of the Strategy for increasing share capital value of Kazakhtelecom JSC adopted by the Board of Directors of Kazakhtelecom JSC as of March 31, 2014.

Following the Program of restructuring, the Company carried on developing key commercial subsidiaries (Altel JSC, KT Cloud Lab LLP), pursuing activity of technical resources (Vostoktelecom LLP, Signum LLC) aimed at making provision for the environment for providing services of Kazakhtelecom JSC, with a view to optimizing expenses in the Group, the Company proceeded to integrating or liquidating non-strategic assets (Nursat JSC, Online.kg LLC, Digital TV LLP).

THE PROGRAM OF RESTRUCTURING MAKES PROVISION FOR TRANSFORMATION OF THE SYSTEM OF MANAGEMENT OF SUBSIDIARY ORGANIZATIONS, PERFORMANCE OF INTEGRATION PROCEDURES, MEASURES ON OPTIMIZATION OF EXPENSES IN THE GROUP OF COMPANIES, AND DETERMINES STRATEGIC IMPORTANCE AND PERSPECTIVES OF EACH OF THE GROUP'S ASSETS.



To develop business in the strategically important segment of mobile communication, the Company proceeded with the implementation of the large joint (with Kazakhtelecom JSC) strategic project "Introduction of LTE/GSM/UMTS networks on the territory of RK in 2012–2021" under the trade mark "ALTEL 4G: GSM".

Outcome for 2014:

- By bringing, in May 2014, into commercial operation the GSM/UMTS network and by extending during the year the geography of the LTE network, the company managed to cover with the LTE/GSM/UMTS network the cities of Almaty, Astana, all oblast centers with their suburbs, as well as the towns with the population of over 50 thousand people;
- The active subscriber base of ALTEL JSC across all the services as of the end of the year made up over 1.2 mln subscribers, the number of LTE subscribers grew by 4.3 times compared to 2013;
- As of the end of 2014, the revenue totaled KZT 19.8 bln, which is 87% higher compared to the total revenue of 2013.



The company carried on implementing major projects:

- Creation ICT-center in Free Economic Zone (FEZ) "The park of information technologies";
- Consolidation of the republican contact-center of the Group of Kazakhtelecom JSC.

Outcome for 2014:

- The company brought into commercial operation the Info-communication center (data-center) in FEZ PIT "Alatau", the services are provided both to participants of FEZ PIT, hosting companies, and to companies of financial sector such as the Single securities registrar of the NB of RK and others;
- On the basis of the data center, new services (cloud circulation of documents in Lotus, VPS, etc) were brought into operation;
- The republican contact-center is in operation now, republican services and unified tariffs for information and reference services were introduced;
- Implementation of outsourcing contact-centers on the basis of the Republican contact-center is being extended;
- The revenue yielded by the company made up KZT 2.2 bln.

PROVISION OF CELL COMMUNICATIONS SERVICES (GSM, LTE, CDMA, EVDO)

Prospects:

- Further extension and construction of LTE/GSM/UMTS network with the coverage of rural centers;
- Increase of the subscriber base;
- Development of joint services with Kazakhtelecom JSC.

Subscribers of LTE/GSM of ALTEL JSC (thousand units)



Revenues of ALTEL JSC (KZT bln)



CORPORATE INFO-COMMUNICATIONS SERVICES

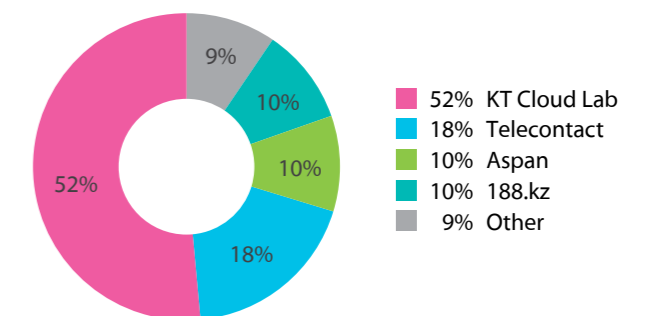
Prospects:

- Extension of the client base of the ICT center in FEZ PIT;
- Further implementation of new outsourcing contact-centers;
- Proceeding with the implementation of the potential of the intra-holding cooperation directed at providing the services by the companies of the Fund Samruk-Kazyna JSC;
- Development of services jointly with Kazakhtelecom JSC (Office 24 and other).

Revenues of KT CL LLP (KZT bln)



The share of KT Cloud Lab in the market for contact-centers (commercial contact-centers, with internal contact centers not being taken into account)



According to SITRONICS Kazakhstan LLP, CRM-DESIGN LLC, on the number of work places

VOSTOKTELECOM

The major task is the implementation of the project "Modernization and development of rural telecommunications networks on the basis of the radio access network CDMA/ EVDO-450" by extending the network and bringing into operation new base stations.

Outcome for 2014:

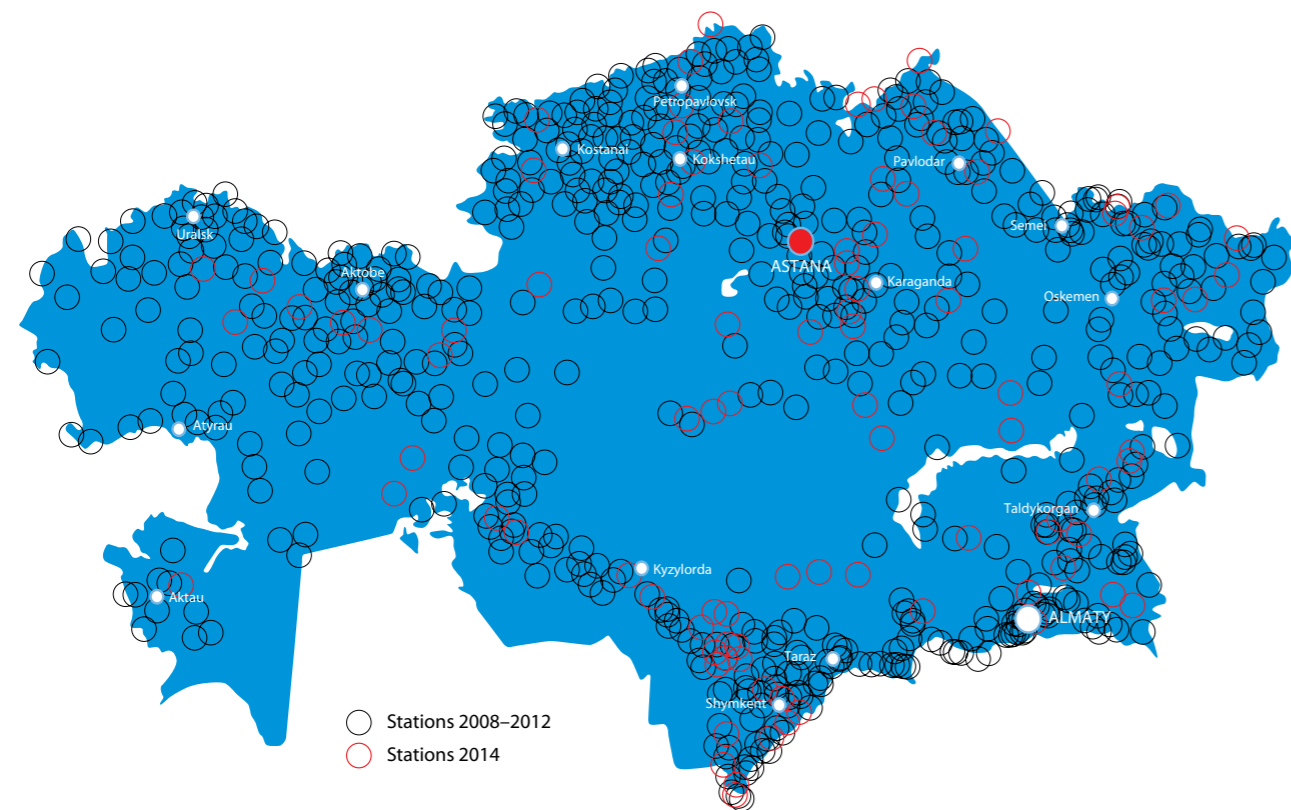
- The technical base of the company extended up to 740 base stations, of which 723 base stations are equipped with EVDO plateau, with the coverage of all RK oblasts, which allows to provide for telephony services for around 666 thousand subscribers and broadband data communications services for around 49 thousand in rural settlements.

TECHNICAL RESOURCE ON TELEPHONIZATION AND INTERNETIZATION OF RURAL SETTLEMENTS ON THE BASIS OF THE CDMA-450 STANDARD

Tasks for the future:

- Qualitative operation and maintenance of the base wireless stations network across the whole area of coverage to secure the provision by Kazakhtelecom JSC of telephony and data communications services in rural area;
- Further implementation of the project on provision of PTT services for external companies.

WLL CDMA-450 Coverage Map, 2008–2014



SIGNUM LLC

The major tasks is the connection and maintenance of the Kazakhtelecom JSC's customers through the IPLC and IP VPN channels, operation of the video-conference communications system of high quality "Telepresence".

Outcome for 2014:

- The company provided for the general throughput channel capacity at a communication station in the volume of up to 300 Gbps;
- The company provided for fail-safe and trouble free operation of the telematic services (divisions) and data communications services on CO (LDDITC) (Central office for Long Distance Domestic and International Telephone Communications) №9 for provision of services;
- The Company carried out technical support of video-conference communications sessions "Telepresence".

TECHNICAL STATION ON THE TERRITORY OF THE RUSSIAN FEDERATION (MOSCOW)

Tasks for the future:

- Modernization of telematic services and data communications services with a view to extending throughput capacity to secure growth of commercial traffic and new customer connections of Kazakhtelecom JSC.





LAPTOP. 1999

Laptop is a portable personal computer.

Although the idea of creating a portable computer connectable to the network without wires has been put forward in 1968, the technical means to implement it have appeared only in the mid-90s.

Then the production of the first models of laptops with wireless network connectivity has began.

The advantage of a laptop is the functionality of a desktop and mobility.

CELL PHONE. 2000

Cell phone is a mobile phone designed to receive and make phone calls over a cellular network.

The first prototypes weighed more than 10 kg and were installed in vehicles. Subsequently, due to the development of technologies, a new cell phone, which allowed making calls at any time and from anywhere, was created.



SMARTPHONE. 2007

Smartphone is a mobile phone upgraded by the functionality of a pocket PC. The first attempts to create a smartphone have been made in the early 90s, but due to their very large size those devices haven't won universal recognition. In 2007, the first smartphone was put on the market offering computing power comparable to a PC, large multi-touch display and supporting "all in one" function. This model has brought such an abundance of innovations, that many of them are still used in devices of various types.

OPERATIONAL ACTIVITY,
KEY PERFORMANCE
PRODUCTION AND
FINANCIAL INDICATORS

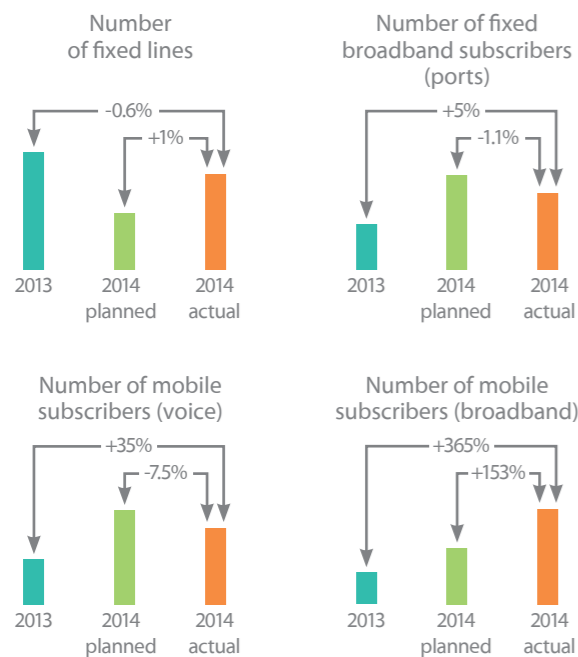


OPERATIONAL ACTIVITY, KEY PERFORMANCE PRODUCTION AND FINANCIAL INDICATORS

THE MANAGEMENT'S REPORT ON THE RESULTS OF FINANCIAL AND ECONOMIC ACTIVITY

In 2014, Kazakhtelecom JSC continued implementation of the strategic and innovative projects on the telecom network, provision of new telecom services, as well as improvement of the service quality.

As a result of activities on installation of telephone lines, the number of fixed lines reached 4 063 258 lines, or **101%** of the planned figures, however, because of the tendency of substitution of fixed communications by mobile communications the subscriber churn processes are becoming more severe resulting in reduction in the number of fixed lines by 0.6% as compared with the last year's figure. The digitalization level of the local area networks reached **99.06%**.



The number of fixed broadband subscribers totaled 1 543 138 ports, which is by 5% higher than the last year's figure.

In 2014, GSM/UMTS network was put into commercial operation in Almaty, Astana and all oblast centers. The number of mobile subscribers (voice) at the end of 2014 amounted to 851 264 subscribers, which is by 35% higher than the figures of 2013.

The number of wireless mobile Internet subscribers amounted to 410 133 subscribers, which is in 3.65 times more than the last year's figure. This increase is due to the successful implementation of 4G LTE network project.

The share of commercial broadband ports in rural areas in 2014 increased up to 22% with the growth of 2%. Total growth of ports in rural areas totaled 24%.

Density of Kazakhtelecom JSC's ports in rural and urban areas totaled 8.9 per 100 inhabitants.

Consolidated revenues from the sale of services of Kazakhtelecom JSC amounted to **KZT 208 223 mln**, or **109%** as compared with the last year's figure. The plan was fulfilled by 100%.

Consolidated net profit amounted to **KZT 7 484 mln**, or **239%** of the planned figures.

Earnings before interest, taxes, depreciation and amortization (**EBITDA**) amounted to KZT 61 580.4 mln, or 101% of the planned figures. (EBITDA adjusted for non-cash expenses on accrual of the allowance for the fixed and intangible assets amounted to KZT 64 022.6 million or 105% of the plan).

EBITDA margin of 29.6% exceeded the planned figures by 0.3%, which was made possible due to implementation of the strategy aimed at improving operational efficiency and optimization of costs. EBITDA margin adjusted for non-cash expenses on accrual of the allowance for the fixed and intangible assets amounted to 30.7%

Consolidated operating expenses of Kazakhtelecom Group in the reporting period amounted to KZT 192 290 mln.

CAPEX of Kazakhtelecom Group amounted to KZT **55 154 mln**, or **90%** of the actual indicators of the last year. Fulfillment of the plan was **76%**. Over the years the Company is heavily investing in the development.

During 2014, Kazakhtelecom JSC made active and focused efforts to accumulate cash with the aim of reducing its debt burden denominated in foreign currency. The share of foreign currency denominated debt in the total debt of Kazakhtelecom JSC reduced from 88.7% at year-end 2013 to 63% at year-end 2014. The Company intends to continue to reduce this share in future.

In 2014, the Company heavily worked jointly with the rating advisor Gazprom Bank to maintain the Company's credit rating, and as a result the outlook of the Company's credit rating was upgraded by both international rating agencies.

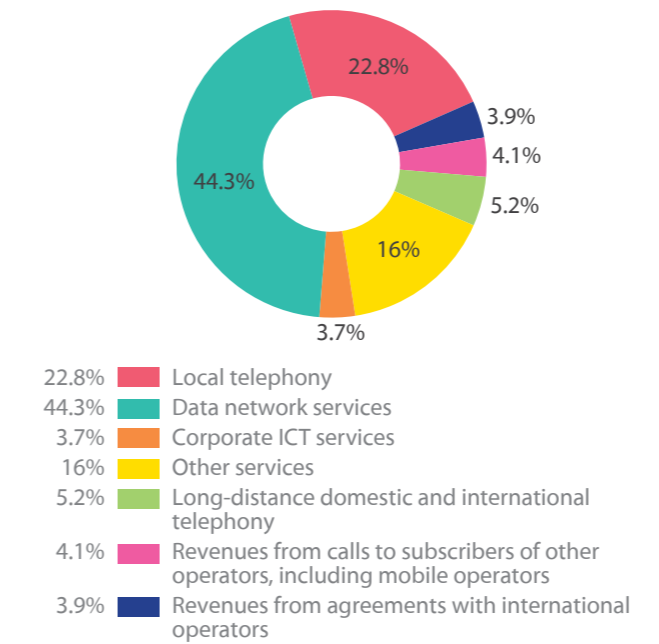
International rating agency "Standard & Poor's" upgraded the rating outlook of Kazakhtelecom JSC from "Stable" to "Positive" and affirmed its "BB" long-term credit rating. At the same time the rating agency upgraded the Company's national scale rating from "kzA" up to "kzA +".

International rating agency "Fitch Ratings" upgraded twice the rating outlook of Kazakhtelecom JSC in 2014, firstly from "Negative" up to "Stable", then from "Stable" up to "Positive", and affirmed its "BB" long-term credit rating. In addition, the Company's national scale rating was upgraded from "A(kaz)" to "A+(kaz)".

FINANCIAL REVIEW

Consolidated revenues from the sale of services of Kazakhtelecom JSC amounted to **KZT 208 223**.

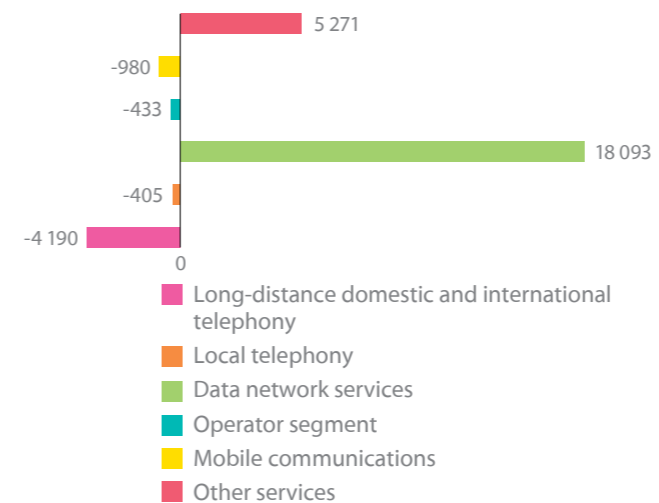
Structure of revenues across Kazakhtelecom Group



The largest share in the structure of revenues in 2014 is taken by the revenues from:

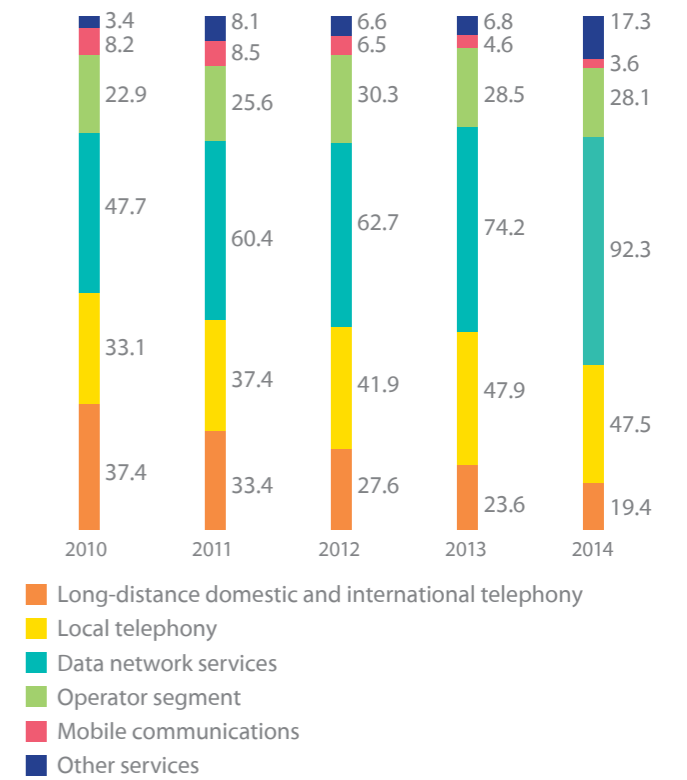
- data network services with the share in the general structure of revenues of Kazakhtelecom JSC amounting to 44.3%;
- local telephony services with the share in the general structure of revenues amounting to 22.8%;
- long-distance domestic and international telephony services with the share in the general structure of revenues amounting to 5.2%.

Changes in the structure of revenues in 2014 as compared with 2013, KZT mln



At present, there is a tendency of outflow of fixed voice traffic to the networks of mobile operators and IP-based networks (Viber, Skype) and churn of fixed line subscribers in the segment of individuals due to the high penetration of mobile communications and reduction of tariffs for mobile services, including transition to virtual inquiry services. Data network services and local telephony services are the leaders.

Dynamics of the most significant revenue items over 5 years, KZT mln



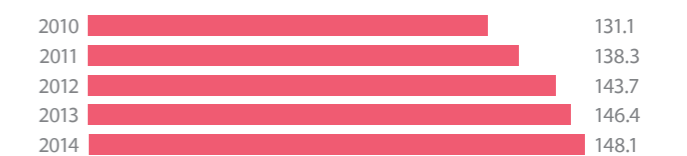
The tendency of decrease in the volume of voice traffic and, therefore, rates of growth of revenues from long-distance domestic and international telephony services in the subscriber segment arises from the high level of mobile penetration, low tariffs of mobile operators, growing popularity of alternative types of calls and substituting services (VoIP, Skype, etc.).

Revenues per employee, KZT thousand



There is a steady positive dynamic in revenues per employee.

Number of fixed lines per employee, lines



As the consumer demand for the telephony services is met despite a negative dynamic of fixed lines, the number of fixed lines per employee is growing steadily.

DEVELOPMENT OF THE TELECOMMUNICATIONS INFRASTRUCTURE

Telecommunications infrastructure, which is the most significant element of the developing technological complex linking internal processes with the outside world, is increasingly becoming the strategic factor of the company's competitiveness.

In accordance with the Government Program "Informational Kazakhstan – 2020" (hereinafter – "Program"), the main trends in the telecommunications industry are the development of infrastructure based on high-speed optical and wireless technologies, provision of multimedia services to people and organizations, introduction and development of digital TV and radio broadcasting technologies, as well as increase in the level of local telephony digitalization.

With a view to implementing the Program, in 2014, Kazakhtelecom JSC continued implementation of the projects aimed at introducing modern innovative technologies on the telecom network.

As a part of the projects "**Extension of DWDM backbone network**" and "**Construction of DWDM optical transit network**", in 2014, the Company continued to extend capacity of DWDM backbone network:

1. the total capacity of external Internet channels was increased by 1.31 times;
2. the amount of transit channels was increased by 1.54 times;
3. transit of a total capacity of 850 Gb / s including redundant channels was prepared;
4. the total capacity of the external joints was increased by 2.1;
5. reconstruction works at 33 infrastructure facilities and 28 powers plants were completed;
6. FOCL with the total length of 552 km was built on the following sections: Dostyk – Alashankou, input-output in Adayevka settlement (12 km), Almaty – Shyganak, Zharkent – China (China Unicom), Zharkent – China (China Telecom), Akkol – Zhuravlevka.

In 2012, with the aim to introducing mobile broadband services with high quality indicators, Kazakhtelecom JSC together with ALTEL JSC started the innovative project "**Introduction and construction of 4G LTE network**".

Terms of the project implementation from 2012 to 2021:

- 2012 – Almaty and Astana;
- 2013 – ensuring 4G LTE network coverage in 6 regional centers and expansion of the network in Almaty and Astana;
- 2014 – all regional centers and 12 settlements with a population of over 50 thousand were provided with 4G network based on LTE technology;
- 2015–2021 – expansion of 4G LTE network coverage in Almaty, Astana, regional centers and 12 towns with population of more than 50 thousand people.

In 2014, the Company continued with the construction of the network of 4G LTE standard. It is currently launched into commercial operation in over 200 settlements, including

Astana and Almaty cities, their suburbs, all regional centers and cities of regional importance – Kentau, Turkestan, Balkhash, Satpayev, Zhezkazgan, Temirtau, Zhanaozen, Kulsary, Ridder, Rudnyi, Ekibastuz, Semey. In 2014, in Astana and Almaty cities the network GSM / UMTS was also commercially launched.

AS OF 01.01.2015, THE ACTIVE SUBSCRIBER BASE OF GSM/UMTS NETWORK COMPRISED 527 601 SUBSCRIBERS, LTE NETWORK – 408 762 SUBSCRIBERS.

In 2014, the Company completed the innovative project "**Construction of universal FTTH (Fiber to the Home) network**". Implementation of this project has been started in 2011 to meet the growing demand for the high-speed broadband Internet access and expand the range of services provided by the Company. The project was included in the Industrialization Map of Kazakhstan. The project resulted in construction of the fiber-optic access network in Astana, Almaty, all regional centers and such towns of regional importance as Semey, Zhanaozen, Aksu, Ekibastuz, Stepnogorsk, Temirtau, Zhezkazgan, Kapshagay, Ucharal, Almaty suburbs. In 2014, 147 309 ports were brought into operation. Access networks covered 22 745 apartment houses and 16 471 cottages. Total number of ports brought into operation under this project amounted to 633 821.

As of 01.01.2015 the number of subscribers was 463 427.

With a view to meeting the existing and growing demand for telecom services and achieving by the end of 2015 the level of digitalization of local networks of 100%, the Company implemented the following activities on its multiservice subscriber access networks in 2014:

1. 71 936 ports were put into operation, including 31 024 broadband ports;
2. 1 108 km of regional and rural FOCL were built in Akmolinskaya, Aktyubinskaya, East-Kazakhstan, Kostanaiskaya, North-Kazakhstan and South-Kazakhstan oblasts;
3. transport environment (MOBILE BACKHAUL) was built for LTE radio access network in all regional centers and towns of regional importance, as well as some satellite towns and suburbs;
4. IPTV network was expanded up to 85 728 STB (set top boxes).

As of 01.01.2015, the local area network of Kazakhtelecom JSC comprised 5 880 switching centers.

In 2014, the total installed capacity of the local area network, as compared with 2013, increased by 233 382 numbers and made up 5 127 693 numbers. At the same time, the capacity of digital switching centers increased by 273 016 numbers and made up 5 080 342 numbers.

The installed capacity of UTS made up 3 814 192 numbers, including 3 777 199 digital numbers or 99.03%.

The installed capacity of RTS made up 1 313 501 numbers, including 1 303 143 digital numbers or 99.21%.

As of 01.01.2015, the number of fixed lines was 4 063 258 units, including 2 911 175 units on UTS and 1 152 083 units on RTS.

The level of digitalization of the local area network was 99.06% of the total installed capacity.

As of January 01, 2015, the density of telephones per 100 inhabitants amounted to 23.67 numbers, including 30.80 numbers on UTS and 14.93 numbers on RTS.

With a view to providing a wide range of high-quality telecom services to rural population, Kazakhtelecom JSC jointly with Vostoktelecom LLP implemented the project on construction of CDMA-450 wireless network. During implementation of the project from 2007 to 2014 the network has been launched throughout the territory of the Republic of Kazakhstan. The project has been completed. 740 base stations have been installed on the network ensuring coverage of 6 100 rural settlements by telecom services, including more than 3 600 rural settlements covered by EVDO-based broadband Internet access.

The number of subscribers as of 01.01.2015 was as follows:

- 1xCDMA – 401 334,
- CDMA/EVDO – 54 328.

In 2014, as a part of the development of transit potential, Kazakhtelecom JSC implemented the project on construction of a new transit network with the capacity of 4 Tbps taking into account the upgrade of existing and construction of new joints with international operators. In particular, joints with Rostelecom, MegaFon, China Telecom, China Mobile (China Tietong) were expanded. Interconnections with alternative operators of the Russian Federation were organized.

The transit sales volume at the end of 2014 increased by 54% compared to that of 2013.

INFORMATION TECHNOLOGIES

Information technologies is the foundation for rapidly developing info-communications business, and they contribute to efficiently developing all other commercial activities of the Company that use the developed corporate IT infrastructure.

Development of info-communications business of Kazakhtelecom JSC and system integration

Development of data-centers

To date, there are as many as 15 data centers of Kazakhtelecom JSC operating in the country with a total area of 1 310 m² that enable to deploy 22 732 units of equipment.

In 2014, as many as 11 102 units of equipment were deployed within Kazakhtelecom JSC's data centers with 9 892 customers using the Company data centers' services during the reported period making an increase of 25% compared to 2013. The revenues from the data centers in 2014 made up KZT 1 080 877 mln or an increase of 41% compared to the last year.

The share of Kazakhtelecom data centers' services in the Kazakhstani market at the moment makes up 56%.

In 2014, on the basis of Kazakhtelecom's data centers such services like Hyper-V, Virtual data center, Cloud data storage were introduced.

Within the implementation of the project called "Development of security system of DC (data centers)", the services like "Firewall", "Antivirus" and "Antispam" were brought into trial operation.

Establishment of a single system integrator and provider of ICT services for the Group of companies of Samruk-Kazyna JSC

As a provider of services pursuant to the SaaS model, the Company is a participant of the project called "Transformation of business" being implemented by Samruk-Kazyna JSC.

In 2014, the actions aimed at promoting cloud services for companies of Samruk-Kazyna JSC were implemented. Kazakhtelecom JSC presented its ICT services to the Fund's management and its subsidiaries, PR-action on promoting the iD Host brand was held. The Company actively participated in expositions and conferences ("ASTEX 2014", "The architecture of corporate information system. Strategic approach").

In September 2014, the project on creation of the Treasury information and analytical system for Samruk-Kazyna JSC based on SAP platform was launched. Provision of the services based on the SaaS model is expected to commence in October 2015.

With a view to promoting info-communications services by the Company's affiliated branches, the public action called "The Customer's days" was implemented in the cities of: Karaganda, Taraz, Taldykorgan, Almaty, Astana, Ust-Kamenogorsk, Aktau, Atyrau, Pavlodar, Kokshetau, Petropavlovsk, Kyzylorda. Mentors of the affiliated branches attended training seminars held by Microsoft company on the following topic:

- Method of sales of cloud services;
- Licensed products of Microsoft;
- Methodology of transferring of obtained knowledge to Kazakhtelecom's sales managers.

Corporate information systems

In 2014, the Kazakhtelecom's billing system was integrated with the billing system of ALTEL JSC, which enabled to process the traffic of FMS packet services and ID Phone number services provided through LTE technology with a single invoice being issued to their customers.

Clustering of Siebel CRM applications of affiliations and data base of affiliations enabled to resolve the problems with scalability and fault tolerance of the system in a whole.

Within the framework of the modernization (upgrade) of "Orleu" system, the projects aimed at optimizing IT infrastructure are being formed and implemented: transfer of corporate systems to virtual environment and virtualization of workspace of users with the use of "Thin Client" technology.

Specifically, the Company intends to transfer (put) a part of its corporate applications at the level of its affiliated branches into the virtual environment and subsequently to carry out their consolidation on separate sites in one of the three republican operating centers, which tends to significantly enhance the systems' reliability and efficiency of their technical maintenance.

Virtualization of users' workspace is expected to begin in 2017–2018.

"KT Cloud Lab" LLP – a single contact center

In 2014, the activity of the Company's subsidiary "KT Cloud Lab" LLP was directed at building stream-oriented system business processes, commercial operation of basic technological objects – the info-communications center for data processing and the Republican contact-center.

In 2014, the Republican contact center was brought into industrial and commercial operation.

On the basis of the Republican contact center the projects of the outsourcing contact centers of the e-government of RK – Egov.kz (1414), the unified information system of procurements of Samruk-Kazyna JSC, the consumer support of Kaspi bank JSC, the social project "Line of Life", the Single contact center for the LTE, GSM and CDMA consumer support of ALTEL JSC and others were implemented.

INNOVATION DEVELOPMENT

Most businesses do not survive because they don't keep an eye open for the future.

Innovations are the natural consequence of human need for the promotion and implementation of new ideas, and it is the innovation, which can advantageously change activities of a company and propel it to the top of the industry. Companies with continuous and consistent innovations are ahead of their competitors by a variety of indicators.

According to the Innovation and Technology Strategy of Kazakhtelecom Group, innovative and rationalization activities of the Company are systemized in order to obtain the maximum effect. Main directions of the innovation development include implementation of innovative projects, introduction of new services, and performance of research and development works.



In 2014, Kazakhtelecom JSC heavily worked under implementation of innovative projects. The following innovative projects were implemented in 2014 according to the Innovation and Technology Strategy of Kazakhtelecom JSC:

- "Construction of LTE/GSM/UMTS networks in the territory of the Republic of Kazakhstan in 2012–2022". As of the end of 2014, Astana, Almaty, oblast centers and 12 towns with population of more than 50 thousand people, as well as more than 170 rural settlements were covered. Coverage of the territory of Kazakhstan was 62%, or 10.6 million people;
- "Construction of DWDM optical transit network". DWDM network of new generation was launched on the basis of the coherent technology. This network allows launching of 100G channels over distances up to 3 thousand kilometers. Usage of coherent reception, digital filtering and error correction ensured by Soft Decision Forward Error Correction (SD-FEC) method allows minimization of the number of active network nodes, and ensures multi-Terabit increment of bandwidth. This network is used for organization of transit channels in the direction of Russia – Central Asia, Western Europe – China;
- "Introduction of OTT/WebTV". The project allowed diversification of connections to the licensed TV content from any device connected to the Internet by means of Kazakhtelecom JSC (PC, tablet, mobile phone);
- Organization of the complex of services "Safer Internet" for users of broadband services. Parental control services allow users of Megaline/iD Net by means of the Personal Account to subscribe to the traffic filtering system, configure different profiles for access to the network (up to 12 years old, 12-16 years old, adult, customized), block illegitimate Internet content, including dangerous sites and search queries;
- "Upgrade of network security". The project involves provision of services to corporate customers on the basis of MSSP (managed security service provider) concept: virtual firewalls and protection from DDoS attacks of new generation.

In 2014, the Company introduced the following innovative services:

1. For individual customers of Kazakhtelecom JSC (B2C):

- Software leasing: connection of licensed software on demand by means of the Personal Account;
- HD TV packages for iD TV subscribers;
- iD TV Online – online TV of Kazakhtelecom JSC;
- Turbo speed for iD Net subscribers: increase of the Internet speed (including external resources) up to 100 Mbps on demand by means of the Personal Account;
- Universal number: converged solution – two numbers (fixed and mobile) on one mobile phone;
- iD Net Wireless: LTE-based broadband Internet access;
- Packages of fixed and mobile broadband services in a single bill of Kazakhtelecom JSC;
- Wi-Fi in public places: Wi-Fi-based Internet access for the subscribers of Kazakhtelecom JSC in malls, parks, airports, railway stations and other public places.

2. For business customers of Kazakhtelecom JSC (B2B):

- SLA for IP VPN: the service for monitoring data services' quality on the basis of the values of latency, packet loss, availability of services and others;
- Mobile Office: organization of secured VPN networks based on LTE and MPLS VPN technologies.

Pursuant to the strategy for Innovative and technological development, Kazakhtelecom JSC is involved, on uninterrupted and systemic basis, in performing the work on managing the innovations. The Company carries out the applied scientific and research works aimed at bringing into operation advanced technologies and services in the strategic directions of the Company's business.

The Innovation Committee, which considers innovation and improvement proposals received by means of the designated portal "Fund of Ideas", operates in the Company on an ongoing basis. In 2014, the Innovation Committee considered 147 proposals, 83 of which were approved and prepared for implementation. Due to all these activities the rating of innovation and technological development of the Company is steadily improving from year to year.

Industry solutions for business



MINERAL MINING INDUSTRY

Portable radio sets based on PTT CDMA/EVDO technologies: coverage of fields by intercom

Wi-Fi for rotational camps



BANKS AND FINANCIAL ORGANIZATIONS

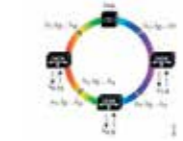
Outsourcing of MSSP's (Managed Security Service Provider) services



Services of fault-tolerant Data Centers of Tier III in Pavlodar, Akkol and Free Economic Zone "Park of Information Technologies "Alatau"



SLA monitoring of quality indicators for critical services, for example, for the transfer of transaction data



DWDM transit for remote data redundancy based on FibreChannel



256 GB USB FLASH DRIVE. 2014
SIZE: 7.49 × 2.32 × 1.59 cm.
STORAGE CAPACITY: 256 GB.
More than 51 200 photos of high resolution
can be saved on one USB flash drive.



3.5" 1.44 MB MEMORY UNIT. 1985
SIZE: 9 × 9 cm.
STORAGE CAPACITY: 1.44 MB.
1 photo of low resolution could be saved
on one floppy disk.

OUTLOOK FOR
THE COMPANY'S
DEVELOPMENT.
BUSINESS PLANS
FOR 2015



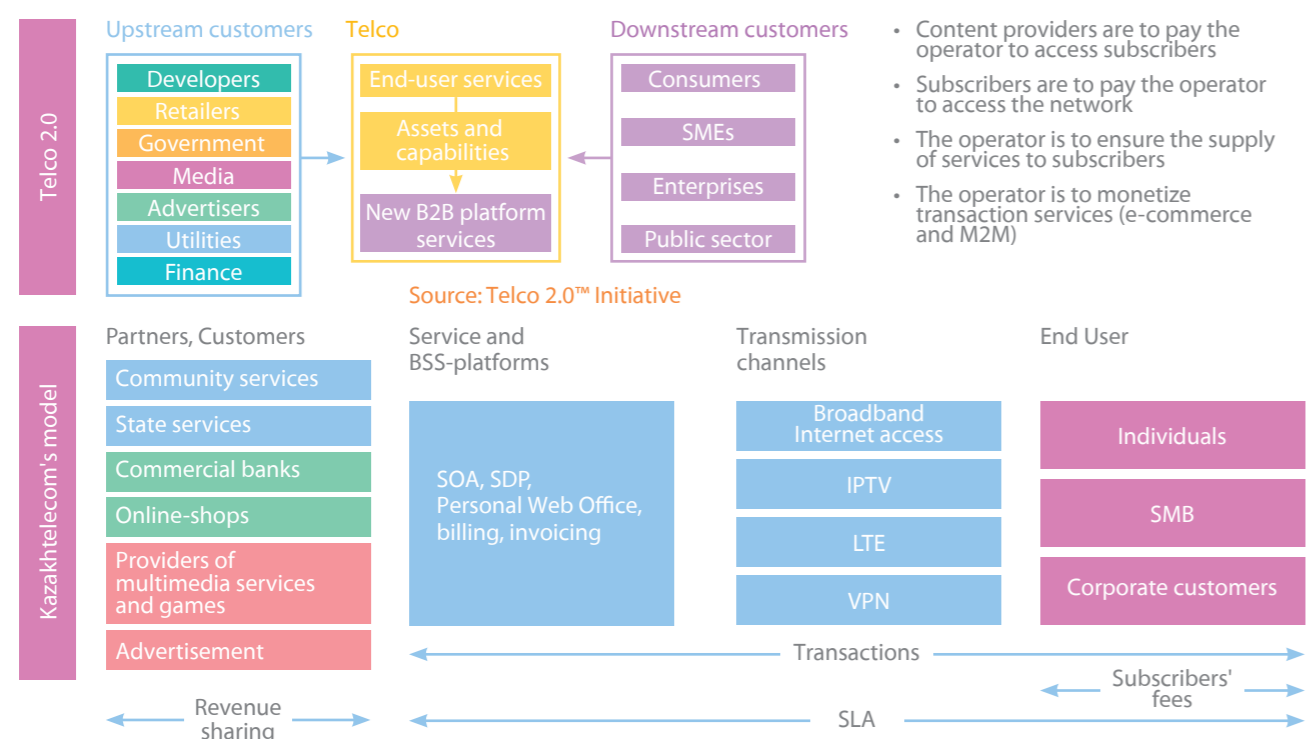
OUTLOOK FOR THE COMPANY'S DEVELOPMENT BUSINESS PLANS FOR 2015

The Strategy of the Group of companies of Kazakhtelecom JSC is directed to maintaining its leading position in fixed-line business, developing mobile business for ensuring operation as an integrated operator, as well as using synergies with the core business for concentrated development in the industries adjacent to the telecommunication market. Yet, it is necessary to maintain the operating efficiency of the business at the above-average level for analogue companies and increase the efficiency of capital investment.

In order to maintain leading position in Kazakhstani telecommunication market and enhance its presence in the infocommunication market, Kazakhtelecom JSC will continue developing its position in the mobile market through an operator of JSC «ALTEL».

Successful implementation of strategic initiatives and targets is certain to contribute to significant increase in the shareholder value.

Development Prospects: Telco 2.0 architecture



In 2014, Kazakhtelecom JSC devoted much of its effort to the development of business projects and the formation of a portfolio of investment projects for 2015 in accordance with the long-term strategy of the Group of companies of Kazakhtelecom JSC until 2022 and the Company's development plan for 2015–2019.

In line with the investment program launched by the company in 2015 the investment activity of Kazakhtelecom JSC will primarily focus on the following objectives:

1. Long-term increase in the value of the Group of companies of Kazakhtelecom JSC in the framework of organic growth projects;
2. Maintenance of Kazakhtelecom JSC's telecommunication assets.

The implementation of the following organic growth projects is planned for the purpose of increasing the long-term value of the Group of companies of Kazakhtelecom JSC in 2015:

1. The development of mobile voice and mobile broadband services in the framework of the project "Building networks LTE/GSM/UMTS in the territory of the Republic of Kazakhstan in 2012–2022 years". In 2015, it is planned to provide all regional centers of Kazakhstan with mobile broadband LTE services, as well as improve penetration and capacity of networks in already connected settlements.

2. The development of fixed broadband and fixed-line connection services in B2C and B2B segments (including the corporate sector). Within the framework of this project it is planned.

- To construct 97 094 FTTH ports in the competitive GPON cluster, particularly, in unconnected apartment buildings and cottages in regional centers, cities and district centers.
- To construct 8 278 ADSL ports and 24 575 POTS ports in the ADSL cluster in regional centers and rural areas (new construction and the transfer of released ports from cities).
- To develop fixed broadband services based on LTE technology in the wireless cluster in places unprovided with fixed-line connection.

3. The implementation of the project "Provision of FOCL in Kazakhstani rural settlements with population over 250 people".

During the 2015–2021 timeframe, the project aims:

- to provide 2 600 Kazakhstani rural settlements with FOCL;
- to connect about 5 000 state and budget institutions at a speed of 10 Mbps;
- to reduce the "digital divide" between urban and rural areas.

As an outcome of the project implementation:

- about 3 800 rural settlements will be connected by FOCL;
- 7 million people in rural settlements will have an access to high-speed Internet connections;
- full-scale implementation of social development and informatization programs within the framework of the program "Information Kazakhstan–2020" will be undertaken;
- there will be indirect impact on business development, employment creation in such areas as mobile operators, extractive industries, agriculture, electronic commerce, etc.

4. The development of Pay TV services as a part of the project "Implementation and development of IPTV service in the Republic of Kazakhstan".

In 2015, the Company will continue with the implementation of the IPTV development project, thereby it is planned to provide 68 thousand IPTV points with the connection resources and prepare the infrastructure for the launch of 15 new HD channels.

5. The development of fixed-line connection services in B2B segment, in particular in the corporate sector in the framework of the project "Development of SIP-platform BroadWorks".

6. Development of services in the wholesale business market as a part of two projects aimed at supplying resources for the provision of traffic services (transit and data transmission) in the domestic and international markets. In 2015, there are plans on increasing the volume of transit services provided to international operators by 36% and expanding external Internet channels to 1.27 times.

7. The development of new extended services for broadband subscribers and corporate clients, as well as the development of M2M services for B2B segment.

Introduction of new products is the main line of development of the Company. With high-tech communications infrastructure at the national scale, the Company can offer the market a range of telecommunications services with the best value for the customer. This is achieved by an optimal ratio between the cost and the content of package offer of connection services, Internet access and digital television. That is due not only to the technical characteristics of services such as data rate, but also to the quality of the content provided and the customer support.

Further development of TV products and content, new partnerships with aggregators and content providers, launch of a video library "Megogo", "ID TV online" as a separate point are expected this year.

Furthermore, 2015 is the starting point for the development of new business lines, M2M and e-commerce, i.e. transition from Internet service provider to provider, which supplies ultimate solutions and products. Kazakhtelecom JSC is on the way to becoming an operator of fiscal data, i.e. collection and storage of fiscal data while carrying out fiscal cash transactions, and an operator of the EVAC system transmitting signals of GPS and GLONASS global navigation satellite systems; which will help to reduce the time of arrival of emergency services. Another Company's targets is implementing such new M2M products, as "smart house" that allows remote monitoring and management of different sensors, "GPS-monitoring" that allows to monitor the products delivery online. Concerning e-commerce sector, it is planned to create an online store for the sale of devices, for what partners are currently being sought.

8. Further implementation of projects in the framework of Kazakhtelecom JSC transformation program, aimed at the optimization of operating costs and the development of active sales channels.

9. Further implementation of IT projects:

Infocommunication business and systems integration

- to increase sales of IT services by 51% with EBITDA margin of 21%;
- to implement the platform integration project on providing Kazakhtelecom JSC's hosting with corporate information systems of the Company (idport.kz);
- to expand the range of services provided to the Group of companies of Samruk-Kazyna JSC as a part of within-group cooperation;
- to expand platforms providing the "Virtual Data Center" service;
- to launch the online video service in the framework of the SDP project;
- to implement the projects on system integration.

Corporate information systems

The project "Modernization of Siebel CRM":

- automation of the monitoring of process of through orders flow to departments;
- organization of mobile online sales through active sales centers;
- development of sales channels.

The project "Centralization of contact centers":

- the centralized architecture will enable operators to place CC in any part of Kazakhstan and unite all contact centers services with a general queue of branches' operators, which is to improve the quality of customer service.

BUSINESS PLANS FOR 2015

It is planned to maintain positive dynamics, profitability of EBITDA margin of at least 30%, as well as the tendency for strengthening the Company's financial stability. In that respect, a profit of no less than 227 billion tenge is planned to be made from rendering of services.

In 2015, a number of broadband subscribers is expected to increase by at least 8%, a number of mobile subscribers to double and a number of mobile broadband subscribers – by at least 65%.

FURTHER IMPLEMENTATION OF KAZAKHTELECOM JSC'S COST REDUCTION PROGRAM, INCLUDING ADMINISTRATIVE COSTS, IS PLANNED ALONG WITH IMPLEMENTATION OF THE COMPANY'S PROGRAM FOR INCREASING THE LOCAL CONTENT IN THE PROCUREMENT OF GOODS AND SERVICES.

Finally, the company is to support active cooperation with rating agencies so as to maintain the Company's credit rating.

GPON ONT MODEM, 2014
DATA TRANSFER RATE: up to 2.488 Gbps.
CONNECTION TYPE: optic.

High speed of connection achieved due to optical fiber has given an impulse to the transformation of modems from a simple device, which is used just for connection to the Internet, to the universal media adapter, which allows simultaneous connection to digital HD TV, high-speed Internet and SIP-telephony.



ANALOG MODEM, 1985
DATA TRANSFER RATE: 2.35 Mbps.
CONNECTION TYPE: analog.

It was impossible to use a telephone and a modem simultaneously. During Internet sessions a phone line was busy, and anyone, who tried to call, heard a busy signal in response. Frequent breaks of connection with a server were the commonplace for the most of users at that time.

RISK MANAGEMENT



RISKS MANAGEMENT

All of life is the management of risk, not its elimination.

Walter Wriston

The risk management process is the foundation that guarantees the achievement of purposes, continuity and security of any organization's business. Risk management in Kazakhtelecom JSC is an integral part of the Company's corporate culture and plays an important role in strategic decision-making.

The Company ensures constant improving of the corporate risk management system (CRMS). The concept of risk management system is based on providing a structured and consistent approach, characterized by a continuous process that is carried out throughout the Company and covers all the risk field of the Company and is coordinated by the top management.

THE MAIN DIRECTIONS OF THE CORPORATE RISK MANAGEMENT SYSTEM DEVELOPMENT INCLUDE THE FOLLOWING STEPS:

1. IMPROVEMENT OF CRMS IN THE COMPANY AND ITS SUBSIDIARIES AND DEPENDENT ORGANIZATIONS, AND ITS INTEGRATION INTO THE CORPORATE GOVERNANCE OF THE COMPANY AND ITS SDO;
2. ENHANCEMENT OF CRMS EFFICIENCY IN THE COMPANY;
3. ATTAINMENT OF THE LEVEL OF THE BEST INTERNATIONAL STANDARDS.

Improvement of CRMS in the Company and its SDO, and its integration into the corporate governance system of the Company and its SDO

The foundation of CRMS is a regulatory and methodological documentation. For this reason, improvement of CRMS implies, first and foremost, improving the risk management regulatory base.

THE GROUP OF COMPANIES OF KAZAKHTELECOM JSC ATTACHES PARTICULAR IMPORTANCE TO CRMS COMPLIANCE WITH THE INTERNATIONAL STANDARDS IN THE SPHERE OF RISK MANAGEMENT, AND SEEKS TO TAKE INTO ACCOUNT AND BRING THE SYSTEM INTO THE BEST INTERNATIONAL PRACTICES OF RISK MANAGEMENT IN ORDER TO ACHIEVE THE GOALS SET. THE FORMATION OF THE MOST COMPREHENSIVE METHODOLOGICAL AND REGULATORY DOCUMENTATION, ITS UPDATING WITH AN ACCOUNT OF CHANGES IN THE INTERNAL AND EXTERNAL ENVIRONMENT WILL FURTHER TIMELY AND EFFECTIVE RESPONSES TO EMERGING RISKS IN ORDER TO PROTECT THE VALUE OF THE GROUP'S ASSETS.

Efficiency enhancement of risk management in the Company

Efficiency enhancement of Risk Management Practice currently applied in the Company implies improving the functioning and coordination of components of the risk management process. Therefore, with the purpose of overcoming the weaknesses and further development of strengths, prevention of threats, and use of capacities, the Company set the following objectives:

1. Improvement of the structure and forms of internal reporting on risk management.
2. Integration of the management reporting forms on risks in the Automated Risk Management System (ARMS) SAP GRC Risk Management.
3. Identification of gaps and further opportunities when working in the ARMS.
4. Introduction of an automated information management system of internal control procedures.
5. Continuous training of risk managers and risk coordinators of the Company aimed at raising awareness of the CRMS and commitment of the Company's staff to the risk management process.

Attainment of the level of the best international standards by the Company's CRMS

The Company constantly monitors the latest developments in the world's best risk management standards for companies in the real sector of the economy. Kazakhtelecom JSC exchanges its experiences with leading telecommunications companies, practicing advanced risk management standards.

The risk management process in Kazakhtelecom JSC includes the following key risk management tools:

- Identification
- Evaluation
- Monitoring
- Control

All the Company's risk fields are classified as follows:

- Strategic
- Financial
- Operative
- Legal

STRATEGIC RISKS

Strategic risks of the Company are related to the following factors:

- a significant increase in the competition level in the Kazakhstani market;
- decline in consumption of the Company's services by telecommunications operators;
- changes in the state regulation.

FINANCIAL RISKS

Financial risks of the Company are related to the following factors:

- fluctuations of floating interest rates which are basic for loan agreements on the Company's external borrowings;
- fluctuation with regard to Tenge, of foreign currencies, in which the Company has opened currency positions.

OPERATIVE RISKS

Operative risks of the Company are related to the following factors:

- unforeseen frustration of target indicators of the Group's key investment projects;
- long-term interruption of Service rendering as a result of industrial accidents;
- timely updating of business processes.

LEGAL RISKS

Legal risks of the Company are related to the following factors:

- changes in the legislation of Kazakhstan;
- licensing of frequencies;
- regulatory requirements.

As a part of risk management process, the Company maintains the Risk Register, which reflects the risks that could affect the attainment of long-term strategic objectives and key performance indicators of the Development Plan approved by the Board of Directors.

The company ensures annual updating of the Risk Register along with quarterly updating of risk management measures, and reviews qualitative and quantitative risk assessments.

The dynamics of risks migration in cross-critical areas is tracked in the Risk Map, for timely identification of risk in the criticality zone allows taking risk mitigation measures.

A new version of the Risk Management Policy, strengthening the role of the Board of Directors in the company's risk management was approved in 2014. The Board of Directors reviews the report on the CRMS of the Company at least once a quarter and ensures the efficient operation of the corporate risk management system and sets corporate standards for it.

IN 2014, THE HEAD OFFICE OF THE COMPANY WAS RESTRUCTURED FOR THE PURPOSE OF FURTHER DEVELOPING RISK MANAGEMENT PROCESSES WITH THE APPLICATION OF UNIFIED PROCESS MODEL TO THE INTEGRATION OF THE INTERNAL CONTROLS SYSTEM.

Therefore, the Company launched a new direction in its activities, for which the following departments were merged and are currently under supervision of a single Risk Managing Director:

1. Risk Management Service;
2. Internal Controls Service.

The internal controls system is designed to provide reasonable assurance of achievement of the Company's goals and ensure efficiency control, specifically:

- risk management undertaken in accordance with the standards of telecommunications industry and global best practices should ensure the safeguarding of assets and increase in shareholder value;
- integration of processes, controls and risk management systems should improve the efficiency and transparency of the activities and further timely responses to threats by means of quick rearranging production and management processes so as to meet new challenges;
- functioning of internal controls system should as well ensure on-time reacting to deviations from the planned results, supporting integrity ethics, increasing confidence in achieving goals, quality and efficiency of management.

BELL'S TELEPHONE. 1876

This is the first telephone to have been invented in the world. At that time it was called "Talking Telegraph" and had only one receiver, which served both for transmitting and receiving voice messages. In addition, the telephone had no bell, therefore the user alerted the other end by whistling into the transmitter.



MODERN SIP-TELEPHONY. 2014

Owing to digital encoding and transmission of voice via the Internet the range of telephone features increased significantly. Such services as instant calls abroad at cheap rates, video calls, video conferencing, calls from computer to phone and even setting up a call-center are available to date.

CORPORATE GOVERNANCE



CORPORATE GOVERNANCE

Corporate governance is a set of processes that provide for management and control over the Company's activity and include the relations between shareholders, Board of directors, Management Board, other bodies of the Companies and interested persons in the shareholders' interest.

THE MAJOR PRINCIPLES OF CORPORATE GOVERNANCE SET OUT IN THE COMPANY'S CODE OF CORPORATE GOVERNANCE ARE DIRECTED AT CREATING TRUST IN THE RELATIONS ARISING FROM THE GOVERNANCE OF THE COMPANY:

- the principle of protection of the shareholders' rights and interests;
- the principle of efficient management of the Company by the Board of Directors and the Management Board;
- the principle of independent activity of the Company;
- the principle of transparency and objectivity in disclosing information about the Company's activity;
- the principles of legality and ethics;
- the principles of efficient dividends policy;
- the principles of efficient personnel policy;
- the principles of environmental protection;
- the policy of regulating corporate conflicts and conflict of interests;
- the principle of accountability.

STRUCTURE OF CORPORATE GOVERNANCE

Effective structure of management (governance) that is based upon the respect for rights and interests of all parties interested in the Company's activity, and makes for the Company's successful activity, including growth of its reputation, maintenance of financial stability and profitability is regarded as the basis for corporate governance of the Company.

THE COMPANY'S BODIES

THE GENERAL SHAREHOLDERS' MEETING

is a supreme body of the Company through which the shareholders exercise their rights to participation in managing the Company. Decisions adopted at the General Shareholders' Meeting are binding upon all shareholders of the Company

BOARD OF DIRECTORS

is the Company's management body performing general management of the Company, being responsible for developing its strategy, and controlling the Management Board's activity

MANAGEMENT BOARD

is an executive body managing the day-to-day activity with a view to accomplishing the tasks and implementing the strategy of the Company

INTERNAL AUDIT SERVICE

is a body carrying out control over the Company's financial and economic activity, assessment in the field of internal control, risks management, execution of documents in the field of corporate governance, etc.

WITH A VIEW TO ENSURING EFFICIENCY OF CORPORATE GOVERNANCE THE COMPANY HAS ESTABLISHED THE INSTITUTE OF CORPORATE SECRETARY.

The **Corporate Secretary** is accountable to the Company's Board of Directors and ensures efficient interaction between the Company and shareholders, as well as between the Company's bodies in accordance with the provisions of the Company's Charter and other internal documents.

The Corporate Secretary of the Company within the limits of his/her competence defined by the laws and internal documents of the Company is obliged to ensure competent consideration of the issues related to a conflict of interest. Mr B. K. Abdykalykov, a Corporate Secretary of Kazakhtelecom JSC, is a holder of state awards and the honorary title "Uzdik bailanysshy". He was regarded as the best corporate secretary of past years, a permanent member of working groups on further improving corporate governance and the Institute of Corporate Secretaries.

Assessment of the of Board of Directors' performance

Kazakhtelecom JSC's Board of Directors assesses its performance on a regular basis. For instance, in January 2015, the members of the Company's Board of Directors conducted assessment of the Board of Directors' annual performance results in 2014 by questionnaire study, as an outcome of which all members of the Board of Directors received high scores.

Internal Audit Service

The Internal Audit Service (IAS) is an independent structural division accountable to the Board of Directors and responsible for assessing the effectiveness of the internal control system.

The mission of IAS is to provide the Board of Directors and the Management Board of the Company with necessary assistance in performing their duties aimed at achieving Company's strategic objectives.

With the aim to ensuring independent and objective assessment of Kazakhtelecom JSC's activity, the following measures are implemented with regard to IAS:

- independent status of IAS implemented by direct subordination and accountability to the Company's Board of Directors. IAS's activity is supervised by the Committee for Audit of the Company's Board of Directors;
- definite awareness of IAS employees of changes in the field of internal audit, corporate governance, risk management and control;
- continuous professional development of IAS's employees.

IAS's activity is based on the Regulations on the Internal Audit Service of Kazakhtelecom JSC and the Policy for Organization of Internal Audit in Kazakhtelecom JSC approved by the Company's Board of Directors. Audits are carried out in accordance with the Annual Audit Plan agreed with the Committee for Audit and approved by the Company's Board of Directors.

IAS submits to the Board of Directors on a regular basis (quarterly, annual) reports on its activity that are preliminary considered by the Committee for Audit.

With the aim to improving its activities, IAS on a regular basis introduces appropriate changes to IAS's internal documents (Regulations and Policy), and develops a variety of documents in accordance with the best practices of internal audit (IAS's Strategic Development Plan, Procedure of IAS Performance Assessment, Procedure of Assessment of the Integrated Risk Management System, standard work papers, etc.). All changes to existing documents and new documents of IAS shall be approved by the Company's Board of Directors.

IAS has won the high praise of independent advisers (Ernst & Young LLP/Advisory Services) as for the compliance with the Definition of Internal Audit, Code of Ethics, and International Standards for the Professional Practice of Internal Auditing. The level of compliance was determined as "generally compliant" (the highest possible level).

This assessment is a clear demonstration of transparency and efficiency of the Internal Audit Service, as well as close cooperation and collaboration with the Board of Directors and the Management Board.

Dividend Policy

The Regulations on the Dividend Policy of Kazakhtelecom JSC were approved on 18.01.2013 by the extraordinary General Shareholders' Meeting, Minutes No 49.

The objective of the Dividend Policy of Kazakhtelecom JSC is to ensure balance of interests between the Company and Shareholders, predictability and transparency in determining the amount of dividends, as well as terms and procedures of payment thereof.

The amount of dividends to be paid out depends on the financial and economic position of Kazakhtelecom JSC, which is determined on the basis of the financial sustainability and liquidity indicators. The Dividend Policy regulates the procedure of paying out the dividends and the order of settlements with shareholders on outstanding dividends.

According to the decision of the annual General Shareholders' Meeting, dated May 23, 2014, 100% of the consolidated net profit for the second half-year of 2013 remained at the Company's disposal and dividends were not paid out. On the basis of performance results in the first half-year of 2013 dividends were distributed to the shareholders in January 2014 in the amount of 2 603.90 tenge per 1 share.

The following month guaranteed dividends for 2014 were paid out in the amount of 300 tenge per 1 preference share.

Information Policy

With a view to improving transparency and efficiency of the disclosing processes Kazakhtelecom JSC approved the Company's Information Policy (amended in December 2012) by the decision of the Board of Directors (Minutes No 45 dated October 26, 2009).

The Information Policy determines major principles and general requirements to the disclosure of information about the Company's activity to the Company's shareholders, state agencies of the Republic of Kazakhstan, persons and entities interested in the Company's activity, investors and other shareholders, as well as requirements to the protection of information that constitutes the Company's business, commercial and other secret protected by the law.

The Policy is aimed at raising the level of awareness of the public, both within and outside Kazakhstan, of the Company's activity, which tends to contribute to formation of a favorable image of the Company and strengthen investors' and public's confidence in the Company.

The basic principles of the Information Policy are:

- regularity, timeliness and relevance;
- transparency and accessibility;
- accuracy and completeness;
- efficiency;
- non-disclosure behavior;
- balance;
- equality of rights of Information Recipients;
- effectiveness of information.

With a view to implementing the Information Policy the Company:

1. develops the Media Plan quarterly;
2. organizes required PR events in accordance with the approved Media Plan of the Company for coverage of Company's activity in the form of press conferences, briefings, interviews, etc. Information is released in the form of publications, articles and press releases in leading national/international electronic and print media;
3. promptly and effectively updates the corporate website www.telecom.kz, whereby the Company informs the public about its activities;
4. in the event of publication of negative information in mass media, which can damage positive image of the Company, determines a group of employees to respond promptly, approve and implement the action plan for anti-crisis control over information flows and disclosure.

In 2014, the Company deliberately worked with the target audience on an ongoing basis: 135 PR events were organized, 3 546 materials were published and announced in mass media, including 1 153 materials in regional mass media, 2 066 of them were positive ones, 1 480 of them were neutral ones, and 0 of them were negative ones. The Company prepared 126 news, held 41 records of comments/interviews, prepared 19 responses to mass media inquiries.

By the end of 2014 the number of subscribers and readers of Kazakhtelecom's pages in social networks made up more than 145 000 people. All content is duplicated in Kazakh language.

In 2014, the Company created its official page in Instagram social network and Horde.me blogging platform.

INFORMATION ON ASSIGNMENT TO THE COMPANY OF THE RATING OF CORPORATE GOVERNANCE

According to the Methods of Diagnostic of Corporate Governance in the companies of Samruk-Kazyna Group the diagnostic of corporate governance in the companies of the Fund is carried out every two years.

In 2013, the diagnostic of corporate governance in Kazakhtelecom JSC was carried out by PricewaterhouseCoopers and the Company's rating was at the level of 80.2%. According to the results of the diagnostic held in 2013, Kazakhtelecom JSC is a leader in terms of the Corporate Governance Rating among subsidiaries of Samruk-Kazyna JSC that carried out the diagnostic of corporate governance.

In 2014, on the recommendation of the Fund diagnostic of corporate governance was carried out by own efforts of the Company by the Internal Audit Service of Kazakhtelecom JSC. Diagnostic was carried out for such three main components as "Structure", "Processes" and "Transparency". Diagnostic carried out by own efforts of the Company is aimed at improving the system of the Company's corporate governance and is the basis for preparation of the upcoming diagnostic by an independent appraiser in 2015, according to the results of which the corporate governance rating will be assigned to the Company.

In 2014, as a part of improving the system of corporate governance the Company carried out the following activities:

- Special structural unit for risk management (Risk Management Service) was established;
- Anti-Corruption Policy was approved;
- Anti-Fraud Policy was approved;
- Regulations on the Strategic Development Department were amended in terms of compliance with the best practices;
- Rules for involvement of appraisers for appraising the market value of telecom assets to be purchased were approved.

The next objective set by Kazakhtelecom JSC is to follow up on the recommendations provided in the course of diagnosing the corporate governance by the Company's Internal Audit Service. To that end, the company approved a set of measures for improving the corporate governance system in 2015 and its achieving the level of 85% in the Corporate Governance Rating in 2022.

KAZAKHTELECOM JSC'S BOARD OF DIRECTORS

The Board of Directors is the management body performing general management of the Company, being responsible for developing its strategy and controlling the Management Board's activity.

Members of the Board of Directors are elected by the resolution of the General Shareholders' Meeting.

Candidates to the position of a member of the Board of Directors can be proposed out of the following constituents:

1. individual shareholders;
2. persons proposed for election to the Board of Directors as representatives of the shareholders;
3. individuals who are not the Company's shareholders and not proposed (not recommended) for election to the Board of Directors of the Company as representatives of the shareholders.

CANDIDATES TO THE POSITION OF A MEMBER OF THE BOARD OF DIRECTORS MUST HAVE RELEVANT EXPERIENCE OF WORK, KNOWLEDGE, QUALIFICATION, POSITIVE ACHIEVEMENTS NECESSARY FOR PERFORMING HIS/HER DUTIES, AND STAINLESS REPUTATION IN BUSINESS AND INDUSTRY ENVIRONMENT AND FOR ORGANIZING EFFECTIVE OPERATION OF THE BOARD OF DIRECTORS IN A WHOLE IN THE INTERESTS OF THE SHAREHOLDERS AND THE COMPANY.

Resolution of the General Shareholders' Meeting of Kazakhtelecom JSC, Minutes No 46 dated 29.12.2011, approved the Eligibility Criteria for Independent Directors, the Form of Assessment of a candidate to the position of an independent director and the letter of consent of a candidate for inclusion into the Board of Directors of Kazakhtelecom JSC as an independent director (as the annexes to the Regulations on the Board of Directors of Kazakhtelecom JSC).

Members of the Board of Directors of Kazakhtelecom JSC (as of 31.12.2014)

NURZHAN BAIDAULETOV

KUANYSHBEK YESSEKEYEV

AIGUL NURIYEVA

ADILBEK SARSENOV

SERIK SAUDABAYEV

NATALYA AKENTYEVA

VITALIY KUCHURA

DMITRIY LARIONOV

ERMEK OKAYEV

According to the decision of the Board of Directors of Kazakhtelecom JSC dated May 18, 2012 (Minutes No 7) Mr. Nurzhan Baidautov was elected as the Chairman of the Board of Directors of Kazakhtelecom JSC.

During 2014 there were no changes in the composition of the Board of Directors of Kazakhtelecom JSC.

NURZHAN BAIDAULETOV

Date of birth: September 01, 1960
Citizenship: The Republic of Kazakhstan
Date of the first election to the Board of Directors: May 08, 2012
Date of the current election to the Board of Directors: May 08, 2012
Status: Chairman of the Board of Directors
Representative of Samruk-Kazyna JSC
(5 570 668 ordinary voting shares)
Share ownership: none
Education:
09.1977 – 06.1986 The Moscow Institute of Railway Engineering
Qualification: Management of Railway Transportation Processes

Places of employment and positions occupied over the last five years:

02.06.2014 – till present Samruk-Kazyna JSC
Chief Asset Management Officer
01.04.2014 – till present Kazpochta JSC
Member of the Board of Directors
24.01.2012 – till present KTZ NC JSC
Chairman of the Board of Directors
26.12.2008 – till present Air Astana JSC
Chairman of the Board of Directors
27.11.2008 – 01.06.2014 Samruk-Kazyna JSC
Managing Director
22.09.2008 – 26.11.2008 Samruk Holding JSC
Managing Director
22.12.2006 – 21.09.2008 Samruk Holding JSC
Director for Transport and Industrial Assets Management

KUANYSHBEK YESSEKEYEV

Date of birth: June 10, 1975
Citizenship: The Republic of Kazakhstan
Date of the first election to the Board of Directors: December 16, 2006
Date of the current election to the Board of Directors: May 08, 2012
Status: Member of the Board of Directors
Chairman of the Management Board of Kazakhtelecom JSC
Share ownership: none
Education:
1991 – 1995 The Kazakh State University named after Al-Farabi
Qualification: applied mathematics
Candidate of Mathematical sciences
2001 – 2002 The Kazakh State Academy of Management
Qualification: management

Places of employment and positions occupied over the last five years:

15.03.2010 – till present Kazakhtelecom JSC
Chairman of the Management Board, Member of the Board of Directors
23.02.2007 – 15.03.2010 The Agency of the Republic of Kazakhstan for Informatization
and Communications
Chairman

AIGUL NURIYEVA

Date of birth: August 13, 1974
 Citizenship: The Republic of Kazakhstan
 Date of the first election to the Board of Directors: April 14, 2006
 Date of the current election to the Board of Directors: May 08, 2012
 Status: Member of the Board of Directors
 Representative of Kazakhtelecom JSC's shareholder – Bodam B.V.
 (1 842 725 ordinary voting shares)
 Share ownership: none

Education:

1991 – 1995 The Kazakh State Academy of Management
 Qualification: Finance and Credit Department
 Holder of the president scholarship "Bolashak"
 1994 – 1995 Indiana University, Bloomington, IN, USA, School of Business
 Courses in economics, investments, accounting
 1995 – 1997 Michigan State University, East Lansing, MI, USA,
 The Eli Broad Graduate School of Management, MBA,
 Finance and Management Information Systems

Places of employment and positions occupied over the last five years:

25.02.2009 – till present Alnair Capital LLP
 Managing Director
 11.06.2008 – till present Alnair Capital Holding JSC
 Member of the Board of Directors
 26.05.2008 – till present Alnair Capital Holding JSC
 Managing Director
 10.06.2005 – 13.09.2012 Bodam B.V.
 Director

ADILBEK SARSENOV

Date of birth: August 28, 1973
 Citizenship: The Republic of Kazakhstan
 Date of the first election to the Board of Directors: December 24, 2007
 Date of the current election to the Board of Directors: May 08, 2012
 Status: Member of the Board of Directors
 Representative of Kazakhtelecom JSC's shareholder – Bodam B.V.
 (1 842 725 ordinary voting shares)
 Chairman of the Committee for Strategic Planning
 Share ownership: none

Education:

1991 – 1996 The Almaty Institute of Power Engineering
 Qualification: radio engineering
 2005 – 2006 International Business School (Cambridge, USA)
 under the Bolashak scholarship, MBA program
 General management in international companies

Places of employment and positions occupied over the last five years:

10.12.2010 – 10.12.2013 ERA TV Broadcaster
 Member of the Supervisory Board
 01.08.2010 – till present Amun Capital Advisors KZ LLP
 Director for Telecom Assets Management
 09.12.2008 – 06.09.2010 National Company "Kazsatnet" JSC
 Chairman of the Board of Directors
 06.11.2008 – 06.09.2010 National Information Technologies JSC
 Member of the Board of Directors
 06.11.2008 – 02.08.2010 National Information and Communications Holding "Zerde" JSC
 Chairman of the Management Board
 06.11.2008 – 21.02.2011 Member of the Board of Directors
 19.10.2007 – 30.07.2010 Kazakhstan Holding for Management of State Assets "Samruk" JSC
 Director for Telecom Assets Management Group

SERIK SAUDABAYEV

Date of birth: December 8, 1977
 Citizenship: The Republic of Kazakhstan
 Date of the first election to the Board of Directors: July 12, 2010
 Date of the current election to the Board of Directors: May 08, 2012
 Status: Member of the Board of Directors
 Representative of Kazakhtelecom JSC's – Samruk-Kazyna JSC (5 570 668 ordinary voting shares)
 Member of the Committee for Strategic Planning

Share ownership: none

Education:

1995 – 1999 The Almaty State University named after Abai
 Qualification: lawyer
 2004 – 2006 The Kazakh University of Economics named after T. Ryskulov
 Qualification: bachelor of economics

Places of employment and positions occupied over the last five years:

11.05.2014 – till present Samruk-Kazyna JSC
 Deputy Chief Asset Management Officer
 17.06.2010 – 10.05.2014 Sovereign Welfare Fund Samruk-Kazyna JSC
 Director for Telecom Assets Management
 13.08.2010 – 31.03.2014 Kazpochta JSC
 Member of the Board of Directors
 14.08.2007 – 16.04.2008 Kazakhtelecom JSC
 Deputy Head of the Legal Department
 17.04.2008 – 18.05.2010 Corporate Secretary

NATALYA AKENTYEVA

Date of birth: January 2, 1974
 Citizenship: The Republic of Kazakhstan
 Date of the first election to the Board of Directors: March 12, 2010
 Date of the current election to the Board of Directors: May 08, 2012
 Status: Independent Director
 Chairman of the Committee for Social Affairs
 Member of the Committee for Audit
 Member of the Committee for Appointments and Remunerations

Share ownership: 50% participating interest in Glavvinoproduct LTD

Criteria of independence: In compliance with the criteria stipulated in sub-item 20 of article 1 of the Law of the Republic of Kazakhstan "On joint stock companies"

Education:

1991 – 1994 The Kazakh State University
 Qualification: International Economic Relations
 1991 – 1995 The Kazakh State Academy of Management
 Qualification: Finance and Credit Department
 1998 – 2001 The Kazakh State Academy of Law
 Qualification: Jurisprudence

Places of employment and positions occupied over the last five years:

15.05.2014 – till present Octagon Consulting LLP
 Managing Director
 19.07.2013 – 03.03.2014 Yug Trade LLP
 Director
 01.03.2010 – 18.07.2013 Ivolga-Holding LLP
 Deputy Director General for Corporate Development
 19.01.2003 – 07.08.2008 ABN AMRO Bank Kazakhstan / RBS Kazakhstan
 Deputy Chairman of the Management Board
 07.08.2008 – 01.03.2010 Member of the Management Board, Head of the Corporate Customers Department

VITALIY KUCHURA

Date of birth: February 28, 1970
 Citizenship: The Republic of Kazakhstan
 Date of the first election to the Board of Directors: November 6, 2009
 Date of the current election to the Board of Directors: May 08, 2012
 Status: Independent Director
 Member of the Committee for Appointments and Remunerations
 Member of the Committee for Strategic Planning
 Member of the Committee for Social Affairs
 Share ownership: none
 Criteria of independence: In compliance with the criteria stipulated in sub-item 20 of article 1 of the Law of the Republic of Kazakhstan "On joint stock companies"

Education:

1989 – 1997 The Almaty Institute of Power Engineering and Communications
 Qualification: telecommunication engineer

Places of employment and positions occupied over the last five years:

10.10.2005 – till present ACME Investment Advisory Ltd (Great Britain) (Moscow, Russia)
 Head of the Representative Office
 11.07.2006 – till present Director

DMITRIY LARIONOV

Date of birth: November 22, 1973
 Citizenship: The Republic of Kazakhstan
 Date of the first election to the Board of Directors: September 29, 2008
 Date of the current election to the Board of Directors: May 08, 2012
 Status: Independent Director
 Chairman of the Committee for Audit
 Member of the Committee for Appointments and Remunerations
 Member of the Committee for Strategic Planning
 Member of the Committee for Social Affairs
 Share ownership: none
 Criteria of independence: In compliance with the criteria stipulated in sub-item 20 of article 1 of the Law of the Republic of Kazakhstan "On joint stock companies"

Education:

1991 – 1995 The Kazakh State University of International Relations and World Languages
 Qualification: translator-consultant (English)

1997 – 1999 The Kazakh Institute of Management, Economics and Strategic Research (KIMEP)
 Master of Business Administration (MBA) in Accounting and Finance

2007 – till present The Kazakh Institute of Management, Economics and Strategic Research (KIMEP), Doctorate
 Doctor of Business Administration in Accounting

Places of employment and positions occupied over the last five years:

03.12.2013 – till present National Company "Astana EXPO-2017" JSC
 Independent Director, Member of the Board of Directors
 28.05.2009 – till present Advisory Body for Accounting and Auditing Issues of the Ministry of Finance of the Republic of Kazakhstan
 Member of the Advisory Body
 30.04.2008 – till present Air Astana JSC
 Independent Director, Member of the Board of Directors
 08.08.2005 – till present BDO Kazakhstanaudit LLP
 Partner
 01.01.2008 – 31.12.2010 International Federation of Accountants (USA)
 Member of the Committee for Developing Nations
 07.05.2003 – 17.09.2010 Chamber of Professional Accountants of the Republic of Kazakhstan
 Professional Organization
 Deputy Chairman, member of the Council

Certified Director (Cert IoD), Institute of Directors, UK
 Certified Corporate Governance Director (CCGD), Kazakhstan Independent Directors Association

ERMEK OKAYEV

Date of birth:	July 30, 1960
Citizenship:	The Republic of Kazakhstan
Date of the first election to the Board of Directors:	May 29, 2006
Date of the current election to the Board of Directors:	May 08, 2012
Status:	Independent Director Chairman of the Committee for Appointments and Remunerations Member of the Committee for Audit Member of the Committee for Social Affairs
Share ownership:	none
Criteria of independence:	In compliance with the criteria stipulated in sub-item 20 of article 1 of the Law of the Republic of Kazakhstan "On joint stock companies"

Education:

1977 – 1982	The Moscow State University named after Lomonosov, Moscow, economist
1984 – 1987	The Institute of Economics of the Academy of Science of Kaz SSR Candidate of Economic Sciences (PhD)
1990 – 1991	The Academy of Economics of the Council of Ministers of USSR, Moscow, management specialist
1991	Tokyo Business School, MBA

Vocational training: visiting on annual basis expositions, conferences, courses on direct and electronic marketing, on distribution of publishing products and on post technologies, mobile and electronic technologies of content communication, on marketing in the field of B2B, on information architecture, on strategic management in London, Boston, Hanover, Berlin, Dubai, Barcelona

Places of employment and positions occupied over the last five years:

01.10.2009 – till present	BIKO Publishing House LLP Chairman of the Board of Directors
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Criteria for determining independence of Independent Directors

In accordance with subparagraph 20) of Article 1 of the Law of the Republic of Kazakhstan "On joint stock companies" an Independent Director is a member of the Board of Directors, who:

- is not an affiliated person of this joint stock company and hasn't been nominated to this position during three years prior to his/her election to the Board of Directors (except for taking the position of an independent director of this joint stock company);
- is not an affiliated person of the joint stock company's affiliates;
- is not associated with the subordination to the officials of this joint stock company or organizations that are the affiliates of this joint stock company and hasn't been associated with the subordination to these entities and persons during three years prior to his/her election to the Board of Directors;
- is not a government employee;

- is not a shareholder's representative at meetings of the bodies of this joint stock company and hasn't been nominated to this position during three years prior to his/her election to the Board of Directors;
- does not participate in the audit of this joint stock company as an auditor acting on behalf of an audit firm, and hasn't participated in such audit during three years prior to his/her election to the Board of Directors.

In 2014, there were 4 Independent Directors in the composition of the Board of Directors of Kazakhtelecom JSC fully complying with the requirements of the Law of the Republic of Kazakhstan "On joint stock companies" applied to the notion "an independent director":

- Natalya Akentyeva,
- Vitaliy Kuchura,
- Dmitriy Larionov,
- Ermek Okayev.

In accordance with paragraph 5 of Article 54 of the Law of the Republic of Kazakhstan "On joint stock companies", the number of independent directors in the composition of joint stock company's board of directors shall be not less than thirty percent. Thus, Kazakhtelecom JSC meets such a requirement and even exceeds the minimum threshold, since the percentage of Independent Directors in the Company makes up 44%.

MAJOR ISSUES CONSIDERED BY THE BOARD OF DIRECTORS IN 2014

The Board of Directors of Kazakhtelecom JSC holds meetings in accordance with the annual action plan and as and when necessary. In 2014, the Company's Board of Directors held 14 meetings in total, including 9 in-person meetings and 5 meetings in absentia. At the in-person meetings the Board of Directors took decisions on 87 issues, at the meetings in absentia – on 14 issues.

Participation of the members of the Board of Directors in the in-person meetings of the Board of Directors in 2014

Members of the Board of Directors	19.02	31.03	29.04	22.05	27.06	09.09	28.10	13.11	22.12	%
N. Baidauletov	+	+	+	+	+	+	+	+	+	100
N. Akentyeva	+	+	+	+	+	+	+	+	+	100
K. Yessekeyev	+	+	+	+	+	+	+	+	+	100
V. Kuchura	+	+	+	+	+	+	+	+	+	100
D. Larionov	+	+	+	+	+	+	+	+	+	100
A. Nuriyeva	+	+	+	+	+	+	+	+	+	100
E. Okayev	+	-	+	+	+	+	-	+	-	66.66
A. Sarsenov	+	+	+	+	+	+	+	+	+	100
S. Saudabayev	+	+	+	+	+	+	+	+	+	100

Among the most important decisions taken by the Board of Directors of Kazakhtelecom JSC in 2014 are the following:

- On approval of the Strategy for Increasing the Shareholder Value of Kazakhtelecom JSC;
- On approval of the Action Plan for Implementing the Strategy of Kazakhtelecom JSC till 2022;
- On approval of the Development Plan of Kazakhtelecom JSC for 2015–2019;
- On approval of the Action Plan for Improving the Corporate Governance System of Kazakhtelecom JSC for 2014;
- On approval of the Policy for notification of suspected unethical/illegal actions in Kazakhtelecom JSC;
- On approval of the Risk Management Policy of Kazakhtelecom JSC;
- On approval of standards for the list of indicators of the corporate risk management system: exposure of the risk appetite, tolerance level, risk registers and risk map, key risk indicators;
- Reports of Kazakhtelecom JSC's Management Board on the execution of orders of the Board of Directors, the implementation of large investment projects and risks are considered on a regular basis (every quarter).

The performance of the Board of Directors in 2014 is a testimony to its efficiency and fruitfulness in the Company's activities. The Members of the Board of Directors, having expert knowledge in different fields of expertise, perform their duties for the benefit of the Company with professionalism, diligence and reasonableness.

With a view to ensuring effective performance of the functions of the Company's Board of Directors, the following Committees of the Board of Directors were established in the Company:

1. Strategic Planning Committee

2. Audit Committee

3. Appointments and Remunerations Committee

4. Social Affairs Committee

Activity of all Committees is governed by the internal documents approved by the Board of Directors, which include provisions on the composition, competence, order of election of Committees' members, operational procedures of the Committees, as well as the rights and duties of their members.

The **Strategic Planning Committee** is composed of representatives of shareholders and independent directors of the Company. In 2014, the Committee operated in the following composition:

Chairman of the Committee:

- **Mr. Adilbek Sarsenov**, representative of the Company's shareholder – Bodam BV, Director for Telecom Assets Management of Amun Capital Advisors KZ LLP.

Members of the Committee:

- **Mr. Vitaliy Kuchura**, Independent Director, Director/Head of the Representative Office of ACME Investment Advisory Ltd (UK) (Moscow, Russia);
- **Mr. Dmitriy Larionov**, Independent Director, International Relations/Projects Partner of BDO Kazakhstanaudit LLP;
- **Mr. Serik Saudabayev**, representative of the Company's shareholder – Deputy Chief Asset Management Officer of Sovereign Welfare Fund Samruk-Kazyna JSC.

Members of the Committee, who are independent directors of the Company, meet the criteria for recognition of independency of directors stipulated by subparagraph 20) of Article 1 of the Law of the Republic of Kazakhstan "On Joint Stock Companies".

In 2014, the Strategic Planning Committee held 1 meeting in absentia and 10 in-person meetings. The Committee considered 26 issues and made relevant recommendations to the Company's Board of Directors, in particular, regarding the following main issues: business planning, implementation of the Company's Strategy, outsourcing of advisory services, Development Plan of the Company, adoption of strategic documents, optimization of subsidiaries and other important issues of the Company.

Participation of the members of the Strategic Planning Committee in the meetings in 2014

Full name of a member of the Board of Directors	Participation in the meetings, number	Percent of participation	Reason for absence
A. Sarsenov	11	100%	–
V. Kuchura	11	100%	–
D. Larionov	11	100%	–
S. Saudabayev	11	100%	–

According to the Regulations on the Strategic Planning Committee approved by the decision of the Board of Directors No 14 dated 19.11.2010, the Chairman of the Committee invited the following persons to the meetings in the capacity of observers and for delivery of information on the issues of the meeting's agenda:

- members of the Board of Directors and the Management Board;
- management and other employees of the Company and its subsidiaries.

When assessing the performance of the Strategic Planning Committee of the Board of Directors of Kazakhtelecom JSC, it should be noted that this Committee during performance of its duties acts in the Company's interests, in good faith and in a reasonable manner.

The Committee perfectly addresses the issues on defining and making recommendations to the Board of Directors related to determination of the priority activities and development of the Company's strategy, including the issues on elaboration of measures that ensure improvement of the Company's efficiency in the long term.

Thus, in 2014, the Strategic Planning Committee accomplished all tasks, objectives and functional responsibilities stipulated by the Regulations on the Strategic Planning Committee, decisions of the Company's Board of Directors, instructions of the Company's Board of Directors, and the Committee's Action Plan for 2014.

In 2014, the **Audit Committee** operated in the following composition:

Chairman of the Committee:

- **Mr. Dmitriy Larionov**, Independent Director, International Relations/Projects Partner of BDO Kazakhstanaudit LLP.

Members of the Committee:

- **Ms. Natalya Akentyeva**, Independent Director, Managing Director of Octagon Consulting LLP;
- **Mr. Ermek Okayev**, Independent Director, Director General of BIKO LLP.

Chairman and members of the Committee are Independent Directors of the Company and meet the criteria for recognition of independency of directors stipulated by subparagraph 20) of Article 1 of the Law of the Republic of Kazakhstan "On Joint Stock Companies".

In 2014, the Audit Committee held 21 in-person meetings. The Committee considered 63 issues and made relevant recommendations to the Company's Board of Directors, in particular, regarding the following main issues: post-monitoring of investment projects, risk management, implementation of recommendations of external auditors, business investments, Internal Audit Service, tariff and cost setting and other important issues of the Company's activities.

Participation in the meetings of the Audit Committee in 2014

Full name of a member of the Board of Directors	Participation in the meetings, number	Percent of participation	Reason for absence
D. Larionov	21	100%	–
N. Akentyeva	21	100%	–
E. Okayev	18	85.7%	1 – business trip 2 – due to illness

According to the Regulations on the Audit Committee approved by the decision of the Board of Directors No 2 dated 01.03.2010 (as amended and supplemented by the Minutes of the meeting of the Board of Directors No 7 dated 28.06.2013), the Chairman of the Committee invited the following persons to the meetings for delivery of information on the issues of the meeting's agenda:

- **Head of the Internal Audit Service;**
- **Representatives of the external auditor Ernst & Young LLP;**
- **Representatives of Ernst & Young LLP/Advisory Services;**
- **Representatives of KPMG Tax and Advisory LLP;**
- **Representatives of PricewaterhouseCoopers;**
- **Company's employees (top management, heads of departments, and specialists).**

When assessing the performance of the Audit Committee of the Board of Directors of Kazakhtelecom JSC, it should be noted that this Committee during performance of its duties acts in the Company's interests, in good faith and in a reasonable manner.

The Committee thoroughly supervises the audit process, regularly interacts with the Internal Audit Service and holds meetings with the external auditor and representatives of companies that provide auditing and advising services.

Thus, in 2014, the Audit Committee accomplished all tasks, objectives and functional responsibilities stipulated by the Company's Corporate Governance Code, Regulations on the Audit Committee, decisions of the Company's Board of Directors, instructions of the Company's Board of Directors and the Committee's Action Plan for 2014.

The Appointments and Remunerations Committee

In 2014, the Appointments and Remunerations Committee operated in the following composition:

Chairman of the Committee:

- **Mr. Ermek Okayev**, Independent Director, Director General of BIKO LLP.

Members of the Committee:

- **Ms. Natalya Akentyeva**, Independent Director, Managing Director of Octagon Consulting LLP;
- **Mr. Vitaliy Kuchura**, Independent Director, Director/Head of the Representative Office of ACME Investment Advisory Ltd (UK) (Moscow, Russia);
- **Mr. Dmitriy Larionov**, Independent Director, International Relations/Projects Partner of BDO Kazakhstanaudit LLP.

Chairman and members of the Committee meet the criteria for recognition of independency of directors stipulated by subparagraph 20) of Article 1 of the Law of the Republic of Kazakhstan "On Joint Stock Companies".

In 2014, the Appointments and Remunerations Committee held 12 in-person meetings. The Committee considered 23 issues and made relevant recommendations to the Company's Board of Directors, in particular, regarding the following main issues: election of the Management Board's members, appointment of top managers of Company's subsidiaries, approval of KPIs for the management personnel, remuneration of labor, human resources management and other issues.

Participation in the meetings of the Appointments and Remunerations Committee in 2014

Full name of a member of the Board of Directors	Participation in the meetings, number	Percent of participation	Reason for absence
E. Okayev	10	83.3%	1 – business trip 1 – due to illness
N. Akentyeva	12	100%	
V. Kuchura	12	100%	
D. Larionov	12	100%	

According to the Regulations on the Appointments and Remunerations Committee approved by the decision of the Board of Directors No 14 dated 19.11.2010, the Chairman of the Committee invited the following persons to the meetings in the capacity of observers and for delivery of information on the issues of the meeting's agenda:

- members of the Board of Directors;
- Company's employees (top management, heads of departments, and specialists);
- candidates for the executive positions in accordance with the List of Executive Employees.

When assessing the performance of the Appointments and Remunerations Committee of the Board of Directors of Kazakhtelecom JSC, it should be noted that this Committee during performance of its duties acts in the Company's interests, in good faith and in a reasonable manner.

Thus, in 2014, the Appointments and Remunerations Committee accomplished all tasks, objectives and functional responsibilities stipulated by the Company's Corporate Governance Code, Regulations on the Appointments and Remunerations Committee, decisions of the Company's Board of Directors, instructions of the Company's Board of Directors and the Committee's Action Plan for 2014.

In 2014, the **Social Affairs Committee** operated in the following composition:

Chairman of the Committee:

- **Ms. Natalya Akentyeva**, Independent Director, Managing Director of Octagon Consulting LLP.

Members of the Committee:

- **Mr. Vitaliy Kuchura**, Independent Director, Director/Head of the Representative Office of ACME Investment Advisory Ltd (UK) (Moscow, Russia);
- **Mr. Dmitriy Larionov**, Independent Director, International Relations/Projects Partner of BDO Kazakhstanaudit LLP;
- **Mr. Ermek Okayev**, Independent Director, Director General of BIKO LLP.

Chairman and members of the Committee meet the criteria for recognition of independency of directors stipulated by subparagraph 20) of Article 1 of the Law of the Republic of Kazakhstan "On Joint Stock Companies".

In 2014, the Social Affairs Committee held 6 in-person meetings. The Committee considered 10 issues, including hearing of the Management Board regarding social support of employees of Kazakhtelecom JSC, issues of social stability, activities undertaken by the Company in the social sphere and others.

Participation in the meetings of the Social Affairs Committee in 2014

Full name of a member of the Board of Directors	Participation in the meetings, number	Percent of participation	Reason for absence
N. Akentyeva	6	100%	
V. Kuchura	6	100%	
D. Larionov	6	100%	
E. Okayev	3	50%	1 – business trip 2 – due to illness

According to the Regulations on the Social Affairs Committee approved by the decision of the Board of Directors (Minutes No 7 dated 28.06.2013), the Chairman of the Committee invited members of the Company's Management Board and other employees of the Company to the meetings in the capacity of observers and for delivery of information on the issues of the meeting's agenda.

When assessing the performance of the Social Affairs Committee of the Board of Directors of Kazakhtelecom JSC, it should be noted that this Committee during performance of its duties acts in the Company's interests, in good faith and in a reasonable manner.

In 2014, the Committee addressed the issues of social support of Company's employees. Thus, the Social Affairs Committee accomplished all tasks, objectives and functional responsibilities stipulated by the Regulations on the Social Affairs Committee, and the Committee's Action Plan for 2014.

INFORMATION ON REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS

Members of the Board of Directors, except for Independent Directors, do not receive remuneration. Members of the Board of Directors who are Independent Directors receive an annual fixed remuneration and additional remuneration for participation in meetings of a Committee of the Board of Directors of Kazakhtelecom JSC.

An Independent Director is reimbursed for expenses (travel, accommodation, daily expenses, telephone costs in the Republic of Kazakhstan, scanning, photocopying, faxing, printing, and typing of documents, Internet access in the Republic of Kazakhstan, courier services and postal services) associated with participation in in-person meetings of the Board of Directors and its Committees, annual General Shareholders' Meeting, as well as meetings convened at the initiative of shareholders or the Company held outside the place of permanent residence of an Independent Director.

The resolution of the extraordinary General Shareholders' Meeting of Kazakhtelecom JSC No 31 dated December 16, 2006 implies that remuneration for performing functions of a member of the Board of Directors of Kazakhtelecom JSC is paid out only to Independent Directors elected to the Company's Board of Directors.

According to the resolutions of the General Shareholders' Meeting of Kazakhtelecom JSC (Minutes No 39 dated September 04, 2009 and Minutes No 46 dated December 29, 2011), the following amounts of the annual fixed remuneration and additional remuneration for participation in each in-person meeting of a Committee of the Board of Directors are determined:

1. The annual fixed remuneration of each Independent Director of Kazakhtelecom JSC is determined as follows:
 - for non-residents of the Republic of Kazakhstan – USD 45 000;
 - for residents of the Republic of Kazakhstan – KZT 6 660 000.
2. The amount of additional remuneration of each independent member of the Board of Directors of Kazakhtelecom JSC for participation in each in-person meeting of a Committee of the Board of Directors, as well as in the meetings held via TV and video conferencing is determined as follows:
 - for non-residents of the Republic of Kazakhstan who are the members of a Committee – USD 500;
 - for residents of the Republic of Kazakhstan who are the members of a Committee – KZT 75 000.

Payments to Independent Directors for 2014

Members of the Board of Directors	Currency	Amount of the fixed annual remuneration	Amount of additional remuneration for participation in the Committees	Total for 2014
N. Akentyeva	KZT	6 660 000	2 925 000	9 585 000
V. Kuchura	USD	45 000	14 000	59 000
D. Larionov	KZT	6 660 000	3 675 000	10 335 000
E. Okayev	KZT	6 660 000	2 325 000	8 985 000

Kazakhtelecom JSC discloses information about remuneration of the members of the Board of Directors to all shareholders in accordance with the laws of the Republic of Kazakhstan and the Articles of Association of Kazakhtelecom JSC.



KAZAKHTELECOM JSC'S MANAGEMENT BOARD

The Management Board is the Company's collegial executive body, which is in charge of the Company's operating activities with a view to meeting the objectives and implementing the strategy of the Company.

Activity of the Management Board is based on the principle of the utmost protection of interests of Company's shareholders and is fully accountable to the resolutions of the General Shareholders' Meeting and decisions of the Board of Directors.

The Management Board is composed of 7 members: Chairman of the Management Board and other persons appointed by the Board of Directors.

Composition of the Management Board (as of 31.12.2014)

MR. KUANYSHBEK YESSEKEYEV

Date of birth: 1975

Date of the first election to the Management Board of Kazakhtelecom JSC: March 15, 2010

Date of the current election to the Management Board of Kazakhtelecom JSC: March 15, 2013

Status: Member of the Board of Directors, Chairman of the Management Board of Kazakhtelecom JSC

Education: higher, Candidate of Mathematical Sciences

1991 – 1995 The Kazakh State University named after Al-Farabi
Qualification: Applied Mathematics

2001 – 2002 The Kazakh State Academy of Management
Qualification: Management

Places of employment and positions occupied over the last five years:

23.02.2007 – 15.03.2010 The Agency of the Republic of Kazakhstan for Informatization and Communications
Chairman

15.03.2010 – till present Kazakhtelecom JSC
Chairman of the Management Board, member of the Board of Directors

Outside employment and membership in the Boards of Directors of other companies:
Chairman of the Board of Directors of ALTEL JSC

Ownership of the Company's shares, shares of the Company's suppliers and competitors: none

MR. MARAT ABDILDABEKOV

Date of birth: 1967

Date of the first election to the Management Board of Kazakhtelecom JSC: 08.06.2007

Date of the current election to the Management Board of Kazakhtelecom JSC: 03.06.2014

Status: Member of the Management Board of Kazakhtelecom JSC, Chief Information Officer of Kazakhtelecom JSC

Education: higher

1984 – 1991 The Kazakh State University named after S. Kirov
Qualification: Mechanics and Applied Mathematics

Places of employment and positions occupied over the last five years:

05.2007 – till present Kazakhtelecom JSC
Vice-President – Chief Information Officer
Chief Information Officer

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

Chairman of the Supervisory Board of KT Cloud Lab LLP

Ownership of the Company's shares, shares of the Company's suppliers and competitors: none



MR. RAFAEL ABYKHANOV

Date of birth: 1971

Date of the first election to the Management Board of Kazakhtelecom JSC: 09.09.2013

Date of the current election to the Management Board of Kazakhtelecom JSC: 09.09.2014

Status: Member of the Management Board of Kazakhtelecom JSC, Chief Commercial Officer of Kazakhtelecom JSC

Education: higher

1990 – 1996 The Kazakh National Technical University
Qualification: Radio Engineering

Places of employment and positions occupied over the last five years:

01.2008 – 05.2009 Kazakhtelecom JSC
Executive Director for Operator Relationship

05.2009 – 09.2013 Kazakhtelecom JSC
Managing Director for Operator Relationship

09.2013 – till present Kazakhtelecom JSC
Chief Commercial Officer

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

Ownership of the Company's shares, shares of the Company's suppliers and competitors: none



MR. ALEXANDER LEZGOVKO

Date of birth: 1961
Date of the first election to the Management Board of Kazakhtelecom JSC: 26.03.2007
Date of the current election to the Management Board of Kazakhtelecom JSC: 02.04.2013
Status: Member of the Management Board of Kazakhtelecom JSC, Chief Technical Officer of Kazakhtelecom JSC

Education: higher

1978 – 1983 The Almaty Institute of Power Engineering
Qualification: Automated Telecommunications

Places of employment and positions occupied over the last five years:

03.2007 – till present Kazakhtelecom JSC
Vice-President – Chief Technical Officer
Chief Technical Officer of Kazakhtelecom JSC

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

Ownership of the Company's shares, shares of the Company's suppliers and competitors:
holds preferred shares of Kazakhtelecom JSC



MR. BATYR MAKHANBETAZHIYEV

Date of birth: 1972
Date of the first election to the Management Board of Kazakhtelecom JSC: 07.06.2010
Date of the current election to the Management Board of Kazakhtelecom JSC: 03.06.2014
Status: Member of the Management Board of Kazakhtelecom JSC, Chief Strategy Officer of Kazakhtelecom JSC

Education: higher

1989 – 1994 The Moscow State University named after M. Lomonosov
Qualification: Economic Cybernetics, Mathematical Economist

Places of employment and positions occupied over the last five years:

01.2007 – 03.2010 The Agency of the Republic of Kazakhstan for Informatization and Communications
Secretary General
04.2010 – till present Kazakhtelecom JSC
Chief Administrative Officer of Kazakhtelecom JSC
Chief Strategy Officer of Kazakhtelecom JSC

Outside employment and membership in the Boards of Directors of other companies:
member of the Board of Directors of ALTEL JSC

Ownership of the Company's shares, shares of the Company's suppliers and competitors: none



MR. ARNUR NURKATOV

Date of birth: 1967
 Date of the first election to the Management Board of Kazakhtelecom JSC: 11.09.2006
 Date of the current election to the Management Board of Kazakhtelecom JSC: 20.07.2012
 Status: Member of the Management Board of Kazakhtelecom JSC, Chief Financial Officer of Kazakhtelecom JSC

Education: higher

1984 – 1990	The Almaty Institute of National Economy Qualification: Accounting and Operating Analysis
2004	Graduated the Moscow Institute of Chartered Accountants and Auditors under ACCA (the Association of Chartered Certified Accountants) program
2007 – 2009	To ok a degree of the Master of Business Administration at the Finance Academy under the Government of the Russian Federation under MBA Finance Program (Moscow)

Places of employment and positions occupied over the last five years:

11.2006 – as for 31.12.2014	Kazakhtelecom JSC Vice-President – Chief Financial Officer Chief Financial Officer of Kazakhtelecom JSC
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Outside employment and membership in the Boards of Directors of other companies:
 Chairman of the Board of Directors of NURSAT JSC, member of the Board of Directors of ALTEL JSC, member of the Supervisory Board of KT Cloud Lab LLP

Ownership of the Company's shares, shares of the Company's suppliers and competitors: none



MR. DARYN TUYAKOV

Date of birth: 1969
 Date of the first election to the Management Board of Kazakhtelecom JSC: 24.07.2009
 Date of the current election to the Management Board of Kazakhtelecom JSC: 20.07.2012
 Status: Member of the Management Board of Kazakhtelecom JSC, Chief Officer – Head of Administration of Kazakhtelecom JSC

Education: higher

1986 – 1990	The Leningrad High Military and Political School of Air Defense named after Y. Andropov Qualification: Military and Political, Air Missile Defense Officer, teacher of history and philosophy
1991 – 1997	The Kazakh State University named after Al-Farabi Qualification: Jurisprudence (Lawyer)
2005 – 2007	The International Academy of Business, Corporate Management Qualification: Management Degree: Master of Business Administration (MBA)
2011 – 2014	The High School of Corporate Management of the Russian Academy of the National Economy and State Service of the President of RF Qualification: Strategic Finances and Investments Degree: Ph.D of Business Administration

Places of employment and positions occupied over the last five years:

05.2009 – 01.2012	Kazakhtelecom JSC Managing Director for Cooperation with Government Authorities
01.2012 – till present	Kazakhtelecom JSC Chief Officer – Head of Administration

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

Ownership of the Company's shares, shares of the Company's suppliers and competitors: none



REPORT ON THE MANAGEMENT BOARD'S ACTIVITY IN 2014

In 2014, the Management Board of Kazakhtelecom JSC held 50 in-person meetings and took 228 decisions of the Management Board. 16 decisions of the Management Board were taken by the absentee voting ballots.

The agenda and materials of the meetings were delivered to the Management Board's members in advance.

The most important decisions taken by the Management Board in 2014:

- Program for Promotion and Development of the State Language in Kazakhtelecom JSC for 2014–2016 (II phase);
- Regulations on remuneration of employees of Kazakhtelecom JSC's branches;
- Corporate Volunteering Program "Ayaulы alakan";
- Results of the third phase of implementation of the Comprehensive Program of Operation and Development of the Administration of ICT Academy for 2011–2013;
- Concept of Selling GSM Services by Kazakhtelecom JSC's branches;
- Rules for Alienation of Property (Assets) of Online.kg LLC and Bidding Rules for the Sale of Property (Assets) of Online.kg LLC;
- Regulations on the Operating Budget;
- Regulations on the Management of Subsidiaries of Kazakhtelecom JSC;
- Anti-Corruption Policy of Kazakhtelecom JSC.

The key documents approved by the Company's Management Board:

- Draft Strategy for Increasing the Shareholder Value of Kazakhtelecom JSC;
- Annual financial statements of subsidiaries of Kazakhtelecom JSC for 2013;
- Annual Report of Kazakhtelecom JSC for 2013;
- Corporate Social Responsibility Report of Kazakhtelecom JSC for 2013;
- Master Plan for the Development of Kazakhtelecom JSC till 2022;
- Risk Management Policy of Kazakhtelecom JSC;
- Standards for the list of indicators of the corporate risk management system.

INFORMATION ON REMUNERATION OF MEMBERS OF THE MANAGEMENT BOARD

The conditions and procedure of remuneration of members of Kazakhtelecom JSC's Management Board are determined by the Regulations on the Management Board of Kazakhtelecom JSC, Regulations on Remuneration of Employees of the Central Administration Office of Kazakhtelecom JSC, and Rules for Remuneration of Management Personnel and Head of the Internal Audit Service of Kazakhtelecom JSC at the end of a year, which are developed in accordance with the Policy of Samruk-Kazyna JSC for Assessment and Remuneration of Management Personnel.

In accordance with the aforementioned documents, the Board of Directors following recommendations of the appropriate Committee of the Board of Directors determines the amount of official salaries and terms of remuneration and bonuses of the Chairman and members of the Management Board.

The major condition for paying remuneration is the availability of the consolidated cumulative profit for the reporting period. At the year-end 2013, the consolidated cumulative profit amounted to KZT 19 614.0 billion. Remuneration at the end of a year is paid out depending on the achievement of motivational key performance indicators (hereinafter KPI). Motivational KPIs are comprised of the corporate and individual indicators and shall be approved by the decision of the Board of Directors (Minutes No 1 dated February 12, 2013).

The amount of remuneration payable to the members of the Management Board of Kazakhtelecom JSC at the year-end 2013 was approved by the decision of the Board of Directors of Kazakhtelecom JSC No 7 dated 27.06.2014. The limit of remuneration payable to the members of the Management Board shall not exceed tripled amount of annual salary of this employee. Remuneration was paid after approval of the consolidated financial statements of Kazakhtelecom JSC.

Total remuneration of the members of the Management Board of Kazakhtelecom JSC for 2013 made up KZT 286 629 thousand.

MATERIAL TRANSACTIONS OF THE COMPANY

According to subparagraph 33) of paragraph 1 of Article 33 of the Articles of Association of Kazakhtelecom JSC, decisions on entering into material transactions and interested party transactions are referred to the exclusive competence of the Company's Board of Directors, except for the cases stipulated by the Company's Articles of Association.

According to the Articles of Association of Kazakhtelecom JSC, decision on entering into other interested party transactions shall be taken by the simple majority of votes of those members of the Board of Directors who are not interested in the transaction.

Interested party transactions approved by the Board of Directors of Kazakhtelecom JSC in 2014:

- On entering into the transaction in which Kazakhtelecom JSC is the interested party – Supplementary Agreement No 2 to the Agreement No 30 (147-27-CC) dated February 15, 2008 on the mutual cooperation of Kazakhtelecom JSC with VOSTOKTELEKOM LLP concerning the support services provided to the subscribers VOSTOKTELEKOM LLP;
- On entering of VOSTOKTELEKOM LLP into the Supplementary Agreement No 2 to the Agreement No 30 (147-27-CC) dated February 15, 2008 on the mutual cooperation of Kazakhtelecom JSC with VOSTOKTELEKOM LLP concerning the support services provided to the subscribers VOSTOKTELEKOM LLP;
- On entering into the transactions with NURSAT JSC in which Kazakhtelecom JSC is the interested party;
- On entering into the transaction in which Kazakhtelecom JSC is the interested party – Financial Assistance Agreement with ALTEL JSC.

According to paragraph 4 of Article 42 of the Articles of Association of Kazakhtelecom JSC, decision on entering into the interested party transactions shall be taken by the Company's Management Board with regard to the issues on provision of telecommunications and IT services in accordance with the standard market conditions.

In 2014, the Management Board of Kazakhtelecom JSC took the following decisions of the Management Board concerning entering into transactions in which the Company is the interested party:

- On amendments and additions to the decision of the Management Board of Kazakhtelecom JSC No 40/214 dated 03.12.2013 "On entering into the Loan Agreement with Bank of China Limited, Shenzhen Branch and granting by Kazakhtelecom JSC of a guarantee to ALTEL JSC and VOSTOKTELEKOM LLC";
- On entering into the transaction with National Company Kazakhstan Temir Zholy JSC in which the Company is the interested party;
- On entering into the transaction with KazTransOil JSC in which the Company is the interested party;
- On entering into the transaction with Intergas Central Asia JSC in which the Company is the interested party;
- On entering into the transaction with Sovereign Welfare Fund Samruk-Kazyna JSC in which Kazakhtelecom JSC is the interested party concerning single-source procurement of services and approval of increased over-plan operating costs.

INFORMATION ABOUT THE POLICY OF SETTLING (REGULATING) CONFLICT OF INTERESTS

The Conflict of Interest Policy of Kazakhtelecom JSC (hereinafter the Policy) was approved by the decision of the Board of Directors of Kazakhtelecom JSC No 10 dated 24.10.2011.

This Policy is developed in accordance with the laws of the Republic of Kazakhstan, the Company's Articles of Association and the Corporate Governance Code. The Policy defines the notion of a conflict of interest, procedures for prevention, identification and arrangement of conflicts of interest, procedures for interaction and coordination of Company's bodies in the event of a conflict of interest or potential conflict of interest.

In 2013, in accordance with the decision of the Company's Board of Directors the Conflict of Interest Policy of Kazakhtelecom JSC was supplemented by paragraph "Situations of a Conflict of Interest", which specifies situations of a conflict of interest or situations that may result in a conflict of interest.

The Conflict of Interest Policy of Kazakhtelecom JSC is based on the principles of priority of Company's interests, personal liability and example, formation of a corporate culture intolerant to a conflict of interest.

All employees should behave in order to avoid a situation, which may result in a conflict of interest either in respect of themselves (or persons related to them), or in respect of others.

INVESTORS AND ANALYSTS RELATIONS

Entrance of Kazakhtelecom JSC to financial markets, in particular, to IPO market, as well as capital raising in the domestic and international capital markets, promotes the interests of Kazakhstan and foreign investment community toward the Company's activity.

In accordance with the Investor Relations Concept and Regulations on Investor Relations of Kazakhtelecom JSC, the Company is actively developing IR activities aimed at establishing and maintaining close relationships with investment community, ensuring high level of transparency and continuous improvement of corporate governance.

Increasingly stringent requirements to the level of information disclosure, its reliability and relevance aimed at ensuring maximum transparency of activities force the Company to build mutual trustful communications with investors and creditors.

In 2014, in the process of interaction with shareholders and investors the Company:

- Regularly organized meetings of representatives of Company's management with analysts covering the shares of Kazakhtelecom JSC regarding the issues of analysts' interest for preparation of analytical reviews;
- Regularly organized meetings of representatives of Company's management with potential investors regarding the strategy and operations of the Company.

THE COMPANY INTENDS TO CONTINUE ACTIVE IMPROVEMENT OF THE COMPANY'S INVESTOR AND CREDITOR RELATIONS, AND WILL TAKE EVERY EFFORT TO INCREASE INFORMATION TRANSPARENCY AND BUILD AN EFFECTIVE DIALOGUE WITH THE INVESTMENT COMMUNITY.

QUALITY MANAGEMENT SYSTEM

Quality management is a tool of company's competitiveness and sustainable development

Strategic objectives of Kazakhtelecom JSC in the field of quality are aimed at achieving efficiency and effectiveness of Company's management by means of a systematic approach to the quality management based on the international standard ISO 9001:2008. Systematic approach being a crucial element of the philosophy of quality management allows the Company to build effective business processes with a consistently high level of quality and ensures qualified and sound management of all the factors affecting the quality.

Kazakhtelecom JSC successfully developed, implemented and certified the quality management system (hereinafter QMS) as evidenced by the Certificate of Compliance of the Quality Management System of Kazakhtelecom JSC with the Requirements of ISO 9001:2008.

The project on introduction of the international standard ISO 9001 was launched in Kazakhtelecom JSC in 2004. The scope of certification was determined as "Organization of telecommunications services".

The Company is developing QMS in accordance with the objectives defined in the Quality Assurance Policy of Kazakhtelecom JSC, which is an expression of the principles and values arising from the Mission, Goals and Strategy of the Company.

QMS effectiveness is ensured by continuous monitoring of the system by means of measurement, analysis and adjustment processes.

In the reporting year, Kazakhtelecom JSC continued improvement of the certified quality management system in the Company. Once again, compliance with the international standard ISO 9001:2008 was confirmed by the certificate issued by the international certification authority BureauVeritasKazakhstan. At the same time, the scope of operations was broadened as follows: "Organization and provision of telecommunications services, operational management of the supply chain of procurement of goods, works and services, centralized and decentralized supply of equipment and inventory (including imported ones) to transit warehouses. Storage and distribution of cargo delivery to final consumers. Maintenance of equipment. Provision of training, retraining and skills development services, development of standards for Kazakhtelecom JSC, printing services. Research and development activity".

In 2014, as a part of implementation of the Law of the Republic of Kazakhstan "On energy saving and energy efficiency", the Company started preparatory work for establishing and implementing the energy management system. The Company held diagnostic energy analysis, prepared a list of technical measures for energy saving and energy efficiency of the Company.

Further improvement of the quality management system is aimed at ensuring interconnection of strategic objectives and enhancing effectiveness of business processes and, in the midterm perspective, implementing the integrated management system in Kazakhtelecom Group on the basis of ISO 9001, OHSAS 18001, ISO 50001 standard requirements.

SHARE OF LOCAL CONTENT IN PROCUREMENTS

The Company's local content activities are carried out in accordance with the Program of Kazakhtelecom JSC for Increasing the Local Content in Procurement of Goods, Works and Services for 2013-2015 approved by the Company's Management Board in January 2013.

The Plan of Procurement of Goods, Works and Services for 2014 covers all the main strategic directions of the investment policy of Kazakhtelecom JSC aimed at providing the Kazakhstan market with new advanced technologies and upgrading existing telecom networks.

In 2014, Kazakhtelecom Group made procurements by way of open bidding and requests for quotation using reverse auction in the information system of electronic procurements. For this purpose, the plan of procurements for the forthcoming period and long-term plan of procurements, as well as information about ongoing procurements and their results are posted on the e-procurement website (www.tender.sk.kz) and on the Company's corporate website.

The Company on a regular basis monitors the share of local content in procurements by means of the information system "Electronic Procurement Plan and Automated Reporting System". The results of monitoring are clearly showed on the Local Content Monitoring Map (www.kmks.kz).

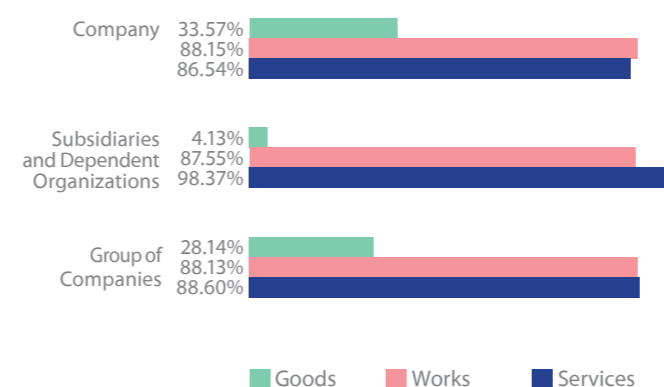
The Company is working under the development of interholding cooperation, giving priority to domestic manufacturers when making procurements, entering with these domestic manufacturers into the long-term agreements for the supply of their products.

The goal of the long-term agreements is to develop relationships with domestic manufacturers in terms of procurement of goods manufactured in Kazakhstan, and assist in the development of new import-substituting goods, works and services.

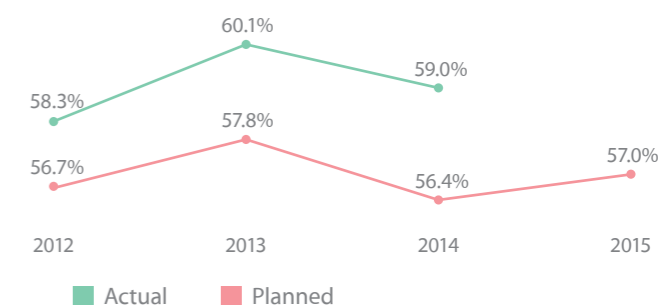
Taking into account the adjustment of the national currency rate made by the National Bank of Kazakhstan in February 2014, as well as the business needs for procurement of modern telecom equipment from foreign companies, corresponding adjustment of the planned share of local content in procurements of the Group of Companies for 2014 was made and fixed at the level of 56.4%.

In total, in 2014, Kazakhtelecom Group signed 16 293 agreements amounting to KZT 86.823 billion with the share of local content of 59.0%, including agreements for the supply of goods amounting to KZT 38.027 billion (the share of local content is 28.1%), agreements for the supply of works amounting to KZT 23.512 billion (the share of local content is 88.1%), agreements for the supply of services amounting to KZT 25.284 billion (the share of local content is 88.6%). The share of goods in the total amount of procurements of Kazakhtelecom Group amounted to 43.80%, the share of works – 27.08%, the share of services – 29.12%.

Local content in procurements of goods, works and services in 2014



Dynamics of local content in procurements of Kazakhtelecom Group



TELEGRAM. 1939

MESSAGE-TRANSMISSION RATE: FROM A FEW MINUTES TO SEVERAL DAYS, DEPENDING ON THE CATEGORY AND TYPE OF A TELEGRAM.

At earlier times, in order to send a telegram one had to go to a special post office, fill out the form, and then send a message to the recipient's post office.



SMS-SERVICES. 2014

MESSAGE-TRANSMISSION RATE: A FEW SECONDS.

The advent of SMS furthered the launch of instant messaging service - the most widely used one until recently. As of 2012, the percentage of subscribers using this service reached about 74% of the total number. Within one year 6.1 trillion SMS-messages were sent, which amounts to about 192 000 SMS per second. Today with the development of mobile Internet and high prevalence of smartphones, the popularity of SMS-service is gradually decreasing giving advantage to different messengers.

PERSONNEL



PERSONNEL

PERSONNEL PERFORMANCE MANAGEMENT AND INCREASE IN THE SHAREHOLDER VALUE BY MEANS OF PROVIDING A COMPETITIVE ADVANTAGE OF HUMAN CAPITAL

In 2014, the Transformation Program of Samruk-Kazyna JSC was launched with a view to introducing the best practices in HR management, comprehensive reviewing and re-engineering of business processes, and upgrading of technologies. The Transformation Program underlines that the first and the most important part of the transformation process is people. Therefore, human resources are the main asset and a key factor for implementation of the transformation process in Kazakhtelecom JSC.

HR MANAGEMENT

In 2012, the Company has adopted the Personnel Policy of Kazakhtelecom JSC, which is based on the process approach and defines a set of principles, key areas and methods of the Company's human assets management and development.

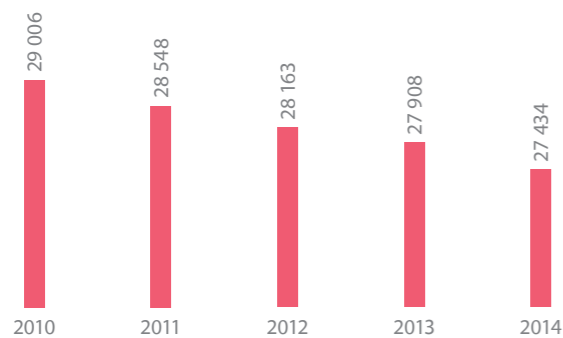
When implementing the Personnel Policy, the Company is guided by the following principles:

1. Social responsibility;
2. Transparency of the personnel management system;
3. Continuity of knowledge and experience;
4. Customer-oriented approach;
5. Individual liability;
6. Interconnection of interests and objectives of the Company and employees;
7. Innovative thinking.

THE COMPANY'S PERSONNEL STRUCTURE

In 2014, actual number of Company's employees was 27 434 people (7.2% of them are administrative employees and 92.8% of them are operating employees). The downward trend in the number of the Company's administrative staff is still observed.

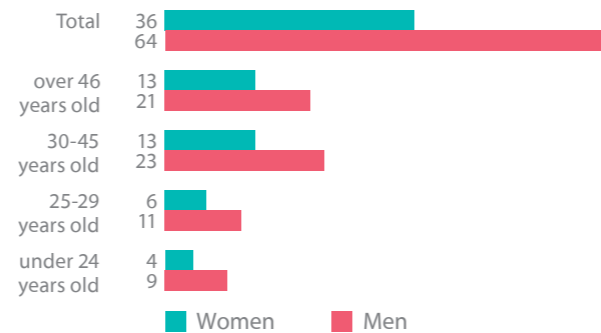
Dynamics of changes in the actual number of employees Kazakhtelecom JSC, 2010–2014



Within the framework of the cost reduction program Kazakhtelecom JSC took measures to equalize the number of linear and station personnel, to optimize administrative staff and the company's own network service centers point.

All the measures related to the optimization of the personnel number, were taken in line with the legislation of Kazakhstan, decisions of the Company's management and internal regulatory documents.

Gender Composition, %



HR-INDICATORS

Key HR indicators of the Company are stable. Personnel turnover in the Company is 7.5%. Turnover of management personnel is 5.7% and turnover of operating personnel is 10.3%. These indicators are within the planned values.

The personnel stability index is fixed at the level of **72.4%**. The high level of the index is a testimony to the personnel stability resulted from the social and human resources policies carried out in the Company, and to the overall stability of the Company.

ANOTHER INDICATOR OF THE PERSONNEL STABILITY IS LENGTH OF SERVICE. 42% OF THE TOTAL NUMBER OF EMPLOYEES HAVE BEEN WORKING FOR KAZAKHTELECOM JSC FOR OVER 10 YEARS AND 21% – FOR MORE THAN 5 YEARS.

In the framework of the implementation of the Presidential Instruction to the Sovereign Wealth Fund Samruk-Kazyna JSC on ensuring salaries increases of operating personnel of the Fund's companies, as of April 1, 2014, the Company increased the base salaries and salaries of operating personnel by 10%.

THE COMPANY'S HR-PROJECTS

The Company launched a system of Performance Assessment of the Company's Central Administration Office that implies providing financial incentives to employees based on their individual performance ratings that are quarterly formed. Alongside with that, the integration of the assessment system software with the balanced scorecard (BSC) was implemented.

During the reporting year, as a part of the Upgrade Program "Orleu" and with a view to improving organizational effectiveness, the Company laid the foundation for introduction and implementation of the HR-project "**Improvement of the Personnel Efficiency Level**", which includes measures aimed at enhancing the incentive system and improving the personnel efficiency evaluation system. Improvement of the incentive system and personnel efficiency evaluation system allows the Company to form a system of remuneration of employees based on the objective and transparent indicators, as well as to control efficiency of activities by means of decomposition of strategic objectives of the Company into the objectives of structural units and individual objectives of a particular employee. In general, the project is aimed at improving the labor efficiency and managing the process of key personnel retention in the long term.

As a part of the implementation of the HR-project "**Personnel Reserve**" the Company held competitive selection to the Youth Talent Pool of the Group of companies of Kazakhtelecom JSC. In 2014, on the basis of the results of the following 4 stages of assessment: analysis of personal data, professional testing, assessment-center and interview, a group of candidates to the Youth Talent Pool of the Company was formed.

The Company pays particular attention to such important aspect as internal communication, the main instrument of which is the internal corporate portal my.telecom.kz.

In 2014, we conducted large-scale communication campaigns dedicated to the 20th anniversary of Kazakhtelecom JSC. In the framework of these initiatives undertaken via the portal, lectures and master classes of the world's management gurus I. Adizes and P. Fisk on the best practices of business transformation, launch of customer focus programs, development of customer strategy, the company's preparation to enter competitive markets, were broadcast. What is more, a jubilee film devoted to the 20th anniversary of the Company and the Modernization Program was uploaded to the website. Having undertaken these initiatives enabled us to discuss the most important business issues with the employees, exchange ideas, receive feedback and comments, as well as increase the involvement of employees in the corporate life of the Company.

With the aid of the internal corporate portal we improved internal communication channels with the purpose to unite all employees in a single information space. The portal serves as a socially significant resource of the Company and enables workers to interact, receive the Company's news and information on important events and activities. Alongside with that, the portal provides administration's constructive feedback to employees, for instance, it is been more than a year since employees were offered the opportunity to address a question directly to the top management and receive an answer for it, and moreover, the CEOs of the Company's branches have personal blogs that function for maintaining a direct dialogue with employees.

PERSONNEL TRAINING / KNOWLEDGE MANAGEMENT

Implementation of key business initiatives and development of new business segments pose new demands to the level of employees' professionalism and qualification.

Kazakhtelecom JSC pays great attention to the development of personnel's professional, managerial and leadership skills along with unlocking their potential. The key element of professional development programs for employees is the Administration of ICT Academy (hereinafter – AICTA), which represents a system of internal corporate training.

As a part of modernization of the AICTA and transformation of the Center of Retraining and Upgrading Qualification into the Knowledge Management Center:

- an automated system of training management was launched;
- the AICTA interacts with participants of the market of intellectual services as corporate, educational, methodical, research, certification and consulting Center aiming at exchange of experience, knowledge, know-how, replication of advanced management and other technologies, as well as creating a favorable image of the company and transition of the AICTA to the status of a business-partner;
- in cooperation with specialized universities and concerned organizations applied research is undertaken so as to improve current processes in the industry and develop intellectual capital of the Company.

As a part of realization of the Action Plan on improving computer literacy of Kazakhtelecom JSC's employees and increasing the number of electronic services users for 2013–2016, 360 employees completed full-time training course and 339 employees were trained via e-learning platform. 3 678 employees were tested and received a certificate, 16 207 workers were registered in the internal corporate portal my.telecom.kz.

Knowledge Center, which functions on the Company's intranet website my.telecom.kz, is interactive, regularly updated information, analytical and educational resource. Employees of the Company have the opportunity to complete distance training, and get access to the electronic library with a weekly update of literature. There are 20 webinars posted in the Knowledge Centre for the Company's top managers, leading experts, and trainers of the Administration of ICT Academy.

The number of employees involved in corporate training in 2014 amounted to **29 118** students.

THE TOTAL NUMBER OF TRAINED EMPLOYEES ACCOUNTED FOR 11 602 PEOPLE IN 2014, WHICH REPRESENTS 42.3% OF THE AVERAGE NUMBER.

Agreements and memoranda on social partnership for integration of a dual training system were concluded with 7 colleges of the Republic, which train specialists in the field of ICT.



CELL PHONE. 1984
WEIGHT: 794 g. DIMENSIONS: 33 × 4.45 × 8.9 cm.
The production of commercial version was launched in 1984. LED red-colored screen of the cell phone displayed only the dialed number. All the machine's functions were limited to making phone calls. Full charging the battery took about 10 hours. The talk-time lasted mere 30 minutes afterward. Apart from ordinary 12-button keypad, the cell phone had 9 specific keys.



SMARTPHONES. 2014
WEIGHT: 129 g. DIMENSIONS: 13.8 × 6.7 × 0.69 cm.
A 4.7-inch high-resolution display has impressive reproduction of 16 colors. The talk-time with increased battery performance can be up to 14 hours. Along with the basic function of a cell phone, i.e. making calls, modern smartphones daily replace many other gadgets, and are fairly considered to be our irreplaceable assistants.

CORPORATE SOCIAL RESPONSIBILITY



CORPORATE SOCIAL RESPONSIBILITY

CORPORATE SOCIAL RESPONSIBILITY FOR THE BUSINESS AS A SET OF THE COMPANY'S OBLIGATIONS TO SHAREHOLDERS, INCLUDING THE MANAGEMENT OF ENVIRONMENTAL IMPACT, SOCIETY AND ECONOMY, ORIENTED TO ENSURING STABLE AND FAVOURABLE DEVELOPMENT

Kazakhtelecom JSC is guided by the Corporate Social Responsibility Strategy for 2012–2020 (CSR Strategy), and is a member of the global movement for socially responsible business, introduction of its principles into the business practice and strengthening competitiveness. When preparing the Report the Company follows recommendations of the Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI Guidelines) with Application Level C. In 2014, the Company prepared and published the third Corporate Social Responsibility Report of Kazakhtelecom JSC, where 77 indicators of corporate social responsibility approved in CSR Strategy were disclosed.

When implementing the CSR Strategy the Company is guided by the following principles:

1. setting goals and targets for management of external and internal exposures of the Company;
2. assuming commitments and plans for managing external and internal exposures, including description of the results of their performance in the annual social reports of the Company;
3. conducting dialogues with stakeholders for improving efficiency of corporate social responsibility governance.

During two years the Center of Social Partnership of Samruk-Kazyna JSC with the involvement of independent sociological agency is conducting the study of the **Social Stability Rating (SSR)**.

On the basis of the recommendations of Corporate Fund "Center of Social Partnership", the **Action Plan for Improving SSR Level** was developed according to the results of the study of the social stability rating held in 2013. This project has been successfully implemented during 2014.

A set of measures taken in 2014 to improve social stability had a positive impact on the results of the study, according to which preliminary Social Stability Rating was 71% in 2014.

Starting from 2014, the Company has organized and is actively developing the volunteer movement to provide charitable assistance to Orphanage No 1 in Almaty, veterans/retirees and employees of the Company.

THE COMPANY'S SOCIAL EXTERNAL PROJECTS

Implementation of government programs. In the past year, the Company continued implementation of the project "Development of WLL CDMA network in rural areas of the Republic of Kazakhstan". Main objective of this project is the rapid and efficient development of rural telecom networks based on CDMA-450 wireless technology and meeting the demand of rural residents of the country for telecom services. WLL CDMA network is deployed in all oblasts of the country and the total number of base stations operating on the rural network at year-end 2014 amounted to 708 base stations with the installed capacity of more than 500 thousand numbers. CDMA network covers about 6 thousand rural settlements.

IN 2014, AS A PART OF IMPLEMENTATION OF THE 4TH PHASE OF THE PROJECT OF THE MINISTRY OF EDUCATION AND SCIENCE OF THE REPUBLIC OF KAZAKHSTAN "E-LEARNING SYSTEM", THE COMPANY ORGANIZED INTERNET ACCESS AT THE SPEED FROM 4 TO 10 MBPS FOR 1 800 EDUCATIONAL ORGANIZATIONS IN ALL REGIONS OF THE COUNTRY. IN TOTAL, 2 959 EDUCATIONAL INSTITUTIONS WERE CONNECTED TO THE "E-LEARNING SYSTEM" DURING FOUR YEARS.

As a part of activities aimed at **increasing availability of telecom services**, the Company implements flexible tariff policy and offers bundled telecom services. Bundled services are much cheaper for users than certain unbundled telecom services. To date, the Company formed a line of more than 60 service packages, which allow the Company to satisfy the needs of customers at adequate price forming their new needs, and as a result, leading to additional sales.

Moreover, in 2014, the Company implemented a number of measures to reduce the basic tariffs and improve consumer characteristics of telecom services.

FOR "BUSINESSES" CATEGORY OF USERS:

- from December 01, 2014 the Internet access speed was increased without changing the monthly fee. As a result, the base cost of services under the tariff plan "Unlimited Traffic" with the capacity of 2 Mbps was decreased from KZT 30 000 to KZT 9 500, excluding VAT.

FOR "INDIVIDUALS" CATEGORY OF USERS:

- from June 01, 2014 restrictions on the volume of external traffic included in the monthly fee were lifted for the tariff plan "Megaline Hit";
- from July 01, 2014 the speed of access to external resources under the tariff plan "Megaline Hit Optima" was increased twofold for individuals without changing the monthly fee;
- from October 01, 2014 the speed of access to external resources under the tariff plan "Megaline Start" was increased in 4 times for individuals without changing the monthly fee;
- from October 01, 2014 the threshold of the volume of incoming traffic under the tariff plan "Megaline Start" was increased without changing the monthly fee.

FOR "CARRIERS" CATEGORY OF USERS:

- from November 01, 2014 the charges for 1 Mb under the tariff plan "Unlimited Traffic for Carriers" were reduced by 10%;
- from November 01, 2014 the charges for 1 Mb under the tariff plan "Limited Traffic for Carriers" were reduced by 10%;
- from November 01, 2014 the charges for the service "Connection to the telecom network of Kazakhtelecom JSC of telecom networks of fixed telephony carriers at the local level per one installed point of interconnection (E1 port)" were reduced by 5%.

All of these ongoing measures allow the Company to improve the customer loyalty and increase availability of our services.

SPONSORSHIP AND CHARITY

Main principles and guidelines of sponsorship and charity are stated in the Policy of Sponsorship and/or Charity of Kazakhtelecom JSC approved by the Decision of the Board of Directors No 6 dated 10.06.2011. According to the principles of this Policy, the Company annually allocates 1% of its consolidated net profit for sponsorship and charity.

Main areas of sponsorship include the support of government activities, activities related to natural and man-made emergency situations, social projects, particular sports, international conferences and forums.

Main areas of charity include the support of statutory activities of organizations of veterans, disabled persons, orphanages and children centers, other non-profit organizations of social sphere, retirees who are registered in the Company and other persons in accordance with the collective agreement.

Sponsorship and charity assistance is rendered within the limits of the Company's annual spending plan on the basis of the decisions of Kazakhtelecom JSC's Board of Directors.

In 2014, the Company rendered the following sponsorship assistance:

- Corporate Fund "Nurly Astana" for the project "Construction of a kindergarten for 240 children in Astana" by means of transferring funds in the amount of KZT 668.3 million without taking part in the project and construction works;
- Euro-Asian Respiratory Society for organization of the World Congress "International Physicians for the Prevention of Nuclear War" in the amount of KZT 3 million;
- ICT Development Fund for organization of Global e-Government Forum 2014 in the amount equivalent to USD 100 thousand.

SOCIAL SUPPORT OF EMPLOYEES SUPPORT OF RETIREES

Social security of Kazakhtelecom's employees and retirees in accordance with the Collective Agreement is an indispensable component of the social policy of Kazakhtelecom JSC and is its long-standing tradition.

The Company interacts with two trade unions that represent the interests of employees:

1. Republican NGO "Kazakhstan Communications Workers Union";
2. Association of Business Entities "Association of Trade Unions of Information and Communications Workers".

The Company signed the Tripartite Industry Agreement and the Collective Agreements with these trade unions.

In accordance with the Collective Agreement Kazakhtelecom JSC provides the following types of social benefits regardless of the nature of employment (full-time or part-time):

- financial aid in the event of marriage;
- financial aid in the event of birth/adoption of a baby;
- financial aid for health improvement when providing an annual labor leave;
- temporary disability allowance;
- payment of additional leave to care for a child up to the age of one and a half years, etc.

One of the areas of the Company's internal corporate social responsibility is the improvement of living conditions of employees by means of providing targeted loans to the Company's employees. Housing policy is being implemented in the Company on a regular planned basis.

To date, Kazakhtelecom JSC provides social support to about 9 000 retirees. The Company provides targeted social assistance, organizes lunches with retirees of telecommunications industry in commemoration of the professional holiday of telecommunications workers and the International Day for the Elderly. Moreover, each year the Company allocates funds for veterans of the Great Patriotic war and home front workers, who are registered in the Company (more than 600 people), in commemoration of the Victory Day. The Company also congratulates with anniversary dates the retired veterans of telecommunications industry.

Health protection and safe working conditions are the components of the Company's corporate social program. The Company maintains the health, safety and environment management system, which ensures guidelines, analysis and monitoring of the labour protection and occupational health and safety.

In 2014, in accordance with the requirements of the Labour Code of the Republic of Kazakhstan the Company organized the following activities:

- trainings for managers, specialists and professionals responsible for occupational safety and health;
- special testing sites are organized and used in the Company's branches to train operating personnel with regard to the safe methods of work. Activities on organization of similar testing sites are being implemented in all branches of the Company.

The Company held annual inspection of conditions of occupational safety and health and conditions of life and work. The winners were awarded cash bonuses and certificates of appreciation.

THE YOUTH POLICY

2014 WAS DECLARED BY THE CHAIRMAN OF THE COMPANY'S MANAGEMENT BOARD AS THE YEAR OF YOUTH CAREER.

Within the framework of the approved Action Plan of Youth Association "Zhastelecom" for 2014 and Scenario Plan of Events devoted to the Anniversary Year of Kazakhtelecom JSC, the Company implemented a number of measures with the direct participation of Zhastelecom's members, including training events, III Youth Forum of Employees of Kazakhtelecom JSC, organization of the flash mob on June 17 (Company's birthday) by own efforts of the members of Zhastelecom's simultaneously in Almaty, Astana and regional centers. Employment of young people was maximized.

Kazakhtelecom JSC established an operating system of personnel training based on allocation of quotas for studies in institutions of higher education specialized in telecommunications and information technologies (bachelor degree).

THE NUMBER OF STUDENTS EDUCATED ON THE BASIS OF KAZAKHTELECOM JSC'S QUOTA AMOUNTED TO 138 PEOPLE IN 2013–2014 ACADEMIC YEAR, INCLUDING 90 FULL-TIME AND 48 PART-TIME UNDERGRADUATES, OUT OF WHICH 87 PEOPLE OR 63% OF STUDENTS MADE UP RESIDENTS OF SMALL TOWNS AND RURAL AREAS.

ENVIRONMENT PROTECTION

EACH YEAR ACCORDING TO THE ENVIRONMENTAL PROTECTION PLAN THE COMPANY TAKES MEASURES TO REDUCE WATER CONSUMPTION AND USE WATER RATIONALLY.

Among the most effective ways of water saving are the following:

1. Rational use and consumption of water;
2. Replacement of a standard aerator by a cost-effective one;
3. Installation of modern touchless automatic faucets allowing water savings up to 30%;
4. Installation of water consumption meters.

Branches take measures aimed at ensuring rational use and efficient consumption of drinking water, eliminating wasteful leaks on water supply networks by replacing worn-out parts of water pipes and repairing facilities on water supply networks.

GLOSSARY

ARPU – Average Revenue Per User.

CDMA – Code Division Multiple Access, digital cellular (wireless) communication network. Wireless communication equipment CDMA was recommended by the International Organization for Standardization in Telecommunications as the most prospective one for construction of the third generation networks.

DWDM – Dense Wave Division Multiplexing is the most reliable technology for supporting infrastructure of multiservice and mobile networks, provides sharp increase of the network bandwidth capacity, and implements wide range of absolutely new communications services.

EV-DO – Evolution Data Optimized, high speed data communication technology used in cellular networks of CDMA standard.

FTTH – Fiber To The Home.

FTTx (Fiber To The X) is a generic term for any telecommunications network using optical fiber which is terminated at a specified location (point X) and then terminated at the subscriber's home using metal local loop (also it is possible to terminate optical fiber directly at the subscriber's terminal).

GPON (Gigabit passive optical network) is the technology which ensures excellent quality of services, availability of multiple services, high speed and cost saving.

IP/MPLS – Multiprotocol Label Switching technology – IP-network organized on the basis of prospective multiprotocol label switching which is built on hierarchic two-layer architecture consisting of IP/MPLS back-up layer (core) and interface layer which provides main customer support and is basic network "intellect".

LTE – Long Term Evolution, mobile protocol for data communications enabling to set up high speed cellular systems optimized for batch communication at up to 300 Mbps in downlink (from base station to user) and up to 75 Mbps in uplink.

M2M – Machine-to-Machine is a common term for technologies that allow machines to communicate with each other or in one direction. They may include wired or wireless sensor monitoring systems or any parameter of a device.

Mobile Backhaul is a set of all resources that perform transportation functions in telecommunications networks. It includes not only transmission system, but also all related control, switching, backup and management facilities. In mobile communications, backhaul comprises a segment of network between operator's backbone network and base station.

MSSP – Managed Security Services Provider.

OTT – Over the Top technology is gaining a wide spread in the segment of delivery of video content over the Internet and is a part of IPTV technology. This term means delivery of a video signal to a console (computer, mobile phone) of a user over the Internet without direct contact with a telecom operator as opposed to IPTV services, which are provided over a network controlled by an operator with a guaranteed quality.

SIP – Session Initiation Protocol, an application layer protocol designed by IETF MMUSIC Working Group and a standard proposed for creating, modifying and terminating user session consisting of multimedia elements such as video and voice, instant messaging, online games.

Service Delivery Platform is a set of components that ensure functioning of a service delivery architecture, such as service creation, session control and protocols.

SD-FEC – Soft Decision Forward Error Correction.

UMTS – Universal Mobile Telecommunications System – the cell communications technology developed with a view to upgrading GSM networks.

VPN (Virtual Private Network) is a generic term used to describe a combination of technologies for establishing one or several connections (logical network) across another network (for example, the Internet).

VPS (Virtual Private Server) is the service of hosting of the virtual private server.

WLL – Wireless Local Loop, a term used for defining wireless communication, combination of radiotelephone line and fixed-line phone. WLL is used where connection of fixed-line phone to terrestrial telephone networks is not available or too expensive. It is also used in underpopulated rural areas.

REFERENCE INFORMATION FOR SHAREHOLDERS

FULL NAME: KAZAKHTELECOM, JOINT STOCK COMPANY
SHORT NAME: KAZAKHTELECOM JSC

REGISTERED ADDRESS:
12, Sauran Street
Essil district, Astana
010000, Republic of Kazakhstan

Tel: +7 (7172) 587 718
Fax: +7 (7172) 587 724
E-mail: telecom@telecom.kz
<http://www.telecom.kz>

INFORMATION ABOUT THE AUDITOR OF THE COMPANY
Ernst & Young is the external auditor of Kazakhtelecom JSC starting from 2007. The service agreement with Ernst & Young for audit of the separate and consolidated financial statements of Kazakhtelecom Group was signed for 2013–2015 in accordance with the Procedure for selection of an auditor of Sovereign Wealth Fund Samruk-Kazyna JSC and organizations, fifty and more percent of voting shares (participation interest) of which directly or indirectly subjected to Samruk-Kazyna's ownership or trust management title.
Ernst & Young has a good business reputation and considerable experience in provisioning services to leading companies in different industries. The Company is one of the global leaders in the area of audit, taxation, law, business consulting and consulting about IPO transactions.

INFORMATION ABOUT THE REGISTRAR

Full name: Integrated Securities Registrar, Joint Stock Company.

Integrated Securities Registrar, Joint Stock Company (hereinafter – Integrated Securities Registrar) is established by the Decision № 1 of the National Bank of the Republic of Kazakhstan dated 01.12.2011 and registered by the Department of Justice of Almaty on January 11, 2012. Integrated Securities Registrar started to provide services within the scope of its activity from February 01, 2012.

Main objective of Integrated Securities Registrar is the activity in the area of maintenance of the share register system and other activities to be undertaken in accordance with the laws of the Republic of Kazakhstan on the stock market.

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Full name: Ernst & Young Limited Liability Partnership
License number: State Audit License for audit activities on the territory of the Republic of Kazakhstan: series MΦЮ–2, No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan on July 15, 2005.

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Since December 20, 2012, Integrated Securities Registrar JSC is the Kazakhtelecom JSC's register.

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Republic of Kazakhstan
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E-mail: info@tistr.kz

Information about Integrated Securities Registrar JSC is available on the corporate website of Kazakhtelecom JSC (section For Investors >> Securities >> Information about the Registrar) and on the website of the registrar.

THE FIRST PERSONAL COMPUTER. 1981
WEIGHT: 9.5 kg. PROCESSOR SPEED: 4.77 MHz.
The model's configuration enabled handling 0.33 million operations per second. The main purpose of the computer was programming and using a text editor.



LAPTOP. 2014
WEIGHT: 2 kg. PROCESSOR SPEED: 3.1 GHz.
A modern laptop can handle 130-140 billion operations per second. What is more, an increase in hardware capabilities resulted in extending the range of operations performed by a laptop, including working with graphics, video and audio processing.

FINANCIAL STATEMENTS IFRS (ATTACHMENT)





Kazakhtelecom JSC
Consolidated financial statements

*For the year ended 31 December 2014
with independent auditors' report*

CONTENTS

Independent auditors' report

Consolidated financial statements

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF KAZAKHTELECOM JSC

We have audited the accompanying consolidated financial statements of Kazakhtelecom JSC and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kazakhtelecom JSC and its subsidiaries as at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP



Evgeny Zhemaletdinov
Auditor/General Director
Ernst and Young LLP

State Audit License for audit activities on the territory of the Republic of Kazakhstan:
series MΦЮ-2 No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

Auditor Qualification Certificate No. 0000553
dated 24 December 2003

25 February 2015

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2014

<i>In thousands of tenge</i>	Notes	2014	2013
ASSETS			
Non-current assets			
Property and equipment	8	308,471,725	289,230,439
Intangible assets	9	24,531,269	26,237,752
Advances paid for non-current assets	11	207,263	673,558
Deferred tax asset	38	1,679,830	352,200
Other non-current financial assets	13	11,884,667	10,807,868
Other non-current assets	14	4,916,543	4,450,873
		351,691,297	331,752,690
Current assets			
Inventories	15	5,934,046	5,339,214
Trade accounts receivable	16	20,764,872	16,192,756
Prepayments	17	992,346	1,063,692
Income tax prepaid		1,054,311	716,423
Other financial assets	18	21,362,797	12,146,401
Other current assets	19	6,213,467	6,571,279
Cash and cash equivalents	20	8,729,297	42,352,823
		65,051,136	84,382,588
Assets classified as held for sale	21	951,019	-
Total assets		417,693,452	416,135,278
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Charter capital	22	12,136,529	12,136,529
Treasury shares	22	(6,398,619)	(6,290,144)
Currency translation reserve	22	(69,350)	(12,208)
Other capital reserve	22	1,820,479	1,820,479
Retained earnings		263,644,674	257,903,737
		271,133,713	265,558,393
Non-controlling interests		(824,365)	(55,058)
Total equity		270,309,348	265,503,335

The accompanying notes on pages 8 to 56 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(continued)

<i>In thousands of tenge</i>	Notes	2014	2013
Non-current liabilities			
Borrowings	23	56,426,152	36,028,656
Finance lease liabilities	24	10,629,340	10,689,177
Deferred tax liability	38	16,466,369	13,313,741
Employee benefit liability	25	5,055,066	4,600,737
Debt component of preferred shares	22	876,845	892,966
Other non-current liabilities	26	7,650,255	4,433,757
		97,104,027	69,959,034
Current liabilities			
Borrowings	23	5,762,823	9,117,411
Current portion of finance lease liabilities	24	7,519,979	6,994,294
Current portion of employee benefit liability	25	742,288	362,721
Accounts payable	27	21,401,773	21,939,224
Advances received		3,733,540	4,238,571
Income tax payable		110,742	1,546
Other current liabilities	28	11,008,932	38,019,142
		50,280,077	80,672,909
TOTAL LIABILITIES		147,384,104	150,631,943
TOTAL EQUITY AND LIABILITIES		417,693,452	416,135,278

Chief Financial Director


Nurkatov A.A.

Chief Accountant


Baishumurova G.Zh.

The accompanying notes on pages 8 to 56 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2014

<i>In thousands of tenge</i>	Notes	2014	2013
Revenue	29	201,946,431	185,838,836
Compensation for universal services provision in rural areas	30	6,276,853	5,028,584
		208,223,284	190,867,420
Cost of revenue	31	(153,168,934)	(135,725,761)
Gross profit		55,054,350	55,141,659
General and administrative expenses	32	(25,333,923)	(20,833,393)
Selling expenses	33	(6,471,858)	(5,350,930)
Operating profit		23,248,569	28,957,336
Finance costs	35	(7,315,110)	(11,173,578)
Finance income	35	2,598,605	4,214,185
Foreign exchange loss, net	36	(7,629,945)	(481,103)
Loss from disposal of property and equipment		(574,218)	(150,832)
Other income	37	3,700,489	3,151,564
Other expenses	37	(786,044)	(1,010,793)
Profit before tax		13,242,346	23,506,779
Income tax expense	38	(6,517,996)	(3,945,859)
Profit for the year		6,724,350	19,560,920
Attributable to:			
Owners of the parent		7,483,619	19,614,067
Non-controlling interests		(759,269)	(53,147)

The accompanying notes on pages 8 to 56 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(continued)

<i>In thousands of tenge</i>	Notes	2014	2013
Other comprehensive loss			
<i>Other comprehensive loss to be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences on translation of foreign operations		(57,142)	(7,632)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		(57,142)	(7,632)
<i>Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:</i>			
Actuarial losses on defined benefit plan		(1,035,850)	(80,029)
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		(1,035,850)	(80,029)
Other comprehensive loss for the year, net of tax		(1,092,992)	(87,661)
Total comprehensive income for the year, net of tax		5,631,358	19,473,259
Attributable to:			
Owners of the parent		6,390,627	19,526,406
Non-controlling interest		(759,269)	(53,147)
		5,631,358	19,473,259
Earnings per share			
Basic and diluted, profit for the year attributable to owners of the parent, tenge	22	686.52	1,783.99

Chief Financial Director


Nurkatov A.A.

Chief Accountant


Baishumurova G.Zh.

The accompanying notes on pages 8 to 56 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

In thousands of tenge	Attributable to owners of the parent						Non-controlling interests	Total equity
	Charter capital	Treasury shares	Foreign currency translation reserve	Other capital reserves	Retained earnings	Total		
Notes	22	22	22	22				
At 1 January 2013	12,136,529	(6,019,715)	(4,576)	1,820,479	268,816,693	276,749,410	(1,911)	276,747,499
Profit/(loss) for the year	-	-	-	-	19,614,067	19,614,067	(53,147)	19,560,920
Other comprehensive loss	-	-	(7,632)	-	(80,029)	(87,661)	-	(87,661)
Total comprehensive (loss) / income	-	-	(7,632)	-	19,534,038	19,526,406	(53,147)	19,473,259
Treasury shares repurchased (Note 22)	-	(270,429)	-	-	-	(270,429)	-	(270,429)
Dividends (Note 22)	-	-	-	-	(30,446,994)	(30,446,994)	-	(30,446,994)
At 31 December 2013	12,136,529	(6,290,144)	(12,208)	1,820,479	257,903,737	265,558,393	(55,058)	265,503,335
Profit/(loss) for the year	-	-	-	-	7,483,619	7,483,619	(759,269)	6,724,350
Other comprehensive loss	-	-	(57,142)	-	(1,035,850)	(1,092,992)	-	(1,092,992)
Total comprehensive (loss) / income	-	-	(57,142)	-	6,447,769	6,390,627	(759,269)	5,631,358
Treasury shares repurchased (Note 22)	-	(108,475)	-	-	-	(108,475)	-	(108,475)
Financial guarantee issued for Parent (Note 26)	-	-	-	-	(663,900)	(663,900)	-	(663,900)
Changes in share ownership in a subsidiary, without loss of a control (Note 6)	-	-	-	-	(42,932)	(42,932)	(10,038)	(52,970)
At 31 December 2014	12,136,529	(6,398,619)	(69,350)	1,820,479	263,644,674	271,133,713	(824,365)	270,309,348

Chief Financial Director


Nurkatov A.A.

Chief Accountant


Baishumurova G.Zh.

The accompanying notes on pages 8 to 56 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2014

In thousands of tenge	Notes	2014	2013
Operating activities			
Profit before tax		13,242,346	23,506,779
Adjustments for:			
Depreciation of property and equipment	31, 32	34,722,379	33,579,770
Amortization and impairment of intangible assets	31, 32	3,609,437	3,291,666
Change in deferred revenues		115,247	(715,883)
Change in employee benefit liability		(460,917)	(288,807)
Unrealized foreign exchange loss		7,328,189	927,113
Provision for doubtful debts	32	601,992	326,471
Reversal of NRV write down		1,562,830	179,328
Finance costs	35	7,315,110	11,173,578
Finance revenue	35	(2,598,605)	(4,214,185)
Impairment of P&E and intangible assets	32	2,442,170	-
Loss from disposal of P&E and intangible assets		574,218	150,832
Working capital adjustments:			
Change in trade accounts receivable		(5,157,181)	1,348,165
Change in inventories		(2,939,829)	(56,997)
Change in other current and non-current assets		1,699,742	1,240,422
Change in prepayments		67,410	(149,311)
Change in accounts payable		2,352,384	2,122,956
Change in advances received		(505,031)	577,350
Change in other current liabilities		2,568,589	504,786
Cash generated from operations		66,540,480	73,504,033
Dividends paid	22	(28,229,629)	(1,928,375)
Income taxes paid		(4,661,625)	(3,758,810)
Interest paid		(5,174,788)	(7,568,593)
Interest received		227,510	2,220,200
Net cash flows from operating activities		28,701,948	62,468,455
Investing activities			
Purchase of property and equipment		(49,865,160)	(49,786,150)
Purchase of intangible assets		(2,118,941)	(7,351,694)
Proceeds from sale of property and equipment		204,688	137,126
Purchase of subsidiaries, excluding acquired cash	5	-	(10,232,457)
Deposits placed		(19,481,507)	(4,142,347)
Refund on deposits		6,761,204	44,478,688
Long-term loans to employees		(2,834,680)	(3,737,679)
Loans repaid by employees		276,105	263,952
Restricted cash placed		(193,160)	(4,056,109)
Restricted cash returned		4,056,059	-
Financial aid returned		27,500	10,614
Net cash flows used in investing activities		(63,167,892)	(34,416,056)

The accompanying notes on pages 8 to 56 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT (continued)

<i>In thousands of tenge</i>	Notes	2014	2013
Financing activities			
Proceeds from borrowings		26,238,065	11,375,291
Repayment of borrowings		(18,292,099)	(43,579,485)
Repurchase of treasury shares	22	(110,040)	(236,182)
Repayment of finance lease liabilities		(7,160,743)	(6,746,995)
Acquisition of non-controlling interests in a subsidiary	6	(52,970)	–
Financial aid returned		(41,943)	–
Net cash flows from / (used in) financing activities		580,270	(39,187,371)
Net decrease in cash and cash equivalents		(33,885,674)	(11,134,972)
Effects of exchange rate changes on cash and cash equivalents		262,148	21,594
Cash and cash equivalents at 1 January		42,352,823	53,466,201
Cash and cash equivalents at 31 December	20	8,729,297	42,352,823


Non-cash transactions are disclosed in *Note 39*.

Chief Financial Director



Nurkatov A.A.

Chief Accountant



Baishumurova G.Zh.

The accompanying notes on pages 8 to 56 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 31 December 2014

1. CORPORATE INFORMATION

Kazakhtelecom JSC (the “Company” or “Kazakhtelecom”) was established in June 1994 in accordance with legislation of the Republic of Kazakhstan.

The Company is incorporated, domiciled and operates in the Republic of Kazakhstan. The legal address of the Company is: 12 Sauran street, Astana, 010000, Republic of Kazakhstan.

The Company is controlled by the Government of the Republic of Kazakhstan through National Welfare Fund “Samruk-Kazyna” JSC (“Samruk-Kazyna” or the “Parent”), which owned 51% of the Company’s controlling stock. The following lists the shareholders of the Company’s stock as at 31 December:

	2014	2013
Samruk-Kazyna	51.0%	51.0%
Bodam B. V.	16.9%	16.9%
ADR (The Bank of New York is a depositor)	9.8%	9.9%
Deran Services Limited	7.6%	9.6%
State Fund on Pension Assets JSC	3.2%	–
Kazkommertsbank JSC	3.1%	3.1%
Deran Investments B.V.	2.0%	–
Other	6.4%	9.5%
	100%	100%

The Company is included in the register of natural monopolists in relation to transit traffic services provided to telecommunication operators, public switch telecommunication network (“PSTN”) connection services provided to third party telecommunication operators, and leasing of phone channels to telecommunication operators for connection to PSTN.

The Company and its subsidiaries listed in *Note 6* (together the “Group”) have a significant share of the fixed line communication market, including local, long-distance intercity and international telecommunication services including CIS and non-CIS countries; and provides also rent of lines, data transfer services and wireless communication services.

The consolidated financial statements were authorised for issue on 25 February 2015 by the Management of the Company.

2. BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements have been prepared on a historical cost basis, except as described in the accounting policies and the notes to these consolidated financial statements. These consolidated financial statements are presented in Kazakhstan tenge (“tenge”) and all values are rounded to the nearest thousand, except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2014. Control is achieved when the Group is exposed, or has the right, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

▶ 2. BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

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

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

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

▶ 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective as at 1 January 2014:

- Investment Entities – Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements*;
- Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 *Financial Instruments: Presentation*;
- Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36 *Impairment of Assets*;
- Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39 *Financial Instruments: Recognition and Measurement*;
- IFRIC 21 *Levies*;
- *Improvements to IFRSs – 2010-2012 Cycle*: Amendments to IFRS 13 – Short-term receivables and payables;
- *Improvements to IFRSs – 2011-2013 Cycle*: Amendments to IFRS 1 – Meaning of 'effective IFRSs'.

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2014.

The nature and the impact of each new standard and amendment are described below:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 *Consolidated Financial Statements* and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Group, since none of the entities in the Group has any offsetting arrangements.

▶ 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

Amendments to IAS 36 Assets impairment: Disclosures on Recoverable Amount for Non-financial Assets

These amendments remove unintended consequences for disclosures in accordance with IAS 36, associated with IFRS 13 coming into effect. In addition, these amendments require disclosure of information on asset's or CGU recoverable amount on which impairment loss was recognized or reimbursed during the reporting period. These amendments are applied retrospectively for annual periods beginning on or after 1 January 2014. The amendments have impact on the consolidated financial statements of the Group (*Notes 8 and 9*).

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Group as the Group has not novated its derivatives during the current or prior periods.

IFRIC 21 Levies

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Group as it has applied the recognition principles under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* consistent with the requirements of IFRIC 21 in prior years.

Annual Improvements 2010-2012 Cycle

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 *Fair Value Measurement*. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Group.

Annual Improvements 2011-2013 Cycle

In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at 1 January 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Group, since the Group is an existing IFRS preparer.

Standards issued but not yet effective

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition;
- A performance target must be met while the counterparty is rendering service;
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group;
- A performance condition may be a market or non-market condition;
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar';
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3;
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

Foreign currency translation

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

Transactions and balances

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The following table summarises the foreign currency exchange rates for tenge:

	31 December 2014	31 December 2013
US dollar	182.35	153.61
Euro	221.97	211.17
South Korean won	0.17	0.14
Russian rouble	3.17	4.7

The functional currency of the foreign operations Signum LLC (Russia) and Online.kg LLC (Kyrgyzstan) is the Russian ruble and Kyrgyz som, respectively. On consolidation the assets and liabilities of foreign operations are translated into tenge at the rate of exchange prevailing at the reporting date and their statements of comprehensive income are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognized in other comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to OCI. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is current when it is:

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

All other assets are classified as non-current.

A liability is current when:

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Current versus non-current classification (continued)

The Group classifies all other liabilities as non-current.

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

Fair value measurement

Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed are summarised in the *Note 41*.

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

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

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

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

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

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

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

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

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

The respective unit of the Group ("Executive Committee") determines the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted AFS financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operations. The management of the Company appoints the Executive Committee.

External valuers are involved for valuation of significant assets, such as properties and AFS financial assets, and significant liabilities, such as contingent consideration. Involvement of external valuers is decided upon annually by the Executive Committee after discussion with and approval by the Company's Audit Committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Executive Committee decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

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

The Executive Committee, in conjunction with the Group's external valuers, also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

On an interim basis, the Executive Committee and the Group's external valuers present the valuation results to the Audit Committee and the Group's independent auditors. This includes a discussion of the major assumptions used in the valuations.

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

Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as comprehensive income after tax from discontinued operations in the consolidated statement of comprehensive income.

Property and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Property and equipment

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

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

	Years
Buildings	50
Constructions	10-25
Telecommunication equipment	3-20
Other	3-20

Land is not depreciated.

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

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

Construction-in-progress

Construction-in-progress represents property and equipment under construction and machinery and equipment awaiting installation and is stated at cost. Construction-in-progress includes cost of construction, equipment and other direct costs. When construction of such assets is completed or when the machinery and equipment are ready for their intended use, construction-in-progress is transferred to the appropriate category. Construction-in-progress is not depreciated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and accumulated impairment loss. Depreciation is computed on a straight-line basis over the useful life, which is estimated to be 50 years.

Investment properties are derecognised in the consolidated statement of financial position, when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of comprehensive income in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Intangible assets

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

The useful lives of intangible assets other than goodwill are assessed to be finite.

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

The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

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

Amortization is calculated on a straight-line basis over the estimated useful lives as follows:

	Years
Licenses and trademarks	3-20
Software	1-14
Customer base	8
Other	2-15

Impairment of non-financial assets

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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

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

Impairment losses of continuing operations, including impairment on inventories, are recognised in the consolidated statement of comprehensive income in expense categories consistent with the function of the impaired asset.

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

The following assets have specific characteristics for impairment testing:

Goodwill

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, AFS financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

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

The Group's financial assets include cash and cash equivalents, deposits, trade and other receivables, loans and other receivables.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Subsequent measurement

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

Loans and receivables

This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in finance costs for loans and in cost of sales or other operating expenses for receivables.

This category generally applies to other non-current financial assets and trade accounts receivable. For more information, refer to *Note 13 and 16*, respectively.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance income in the consolidated statement of comprehensive income. The losses arising from impairment are recognised in the consolidated statement of comprehensive income as finance costs. The Group did not have any held-to-maturity investments during the years ended 31 December 2014 and 2013, except for deposits placed in banks.

Cash and cash equivalents

Cash and cash equivalents in consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less from the origination date.

Derecognition

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

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

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

Impairment of financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred "loss event"), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation. Besides, such evidence includes observable data indicating that there is a measurable decrease in the estimated future cash flows on a financial instrument such as changes in arrears or economic conditions that correlate with defaults.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

For financial assets carried at amortized cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the consolidated statement of comprehensive income.

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables, loans and borrowings, lease liabilities, financial guarantee contracts, and debt component of preferred shares.

Subsequent measurement

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

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the consolidated statement of comprehensive income when the liabilities are derecognized as well as through the effective interest rate method (EIR) amortization process.

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

This category generally applies to loans and borrowings. For more information on receivables, refer to *Note 23*.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

▶ 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement (continued)

Debt component of preferred shares

The component of the preferred shares that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. The corresponding minimal guaranteed dividends on those shares are charged as interest expense in the consolidated statement of comprehensive income. On initial recognition, the fair value of the liability component is determined by discounting expected future cash flows at a market interest rate for a comparable debt instrument. The fair value of the equity component on initial recognition is assigned the residual amount after deducting from the initial carrying amount of the instrument as a whole the fair value determined for the liability component. Subsequently, the liability component is measured according to the same principles used for subordinated debt, and the equity component is not remeasured in subsequent years.

Trade and other payables

Liabilities for trade and other amounts payable are recognized at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

Derecognition

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are valued at the lower of cost or net realisable value. Costs comprise charges incurred in bringing inventory to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale. The same cost formula is used for all inventories having a similar nature and use. All inventories are valued on the weighted-average cost basis.

Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

▶ 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the consolidated statement of comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the statement of consolidated comprehensive income on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Asset retirement obligation (decommissioning)

Site restoration provisions are made in respect of the estimated future costs of closure and restoration and for environmental rehabilitation costs (which include the dismantling and demolition of infrastructure (mainly base stations and platforms for the base stations, and radio relay towers), removal of residual materials and remediation of disturbed areas) in the accounting period when the related environmental disturbance occurs. The cost of decommissioning are recognized at present value of expected costs to settle the obligation, measured using cash flows, and are recognized as part of the asset. The cash flows are discounted at current rate before tax. The unwinding of the discount is expensed as incurred and recognised in the statement of profit or loss as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

Employee benefits

Social tax

The Group pays social tax according to the current statutory requirements of the Republic of Kazakhstan. Social tax is expensed as incurred.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Defined benefit plan

In accordance with a Collective Agreement the Company provides certain long-term and retirement benefits to certain employees (the "Defined Benefit Plan").

Long-term benefits are paid to employees upon completion of a certain number of years of service whereas retirement benefits represent one-off payments paid upon retirement in accordance with the Collective Agreement. Both items vary according to the employee's average salary and length of service.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest (not applicable to the Group) and the return on plan assets (excluding net interest), are recognized immediately in the consolidated statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to comprehensive income in subsequent periods.

Past service costs are recognised in the consolidated statement of comprehensive income on the earlier of:

- The date of the plan amendment or curtailment; and
- The date that the Group recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "Cost of revenue" and "General and administrative expenses" in the statement of consolidated comprehensive income.

Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the consolidated statement of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in equity.

Dividends

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

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

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

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group analyses concluded arrangements, which provide revenue, in accordance with specified criteria to define if the Group is principal or agent. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks.

The specific recognition criteria described below must also be met before revenue is recognised:

Rendering of services

The Group's revenues are principally derived from the provision of local, domestic long distance and international long distance telecommunication services which consist of (i) usage charges for telephone services, which vary depending on the day, the time of the day, distance and duration of the telephone call, (ii) a monthly telephone service fee, (iii) service activation and installation fees, (iv) provision of internet and data services, and (v) interconnection fees from domestic and foreign telecommunications operators.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Rendering of services (continued)

The Group records service revenues over the periods they are earned as follows:

- (i) Revenues derived from wireline and wireless phone services are recognised as the services are provided;
- (ii) Monthly telephone service fees are recognised in the month in which the telephone services are provided to customers;
- (iii) Upfront fees received for activation of connection to the wireline and wireless network that do not represent a separate earnings process and are deferred and recognised over the expected period of the customer relationship. The expected period of the customer relationship is based on past history of customer period and industry practice;
- (iv) Revenue from provision of data transfer services are recognised when the services are provided to customers;
- (v) Interconnection fees from domestic and foreign telecommunications operators are recognised when the services are rendered as measured by the actual minutes of traffic processed.

Sales of phone handsets and accessories

When the sale of handsets and related accessories, and the connection service do not represent a separate earning process and bundled with the telecommunication service arrangement in such a way that the commercial effect cannot be understood without reference to these transactions as a whole, the revenue is recognized over the expected term of the customer relationship. The expected period of customer relationship is based on past history of churn, and industry practice.

Rental income

Rental income arising from operating leases of telecommunication channels is accounted for on a straight-line basis over the lease terms and included in revenue due to its operating nature.

Compensation for provision of universal services in rural areas

Compensation for provision of universal services is recognised where there is reasonable assurance that the compensation will be received and all attached conditions will be complied with. When the compensation relates to an expense item, it is recognised as income over the period necessary to match the compensation on a systematic basis to the costs that it is intended to compensate. Where the compensation relates to an asset, it is recognised as deferred income and released to the statement of consolidated comprehensive income in equal amounts over the expected useful life of the related asset.

Compensation related to income is presented separately in the statement of consolidated comprehensive income within revenues from operating activities.

Interest income

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income is recorded using the EIR. EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of consolidated comprehensive income.

Dividends

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

Expense recognition

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

▶ 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Connection cost

The Group defers connection costs incurred and attributable to the related deferred revenue over the expected period of the customer relationship.

Borrowing costs

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

Income tax

Current income tax

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

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

Deferred tax

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

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

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

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

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

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

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

▶ 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax (continued)

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

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances changed. The adjustment is either treated as a reduction to goodwill (as long as it does not exceed goodwill) if it occurred during the measurement period or recognised in the consolidated statement of comprehensive income.

▶ 4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful life of property and equipment and intangible assets

The Group assesses the remaining useful lives of items of property and equipment and intangible assets with finite useful lives at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the amounts of the carrying values of property and equipment and intangible assets and on depreciation and amortization expenses recognized in the consolidated statement of comprehensive income. In 2014, following the analysis of historical data on usage of equipment, as well as technological obsolescence, the Group reassessed the remaining useful lives of certain telecommunication equipment which resulted in prolonged remaining useful lives by to 2 years on average, and remaining useful lives of CDMA equipment were decreased by 1-7 years on average. The change in the remaining useful lives resulted in a total decrease of depreciation expense for the year ended 31 December 2014 of 622,349 thousand tenge (2013: 2,680,999 thousand tenge).

Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested.

The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in *Note 10*.

▶ 4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Allowances

The Group makes allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts historical and anticipated customer performance are considered. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements.

As at 31 December 2014, allowances for doubtful accounts have been created in the amount of 1,877,453 thousand tenge (as at 31 December 2013: 2,307,739 thousand tenge) (Notes 14, 16, 17 and 19).

Connection fees

Upfront fees received for activation and connection to the wireline and wireless network that do not represent a separate earning process are deferred and recognized over the expected period of the customer relationship. In making its judgments, management considered the detailed criteria for the recognition of revenues from connection fees set out in IAS 18, industry practice and the Group's historical churn rate. As at 31 December 2014 average customer relationship period is assessed as 13 years for fixed telephony customers, 5 years for internet customers and 17-42 months for mobile telecommunications customers.

Finance lease – Group as lessee

The Group has entered into leases with respect to certain telecommunication equipment. The Group has determined that the lease transfers substantially all the risks and rewards incidental to ownership of this equipment and, therefore, the lease is classified as a finance lease.

Employee benefit liability

The cost of the defined benefit pension plan and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions.

In determining the appropriate discount rate, management considers the interest rates of highly rated corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation.

The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates.

Further details about employee benefit liability are given in Note 25.

Deferred tax assets

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

As at 31 December 2014 the Group has 2,483,476 thousand tenge (as at 31 December 2013: 1,383,399 thousand tenge) of tax losses carried forward. These losses relate to subsidiaries that have a history of losses, expire after 10 years and may not be used to offset taxable income elsewhere in the Group.

The carrying value of recognized deferred tax assets as at 31 December 2014 is 1,679,830 thousand tenge (2013: 352,200 thousand tenge). As at 31 December 2014, the carrying amount of unrecognized deferred tax assets was 420,468 thousand tenge (as at 31 December 2013: 82,117 thousand tenge). Further details on taxes are disclosed in Note 38.

▶ 4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the DCF model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 41 for further disclosures.

▶ 5. BUSINESS COMBINATIONS

Acquisition of Digital TV LLP

On 29 March 2013, the Group acquired 100% interest in Digital TV LLP ("DTV") a private entity that is not listed on any public exchange. DTV is based in Republic of Kazakhstan and provides analogous and digital cable television services. The Group has acquired DTV because it expands both its existing services portfolio and customer base. The acquisition has been accounted for using the acquisition method. The consolidated financial statements include the results of DTV for the period from the acquisition date.

As at 31 December 2013 the Group completed the valuation of fair value of its share in identified assets, liabilities and contingent liabilities. Business combination was accounted for using fair value amounts as at acquisition date.

Fair value amounts of identified assets, liabilities and contingent liabilities of Digital TV LLP as at the date of acquisition comprised the following:

In thousands of tenge	Fair value recognized on acquisition
Assets	
Property and equipment	5,234,025
Intangible assets	2,364,031
Cash and cash equivalents	307,145
Trade accounts receivable	139,039
Inventories	58,895
Prepayments	104,837
Other current assets	117,120
	8,325,092
Liabilities	
Accounts payable	203,687
Deferred tax liabilities	538,398
Advances received	273,763
Other current liabilities	209,029
	1,224,877
Total identifiable net assets at fair value	7,100,215
Goodwill (Note 9)	2,706,335
Purchase consideration transferred	9,806,550

The deferred tax liability mainly comprises the tax effect of the difference between tax base of tangible and intangible assets and fair value of those assets recognized.

The goodwill of 2,706,335 thousand tenge comprises the value of expected synergies arising from the acquisition.

Analysis of cash flows on acquisition

Net cash acquired with the subsidiary	307,145
Cash paid	(9,806,550)
Net cash outflow	(9,499,405)

5. BUSINESS COMBINATIONS (continued)

Acquisition of MaxCom LLP

On 3 April 2013, the Group acquired 100% interest in MaxCom LLP a not listed private entity. MaxCom LLP is based in Republic of Kazakhstan and provides mobile and fixed telecommunication services. The Group has acquired MaxCom LLP for widening of frequency band for provision of mobile services and customer base. The acquisition has been accounted for using the acquisition method. The consolidated financial statements include the results of MaxCom LLP for the period from the acquisition date.

Fair value amounts of identified assets, liabilities and contingent liabilities of MaxCom LLP as at the date of acquisition comprised the following:

In thousands of tenge	Fair value recognized on acquisition
Assets	
Property and equipment	53,564
Intangible assets	890,838
Cash and cash equivalents	948
Prepayments	7,055
Other current assets	5,619
	958,024
Liabilities	
Borrowings	41,943
Accounts payable	6,008
Deferred tax liabilities	175,952
Other current liabilities	121
	224,024
Total identifiable net assets at fair value	734,000
Purchase consideration transferred	734,000

The deferred tax liability mainly comprises the tax effect of the difference between tax base of tangible and intangible assets and fair value of those assets recognized.

Analysis of cash flows on acquisition

Net cash acquired with the subsidiary	948
Cash paid	(734,000)
Net cash outflow	(733,052)

6. CONSOLIDATION

The following significant subsidiaries have been included in these consolidated financial statements:

	Country of residence	Percentage ownership	
		2014	2013
ALTEL JSC	Kazakhstan	100.00%	100.00%
NURSAT JSC	Kazakhstan	80.00%	77.08%
Kazakhtelecom Industrial Enterprises Services LLP	Kazakhstan	100.00%	100.00%
Signum LLC	Russia	100.00%	100.00%
KT Cloud Lab LLP	Kazakhstan	100.00%	100.00%
VOSTOKTELECOM LLP	Kazakhstan	100.00%	100.00%
Digital TV LLP	Kazakhstan	100.00%	100.00%
MaxCom LLP	Kazakhstan	100.00%	100.00%
Online.kg LLC	Kyrgyzstan	100.00%	100.00%

On 16 April 2014, the Group transferred 100% interest in MaxCom LLP as equity contribution to ALTEL JSC.

On 31 July 2014, the Group bought 2.92% shares of NURSAT JSC from the minority shareholder Telecom 21 LLC for the amount of 52,970 thousand tenge.

7. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on the organizational structure of the Group. The Group has three reportable operating segments as follows:

- Wireline telecommunication services mainly provided by Kazakhtelecom JSC, VOSTOKTELECOM LLP, KT Cloud Lab LLP and Digital TV LLP business units.
- CDMA and LTE mobile telecommunication services mainly provided by ALTEL JSC business unit.
- Satellite telecommunication services, including data transfer services mainly provided by NURSAT JSC business unit.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

Transfer prices between operating segments are on a basis similar to transactions with third parties.

Year ended 31 December 2014

In thousands of tenge	Wireline telecommunications	CDMA and LTE mobile telecommunications	Satellite telecommunications	Other	Eliminations and adjustments	Group
Revenue						
External customers	189,319,364	18,369,485	532,651	1,784	-	208,223,284
Inter-segment	4,382,820	1,463,705	233,910	181,744	(6,262,179)	-
Total revenue	193,702,184	19,833,190	766,561	183,528	(6,262,179)	208,223,284
Results						
Depreciation and amortization	(32,413,601)	(5,385,373)	(1,406,085)	(41,486)	-	(39,246,545)
Finance costs	(6,731,929)	(1,381,271)	(79,414)	-	877,504	(7,315,110)
Finance income	3,567,558	143,591	3,095	210	(1,115,849)	2,598,605
Charge of bad debt expense	(440,363)	(4,170)	(150,846)	(6,613)	-	(601,992)
Income tax	(7,753,392)	1,274,559	(14,194)	(24,969)	-	(6,517,996)
Segment profit/(loss)	25,912,541	(10,711,092)	(2,754,818)	50,315	745,400	13,242,346
Operating assets	405,369,192	44,914,087	1,326,495	370,603	(34,286,925)	417,693,452
Operating liabilities	109,360,330	44,146,598	3,240,752	58,773	(9,422,349)	147,384,104
Other disclosures						
Assets classified as held for sale	-	946,381	-	4,638	-	951,019
Capital expenditure	51,000,787	10,145,426	60,574	62	-	61,206,849

7. SEGMENT INFORMATION (continued)

Year ended 31 December 2013

In thousands of tenge	Wireline telecommunications	CDMA and LTE mobile telecommunications	Satellite telecommunications	Other	Eliminations and adjustments	Group
Revenue						
External customers	180,275,609	8,349,421	2,223,949	18,441	–	190,867,420
Inter-segment	498,090	2,275,534	614,423	246,409	(3,634,456)	–
Total revenue	180,773,699	10,624,955	2,838,372	264,850	(3,634,456)	190,867,420
Results						
Depreciation and amortization	(32,333,195)	(3,744,618)	(708,844)	(84,779)	–	(36,871,436)
Finance costs	(10,841,708)	(540,399)	(102,449)	–	310,978	(11,173,578)
Finance income	5,059,958	19,737	–	614	(866,124)	4,214,185
(Provision)/Recovery of bad debt expense	(337,731)	(14,382)	26,616	(974)	–	(326,471)
Income tax	(4,799,430)	784,042	48,863	20,666	–	(3,945,859)
Segment profit/(loss)	30,982,851	(6,566,763)	(280,745)	(59,011)	(569,553)	23,506,779
Operating assets	413,497,875	30,780,278	5,042,819	1,730,244	(34,915,938)	416,135,278
Operating liabilities	134,866,234	21,813,760	3,228,734	146,453	(9,423,238)	150,631,943
Other disclosures						
Capital expenditure	70,638,360	8,930,633	176,120	984,892	–	80,730,005

- 1) Inter-segment revenues are eliminated on consolidation.
- 2) Finance costs and income include inter-segment finance charges and inter-segment finance income.
- 3) Segment operating profits include profits from inter-segment operations.
- 4) Capital expenditure consists of additions of property and equipment and intangible assets.

Reconciliation of profit

In thousands of tenge	2014	2013
Segment profit	12,496,946	24,076,332
Other	745,400	(569,553)
Group profit	13,242,346	23,506,779

Reconciliation of assets

In thousands of tenge	2014	2013
Segment operating assets	451,980,377	451,051,216
Elimination of the Company's investments in subsidiaries	(24,413,372)	(24,413,243)
Elimination of intergroup balances of accounts receivable and payable	(9,873,553)	(10,502,695)
Group operating assets	417,693,452	416,135,278

Reconciliation of liabilities

In thousands of tenge	2014	2013
Segment operating liabilities	156,806,453	160,055,181
Deferred tax liabilities	451,204	1,079,457
Elimination of intergroup balances of accounts receivable and payable	(9,873,553)	(10,502,695)
Group operating liabilities	147,384,104	150,631,943

8. PROPERTY AND EQUIPMENT

The movements in property and equipment for the years 2014 and 2013 were as follows:

In thousands of tenge	Land	Buildings and constructions	Equipment	Other	Construction in progress	Total
Cost						
At 1 January 2013	667,073	37,478,101	393,138,143	12,613,425	33,257,258	477,154,000
Additions	4,919	858,242	36,198,818	1,051,075	24,600,675	62,713,729
Acquisition of subsidiaries (Note 5)	4,735	496,946	4,635,803	33,832	116,273	5,287,589
Internal transfers	–	4,784,689	21,023,767	(136,286)	(25,672,170)	–
Disposals	(2,029)	(166,208)	(6,184,942)	(258,200)	(20,336)	(6,631,715)
Transfers to intangible assets (Note 9)	–	–	–	–	(987,709)	(987,709)
At 31 December 2013	674,698	43,451,770	448,811,589	13,303,846	31,293,991	537,535,894
Additions	10,237	1,050,949	31,966,582	930,045	25,350,909	59,308,722
Internal transfers	–	4,329,285	29,737,037	28,196	(34,094,518)	–
Disposals	(4,045)	(231,739)	(5,959,966)	(457,689)	(23,620)	(6,677,059)
Transfers to assets held for sale (Note 21)	–	(2,238)	(1,029,022)	(1,225)	–	(1,032,485)
Transfers to intangible assets (Note 9)	–	–	–	–	(809,284)	(809,284)
At 31 December 2014	680,890	48,598,027	503,526,220	13,803,173	21,717,478	588,325,788
Accumulated depreciation and impairment						
At 1 January 2013	–	10,097,428	201,110,372	8,633,436	3,922	219,845,158
Depreciation expense	–	1,596,721	30,935,818	1,081,363	–	33,613,902
Disposals	–	(50,506)	(4,862,093)	(241,006)	–	(5,153,605)
At 31 December 2013	–	11,643,643	227,184,097	9,473,793	3,922	248,305,455
Depreciation expense	–	1,746,391	31,955,862	1,083,015	–	34,785,268
Impairment	–	–	919,249	1,111	1,271,900	2,192,260
Disposals	–	(113,210)	(4,829,180)	(403,065)	(1,999)	(5,347,454)
Transfers to assets held for sale (Note 21)	–	–	(81,250)	(216)	–	(81,466)
At 31 December 2014	–	13,276,824	255,148,778	10,154,638	1,273,823	279,854,063
Net book value						
At 31 December 2012	667,073	27,380,673	192,027,771	3,979,989	33,253,336	257,308,842
At 31 December 2013	674,698	31,808,127	221,627,492	3,830,053	31,290,069	289,230,439
At 31 December 2014	680,890	35,321,203	248,377,442	3,648,535	20,443,655	308,471,725

Construction in progress primarily represents construction of network and telecommunication equipment under installation.

In 2014, an impairment loss amounted to 2,192,260 thousand tenge and represented write-off of certain facilities operating in the segments of wireline telecommunications and satellite telecommunications to the recoverable amount due to technological obsolescence. Loss was recognized in the consolidated statement of comprehensive income as general and administrative expenses. At 31 December 2014, the recoverable amount of assets constituted nil tenge. Amount was determined based on the assessment of value in use of the assets at the level of individual assets.

At 31 December 2014, certain property and equipment with a net carrying amount of 2,480,212 thousand tenge (31 December 2013: 3,046,995 thousand tenge) were pledged as security for some of the Group's borrowings (Note 23).

8. PROPERTY AND EQUIPMENT (continued)

Borrowing costs of 41,000 thousand tenge on loans obtained to finance the construction of property and equipment were capitalized during 2014 at an average capitalization rate of 7% (2013: 32,223 thousand tenge at an average capitalization rate of 5.75%).

At 31 December 2014, the carrying value of equipment held under finance leases and included in property and equipment amounted to 32,800,554 thousand tenge (at 31 December 2013: 28,903,323 thousand tenge). Additions during the year include 7,545,272 thousand tenge (as at 31 December 2013: 7,768,930 thousand tenge) of property and equipment held under finance leases. Leased assets are pledged as security for the related finance leases.

As at 31 December 2014, property and equipment with cost of 125,577,873 thousand tenge, were fully amortized (as at 31 December 2013: 120,459,427 thousand tenge).

9. INTANGIBLE ASSETS

The movements of goodwill and intangible assets for the years 2014 and 2013 were as follows:

In thousands of tenge	Licenses and trademarks	Software	Goodwill	Other	Total
Cost					
At 1 January 2013	21,441,074	17,202,568	–	1,630,637	40,274,279
Additions	2,920,051	2,590,449	–	1,256,983	6,767,483
Acquisition of a subsidiaries (Note 5)	967,401	81,246	2,706,335	2,206,222	5,961,204
Internal movements	293,328	(293,328)	–	–	–
Disposals	(105,679)	(532,756)	–	(67,684)	(706,119)
Transfers from CIP (Note 8)	324,192	663,517	–	–	987,709
At 31 December 2013	25,840,367	19,711,696	2,706,335	5,026,158	53,284,556
Additions	422,339	884,581	–	591,207	1,898,127
Transfers	77,431	355,359	–	(432,790)	–
Disposals	(94,858)	(417,899)	–	(71,754)	(584,511)
Transfers from CIP (Note 8)	–	809,284	–	–	809,284
At 31 December 2014	26,245,279	21,343,021	2,706,335	5,112,821	55,407,456
Accumulated amortization					
At 1 January 2013	11,381,797	11,157,897	–	1,518,065	24,057,759
Amortization expense	1,451,765	1,621,943	–	217,958	3,291,666
Disposals	(82,644)	(152,817)	–	(67,160)	(302,621)
At 31 December 2013	12,750,918	12,627,023	–	1,668,863	27,046,804
Amortization expense	1,407,796	1,648,791	–	552,850	3,609,437
Impairment	238,408	10,357	–	1,145	249,910
Disposals	–	(29,964)	–	–	(29,964)
At 31 December 2014	14,397,122	14,256,207	–	2,222,858	30,876,187
Net book value					
At 31 December 2012	10,059,277	6,044,671	–	112,572	16,216,520
At 31 December 2013	13,089,449	7,084,673	2,706,335	3,357,295	26,237,752
At 31 December 2014	11,848,157	7,086,814	2,706,335	2,889,963	24,531,269

In 2014, an impairment loss amounted 249,910 thousand tenge and represented write-off of certain intangible assets operating in the segment of satellite communications to the recoverable amount due to technological obsolescence. Loss was recognized in the consolidated statement of comprehensive income as general and administrative expenses. At 31 December 2014, the recoverable amount of assets constituted nil tenge. Amount was determined based on the assessment of value in use of the assets at the level of individual assets.

Licenses and trademarks, software and other include intangible assets acquired through business combinations.

As at 31 December 2014 intangible assets (mainly software) with cost amounting to 6,066,237 thousand tenge were fully amortized (as at 31 December 2013: 6,283,986 thousand tenge).

10. IMPAIRMENT TESTING OF GOODWILL

Goodwill acquired through business combination has been allocated to the IP TV cash generating unit, which is part of wireline telecommunications segment.

Carrying amount of goodwill allocated to IP TVCGU:

	IPTV	
	2014	2013
Goodwill	2,706,335	2,706,335

The Group performed its annual impairment test as at 31 December 2014 and 2013.

The recoverable amount of the cash-generating unit has been determined based on a value in use calculation using cash flow projections from financial budgets approved by management covering a five-year period.

The after-tax discount rate applied to cash flow projections is 12.85% (2013: 13.27%) and cash flows beyond the five-year period are extrapolated using a 0% growth rate (2013: 1%).

As a result of this analysis, as at 31 December 2014 the management did not identify impairment for this CGU.

Key assumptions used in value in use calculations

The calculation of value-in-use for the IPTV cash-generating unit is most sensitive to the following assumptions:

- Customer base during the budgeted period and average revenue per user (ARPU);
- Growth rate used to extrapolate cash flows beyond the forecast period;
- Discount rate.

Customer base and ARPU

Customer base and ARPU is important because management assesses how the CGU's position, relative to its competitors, might change over the forecast period. Management expects the Group's IPTV customer base to increase over the forecast period, as it plans to use the advantages of Kazakhtelecom's JSC infrastructure to increase market share of Kazakhtelecom JSC. Given the fact of competition, this will result in ARPU decreasing over the forecast period.

Growth rate

Growth rate is based on published industry research.

Discount rate

Discount rate represent the current market assessment of the risks specific to the CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

Sensitivity to changes in assumptions

The implications of the key assumptions for the recoverable amount are discussed below:

Customer base and ARPU

Although management expects the Group's market share to increase over the forecast period, a decline in the customer base and ARPU by 37.20% would result in accrual of expenses from impairment in the IP TV CGU.

▶ 10. IMPAIRMENT TESTING OF GOODWILL (continued)

Sensitivity to changes in assumptions (continued)

Growth rate assumptions

Management recognizes that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions. A reduction by 16.30% in the long-term growth rate in IP TV CGU would result in impairment.

Discount rates

A rise in after-tax discount rate to 29.18% would result in impairment in the IP TV CGU.

▶ 11. ADVANCES PAID FOR NON-CURRENT ASSETS

As at 31 December 2014 and 2013, advances paid for non-current assets comprised advances to contractors for the construction and supply of property and equipment (mainly telecommunication equipment).

▶ 12. INVESTMENT PROPERTY

The movement in investment property was as follows for the years ended 31 December:

<i>In thousands of tenge</i>	2014	2013
Cost		
At 1 January	1,264,668	1,264,668
At 31 December	1,264,668	1,264,668
Accumulated impairment		
At 1 January	(1,264,668)	(1,264,668)
At the end of the year	(1,264,668)	(1,264,668)
Carrying amount		
At 1 January	-	-
At 31 December	-	-

Investment property represents an office building constructed for the purposes of renting to Government related entities.

The impairment of 1,264,668 thousand tenge represents the write down of the carrying value of the investment property to the recoverable amount. The recoverable amount was based on analysis of value in use and fair value less costs to sell and estimated to be zero as at 31 December 2014 and 2013, as it is unlikely that the Group will receive reimbursement for its construction costs either through sale of the office building or rent payments. However, these assumptions may change in the future. Management assessed fair value of the investment property as 3,523,069 thousand tenge as at 31 December 2014.

▶ 13. OTHER NON-CURRENT FINANCIAL ASSETS

As at 31 December 2014 and 31 December 2013, other non-current financial assets comprised the following:

<i>In thousands of tenge</i>	2014	2013
Long-term trade receivables	6,935,892	7,622,976
Long-term loans to employees	2,875,800	2,783,614
Long-term deposits	2,005,900	374,858
Other	67,075	26,420
	11,884,667	10,807,868

Long-term trade receivables as at 31 December 2014 represent receivables from Mobile Telecom-Service LLP, the former subsidiary of the Group sold in 2010. The receivables were discounted at origination date using the interest rate of 10% representing the market interest rate.

Long-term loans to employees are interest free loans given for the period from one to fifteen years. Long-term loans to employees were discounted at issue date of at market rates at range 12.2-22% (2013: 12.2-22%). Repayment of long-term loans to employees is made through withholding of the amounts payable from the salaries of employees. Loans are secured by employees' apartments.

▶ 13. OTHER NON-CURRENT FINANCIAL ASSETS (continued)

Average interest rate for long-term deposits was 4% per annum (2013: 1.5%).

As at 31 December 2014 and 31 December 2013, other non-current financial assets were denominated in various currencies as follows:

<i>In thousands of tenge</i>	2014	2013
Tenge	9,878,817	10,406,640
US dollars	2,005,850	374,808
Other	-	26,420
	11,884,667	10,807,868

▶ 14. OTHER NON-CURRENT ASSETS

As at 31 December 2014 and 31 December 2013, other non-current assets comprised the following:

<i>In thousands of tenge</i>	2014	2013
Deferred expenses	2,275,585	2,944,502
Long-term VAT recoverable	2,442,411	1,216,958
Other	198,547	292,663
	4,916,543	4,454,123
Less: impairment allowance	-	(3,250)
	4,916,543	4,450,873

At 31 December 2014 and 31 December 2013, other non-current assets were denominated in tenge.

The movements in the impairment allowance were as follows for the years ended 31 December:

<i>In thousands of tenge</i>	2014	2013
Impairment allowance at the beginning of the year	(3,250)	-
Recovery / (charge) for the year	3,250	(3,250)
Impairment allowance at the end of the year	-	(3,250)

▶ 15. INVENTORIES

As at 31 December 2014 and 31 December 2013, inventories comprised the following:

<i>In thousands of tenge</i>	2014	2013
Cable materials at cost	1,677,575	1,611,715
Spare parts at cost	1,583,950	887,788
Goods for resale at net realizable value	1,222,675	910,892
Other materials and supplies at cost	930,781	1,366,477
Fuel at cost	519,065	562,342
	5,934,046	5,339,214

▶ 16. TRADE ACCOUNTS RECEIVABLE

As at 31 December 2014 and 31 December 2013, trade accounts receivable comprised the following:

<i>In thousands of tenge</i>	2014	2013
Trade accounts receivable	22,276,939	18,077,833
	22,276,939	18,077,833
Less: allowance for doubtful debts	(1,512,067)	(1,885,077)
	20,764,872	16,192,756

▶ 16. TRADE ACCOUNTS RECEIVABLE (continued)

The movements in the allowance for doubtful debts were as follows for the years ended 31 December:

<i>In thousands of tenge</i>	2014	2013
Allowance for doubtful debts at the beginning of the year	(1,885,077)	(2,616,112)
Charge for the year	(583,903)	(282,399)
Write-offs for the year	956,913	1,013,434
Allowance for doubtful debts at the end of the year	(1,512,067)	(1,885,077)

As at 31 December 2014 and 31 December 2013, the ageing analysis of trade accounts receivable is as follows:

<i>In thousands of tenge</i>	Total	Neither past due nor impaired	Past due but not impaired				
			<30 days	30-90 days	90-120 days	120-360 days	>360 days
31 December 2014	20,764,872	18,395,559	1,335,072	694,315	146,414	193,512	–
31 December 2013	16,192,756	13,799,530	1,427,668	522,023	327,074	116,461	–

As at 31 December 2014 and 31 December 2013, the Group's trade accounts receivable were denominated in various currencies as follows:

<i>In thousands of tenge</i>	2014	2013
Tenge	19,609,368	15,514,427
US dollars	1,129,924	625,092
Other	25,580	53,237
	20,764,872	16,192,756

▶ 17. PREPAYMENTS

As at 31 December 2014 and 31 December 2013, prepayments comprised the following:

<i>In thousands of tenge</i>	2014	2013
Prepayments	1,023,566	1,097,200
	1,023,566	1,097,200
Less: impairment allowance	(31,220)	(33,508)
	992,346	1,063,692

The movements in the impairment allowance were as follows for the years ended 31 December:

<i>In thousands of tenge</i>	2014	2013
Impairment allowance at the beginning of the year	(33,508)	(17,434)
Charge for the year	(3,936)	(16,623)
Write-offs for the year	6,224	549
Impairment allowance at the end of the year	(31,220)	(33,508)

▶ 18. OTHER FINANCIAL ASSETS

As at 31 December 2014 and 31 December 2013, other financial assets comprised the following:

<i>In thousands of tenge</i>	2014	2013
Bank deposits	16,464,382	4,870,000
Other receivable	2,177,259	537,000
Due from employees	2,064,200	1,970,371
Interest receivable	454,486	271,971
Restricted cash on current bank account	193,160	4,056,059
Other	9,310	–
Restricted deposit	–	441,000
	21,362,797	12,146,401

Bank deposits with maturities over 3 months but less than 12 months were opened in a local bank and were earning interest at the rates ranging from 1.45% to 6.5% per annum (2013: from 3 to 6.5% per annum).

Interest free restricted cash on current bank accounts was placed as collateral for covered bank guarantees for the period less than one year.

As at 31 December 2014 and 31 December 2013, the Group's other financial assets were denominated in various currencies as follows:

<i>In thousands of tenge</i>	2014	2013
US dollars	16,736,982	11,432
Tenge	4,616,505	12,134,969
Other	9,310	–
	21,362,797	12,146,401

▶ 19. OTHER CURRENT ASSETS

As at 31 December 2014 and 31 December 2013, other current assets comprised the following:

<i>In thousands of tenge</i>	2014	2013
Deferred expenses	2,578,354	1,821,116
VAT recoverable	1,428,137	2,094,175
Prepaid taxes other than income tax	171,609	311,058
Due from employees	102,217	109,885
Other	2,267,316	2,620,949
	6,547,633	6,957,183
Less: impairment allowance	(334,166)	(385,904)
	6,213,467	6,571,279

Other represents guarantee payments for tenders and prepaid insurance.

The movements in the allowance for doubtful debts were as follows for the years ended 31 December:

<i>In thousands of tenge</i>	2014	2013
Allowance at the beginning of the year	(385,904)	(367,800)
Charge for the year	(16,241)	(23,665)
Write-offs for the year	67,979	5,561
Allowance at the end of the year	(334,166)	(385,904)

As at 31 December 2014 and 31 December 2013, other current assets were primarily denominated in tenge.

20. CASH AND CASH EQUIVALENTS

As at 31 December 2014 and 31 December 2013, cash and cash equivalents comprised the following:

<i>In thousands of tenge</i>	2014	2013
Cash on current bank accounts	7,349,198	41,516,634
Deposits with maturity less than 90 days from origination date	1,348,888	802,136
Cash on hand	31,211	34,053
	8,729,297	42,352,823

Cash on current bank accounts earn interest at the rates ranging from 0.09% to 5.76% per annum (2013: from 0.08% to 3.98% per annum). Short-term deposits are made for varying periods between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the rates ranging from 0.01% to 10% per annum (2013: from 0.1% to 4% per annum).

As at 31 December 2014 and 31 December 2013, cash and cash equivalents were denominated in various currencies as follows:

<i>In thousands of tenge</i>	2014	2013
Tenge	6,676,058	13,081,223
US dollars	1,918,333	28,935,778
Russian rubles	126,479	185,181
Euro	6,030	148,581
Other	2,397	2,060
	8,729,297	42,352,823

21. ASSETS CLASSIFIED AS HELD FOR SALE

Assets held for sale in the amount of 951,019 thousand tenge represented by LTE equipment, attributable to a segment of cellular communications in the CDMA and LTE standards. In 2015, the Group does not use the equipment due to the fact that it plans to compensate carrying amount of the equipment through sale or netting with accounts payable, or by issuing penalties under the contract for purchase of telecommunication equipment, works and services with Huawei-Almaty LLP.

22. EQUITY

Authorised and issued shares

	Number of shares		Thousands of tenge		Total issued capital
	Ordinary shares	Preferred non-voting shares	Ordinary shares	Preferred non-voting shares	
As at 31 December 2012	10,922,876	1,213,653	10,922,876	1,213,653	12,136,529
As at 31 December 2013	10,922,876	1,213,653	10,922,876	1,213,653	12,136,529
As at 31 December 2014	10,922,876	1,213,653	10,922,876	1,213,653	12,136,529

Treasury shares

	Number of shares		Thousands of tenge		Total
	Ordinary shares	Preferred non-voting shares	Ordinary shares	Preferred non-voting shares	
As at 31 December 2012	186,688	885,829	2,583,167	3,436,548	6,019,715
Treasury shares purchased	45,748	20,477	666,953	259,511	926,464
Treasury shares sold	(28,481)	(20,074)	(407,749)	(248,286)	(656,035)
As at 31 December 2013	203,955	886,232	2,842,371	3,447,773	6,290,144
Treasury shares purchased	32,812	14,359	384,368	132,908	517,276
Treasury shares sold	(26,587)	(8,448)	(317,290)	(91,511)	(408,801)
As at 31 December 2014	210,180	892,143	2,909,449	3,489,170	6,398,619

Issued shares net of treasury shares

As at 31 December 2014, outstanding issued ordinary and preferred shares net of treasury shares were 10,712,696 and 321,510 respectively (as at 31 December 2013: 10,718,921 and 327,421 shares respectively).

22. EQUITY (continued)

Preferred shares

Preferred stockholders are entitled to priority rights for participation in the annual cumulative dividend of 300 tenge per share, but not less than per share dividends paid to the holders of common stock. This cumulative annual dividend represents a financial liability which, based on discounted future cash flows, as at 31 December 2014 amounts to 876,845 thousand tenge (as at 31 December 2013: 892,966 thousand tenge). This liability has been recorded in non-current liabilities as a debt component of preferred stock. Preferred shareholders receive the right to vote if the general meeting of shareholders considers decisions restricting rights of preferred shareholders, decisions on reorganization or liquidation of the Company and if dividends on preferred shares are not paid within three months after a specified payment date.

Dividends

The preferred shares earn a non-discretionary dividend of 300 tenge per share or 11% per annum in accordance with the Company's charter documents. Preferred shares are considered to be compound financial instruments, and accordingly the liability and equity components are presented separately in the consolidated statement of financial position. Dividends on preferred shares in the amount of 96,542 thousand tenge were accrued during the year ended 31 December 2014 (as at 31 December 2013: 98,450 thousand tenge) and are treated as finance costs in the consolidated statement of comprehensive income. Present value of non-discounted future cash flows represents the debt component in other non-current liabilities.

In 2014 the Group did not declare dividends on ordinary shares.

<i>In thousands of tenge</i>	2014	2013
Dividends declared on ordinary shares	–	29,643,596
Dividends declared on preferred shares	–	803,398
	–	30,446,994
Withholding tax accrued	(544,317)	(28,067)
Dividends paid	(28,229,629)	(1,928,375)
Change in dividends payable	(28,680,024)	28,589,002

Other capital reserve

According to the Company's Charter, the Company created a capital reserve which is equal to 15% of the authorized share capital. This reserve was created from the appropriation of the retained earnings. In 2014 and 2013 there were no any movements in capital reserve.

Currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of financial statements of the subsidiaries, whose functional currency is not tenge and whose financial statements are included in these consolidated financial statements in accordance with the accounting policy disclosed in Note 3.

Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent (after adjusting for the after-tax amount of dividends on preferred shares) by the weighted average number of ordinary and preferred shares outstanding during the year.

Diluted earnings per share are equal to basic earnings per share, as the Group does not have any potentially dilutive ordinary shares.

22. EQUITY (continued)

Earnings per share (continued)

The following table reflects the income and share data used in the basic and diluted earnings per share computations:

<i>In thousands of tenge</i>	2014	2013
Net profit attributable to ordinary shares owners of the parent	7,483,619	19,614,067
Net profit attributable to ordinary shares owners of the parent for basic and diluted earnings	7,483,619	19,614,067
Interest on debt component of preferred shares	96,542	98,450
Net profit attributable to ordinary and preferred owners of the parent for basic and diluted earnings	7,580,161	19,712,517
Weighted average number of all shares outstanding for basic and diluted earnings per share	11,041,472	11,049,653
Basic and diluted earnings per share, tenge	686.52	1,783.99

There have been no other transactions involving ordinary shares between thereporting date and the date of completion of these financial statements.

In accordance with Kazakhstan Stock Exchange requirements the Group discloses the ratio calculated as total equity less total intangible assets, and less the preferred non-voting shares amount in equity divided by number of ordinary shares outstanding as at year end. As at 31 December 2014, that measure was 22,913 tenge (as at 31 December 2013: 22,291 tenge). Another requirement for disclosure is the sum of the dividends payable to owners of preferred shares, preferred non-voting shares amount in equity and debt component of preferred shares, divided by number of preferred non-voting shares as at year end. As at 31 December 2014, that measure was 8,668 tenge (as at 31 December 2013: 10,878 tenge).

23. BORROWINGS

As at 31 December 2014 and 31 December 2013, borrowings comprised the following:

<i>In thousands of tenge</i>	Weighted average interest rate	2014	Weighted average interest rate	2013
Fixed interest rate borrowings with range between 3% and 7% p.a.	6.45%	31,049,735	5.49%	17,004,856
Variable interest rate borrowings with range between 2.49% and 9.33% p.a.	6.87%	31,139,240	6.69%	28,141,211
		62,188,975		45,146,067

As at 31 December 2014 and 31 December 2013 were denominated in various currencies as follows:

<i>In thousands of tenge</i>	2014	2013
Tenge	22,973,450	5,144,630
Tenge, payments indexed to exchange rate tenge/US dollar	19,263,249	16,242,112
US dollar	18,371,112	22,246,768
Won	1,581,164	1,512,557
	62,188,975	45,146,067

23. BORROWINGS (continued)

Borrowings are repayable as follows:

<i>In thousands of tenge</i>	2014	2013
Current portion	5,762,823	9,117,411
Maturity between 1 and 2 years	7,414,892	4,799,169
Maturity between 2 and 5 years	33,973,070	11,960,887
Maturity over 5 years	15,038,190	19,268,600
Total long-term portion	56,426,152	36,028,656
Total borrowings	62,188,975	45,146,067

As at 31 December 2014, certain property and equipment with a net carrying amount of 2,480,212 thousand tenge were pledged as security for some of the Group's borrowings (as at 31 December 2013: 3,046,995 thousand tenge) (Note 8).

As at 31 December 2014, the Group's borrowings of 1,581,164 thousand tenge were guaranteed by the Government of the Republic of Kazakhstan (as at 31 December 2013: 1,512,557 thousand Tenge) (Note 40).

24. LEASES

Finance leases

The Group has finance leases for various items of property and equipment, primarily telecommunication equipment. These leases transfer the ownership over the leased assets to the Group upon the end of the lease term. Future minimum lease payments under finance leases together with the present value of the net minimum lease payments comprised the following:

<i>In thousands of tenge</i>	2014		2013	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Within one year	9,397,558	7,519,979	8,912,030	6,994,294
After one year but not more than five years	12,192,561	10,629,340	12,496,169	10,689,177
After five years	-	-	-	-
Less: amounts representing interest charges	(3,440,800)	-	(3,724,728)	-
Present value of minimum lease payments	18,149,319	18,149,319	17,683,471	17,683,471
Less: amounts due for settlement within 12 months		(7,519,979)		(6,994,294)
Amounts due for settlement after 12 months		10,629,340		10,689,177

The amounts representing interest are based on effective interest rates ranging from 12.5% to 21% p.a.

Operating leases

The Group has entered into commercial leases on certain property and equipment, primarily buildings and premises. These leases have an average life of 1 year with renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases. Operating lease commitments are disclosed in Note 42.

25. EMPLOYEE BENEFIT LIABILITY

State contribution plan

The Group pays social tax according to the current statutory requirements in the Republic of Kazakhstan. Social tax and payroll are expensed as incurred.

The Group also withholds 10% from the salaries of its employees as the employee contribution and transfers on behalf of employees to their personal accounts at cumulative pension funds. These amounts are part of payroll and expensed when they are incurred.

Defined benefit plan

Employee benefit liability under this plan are payable in accordance with a labour union agreement concluded between the Company and its employees.

The Defined Benefit Plan is unfunded.

As at 31 December 2014 and 31 December 2013, the total liability for the Company's defined benefit plan comprised the following:

<i>In thousands of tenge</i>	2014	2013
Present value of defined benefit liability	5,797,354	4,963,458

A reconciliation of the present value of the defined benefit liability with specified payments is as follows for the years ended 31 December:

<i>In thousands of tenge</i>	2014	2013
Total liability at the beginning of the year	4,963,458	5,172,236
Current service cost	312,579	229,063
Interest cost	449,515	486,030
Benefits paid during the year	(1,223,011)	(1,023,908)
Actuarial loss recognized during the year	1,294,813	100,037
Total liability at the end of the year	5,797,354	4,963,458
Liability falling due within one year	742,288	362,721
Liability falling due after one year	5,055,066	4,600,737

Actuarial loss recognised for the year ended 31 December 2014 results primarily from changes in the assumptions relating to the discount rate and expected rate of future annual minimum salary increases. In determining the appropriate discount rate, management considers the interest rate of highly rated corporate bonds in the respective currency.

Current service cost and interest cost in the aggregate amount of 762,094 thousand tenge were recorded in the cost of revenue and general and administrative expenses within personnel costs (2013: 715,093 thousand tenge) (Note 34).

There were no unrecognized actuarial losses or past service costs.

The estimates of the Company's liability were made on the basis of the published statistical data regarding mortality and the Company's data concerning the number, age, gender and years of employee service. Other principal assumptions used in determining benefit obligations for the Company's plan are shown below:

	2014	2013
Discount rate	9.32%	9.40%
The expected rate of future annual minimum salary increase	9.60%	6.24%

The quantitative analysis of sensitivity as at 31 December 2014 is as follows:

Sensitivity level	Discount rate		Expected rate of annual salary increase	
	Growth for 0.5%	Decline for 0.5%	Growth for 1%	Decline for 1%
Impact on defined benefit plan in thousands of tenge	(211,886)	227,829	428,956	(377,143)

25. EMPLOYEE BENEFIT LIABILITY (continued)

Defined benefit plan (continued)

The analysis of sensitivity given above was made on the basis of a method according to which influence of reasonable changes of the main assumptions on the obligation under the pension plan with the established payments, is defined by means of extrapolation of their values as at the end of the reporting period.

26. OTHER NON-CURRENT LIABILITIES

As at 31 December 2014 and 31 December 2013, other non-current liabilities comprised the following:

<i>In thousands of tenge</i>	2014	2013
Deferred connection revenue	2,890,794	3,304,035
Asset retirement obligations	1,944,996	1,065,771
Long-term accounts payables	1,020,730	–
Guarantees issued	709,303	–
Other	1,084,432	63,951
	7,650,255	4,433,757

Asset retirement obligations

Provision for asset retirement obligations is provided at the present value of expected costs to settle the obligation using estimated cash flows and is recognised as part of the cost of the particular asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability.

The movements in the provision for asset retirement obligations were as follows as at 31 December 2014:

<i>In thousands of tenge</i>	2014	2013
Provision for asset retirement obligations at 1 January	1,065,771	553,309
Increase in provision for the year	661,586	479,901
Unwinding of discount (Note 35)	217,639	32,561
Provision for asset retirement obligations at 31 December	1,944,996	1,065,771

Long term accounts payable

The long-term accounts payable are presented by payables to ZTE Kazakhstan LLP for LTE equipment, installation and construction works. According to the delivery terms of contract, the debt is subject to repayment with equal semi-annual payments within three years. Short-term and long-term parts of the debt amounted to 631,365 and 1,262,729 thousand tenge, respectively. At initial recognition in 2014, these accounts payable were reflected at fair value. The difference between the carrying and fair value in the amount of 319,335 thousand tenge will be considered further as finance expenses, and at the time of recognition were carried on reduction of cost of the received equipment. Depreciation of discount for 2014 on these accounts payable amounted to 45,355 thousand tenge (Note 35).

Guarantees issued

On 14 November 2009 the Group signed an agreement with Kazakhmys Plc, Parent and China Development Bank ("CDB") where the Group and Kazakhmys provided a 12 to 15 years guarantee to CDB for loans of the Parent. The Group's liability under the guarantee is capped at 300 million US dollars of principal plus 15% of any interest and any other duly payable costs and expenses. For this purpose, the Group and Parent signed an agreement on full compensation of any amounts paid by the Group arising from the guarantee agreement by the Parent.

The Group accounts the issued guarantee, in the consolidated statement of changes in equity. Amortization of this guarantee in 2014 amounted to 78,811 thousand tenge (Note 35).

Other

In 2014 Huawei-Almaty LLP made change to a procedure for payment of accounts payable for delivery and installation of the LTE equipment, which according to initial terms of the contract assumed distribution of this accounts payable for three years, and subsequently assumes repayment of this accounts payable without delay. For performance of these conditions of repayment the Group obtained a loan from Development Bank of Kazakhstan JSC. Finance expenses on this loan amounted to 766,170 thousand tenge for 3 years. According to the mutual arrangement, Huawei-Almaty LLP compensates to the Group finance expenses, related to attraction of the loan. As at 31 December 31 2014 the Group reflected uncollected compensation of finance expenses from Huawei-Almaty LLP in the amount 236,619 thousand tenge as a part of other current assets.

▶ 26. OTHER NON-CURRENT LIABILITIES (continued)

Other (continued)

Due to the fact that this is a special purpose loan, finance expenses relating to this loan are capitalized in the cost of property and equipment on the accrual basis, the Group recognized other long-term obligation which will be written off in the cost of fixed assets. As the result of this change, the net effect on the balance of property and equipment will be nil.

▶ 27. ACCOUNTS PAYABLE

As at 31 December 2014 and 31 December 2013, accounts payable comprised the following:

<i>In thousands of tenge</i>	2014	2013
Accounts payable for property and equipment	10,090,634	13,663,823
Accounts payable for services	6,957,368	5,776,442
Accounts payable for inventory	4,353,771	2,498,959
	21,401,773	21,939,224

As at 31 December 2014 and 31 December 2013, accounts payable were not interest bearing.

As at 31 December 2014 and 31 December 2013, accounts payable were denominated in various currencies as follows:

<i>In thousands of tenge</i>	2014	2013
Tenge	18,417,792	18,085,138
US dollars	2,907,277	2,250,816
Euro	4,535	1,513,261
Other	72,169	90,009
	21,401,773	21,939,224

▶ 28. OTHER CURRENT LIABILITIES

As at 31 December 2014 and 31 December 2013, other current liabilities comprised the following:

<i>In thousands of tenge</i>	2014	2013
Due to employees	3,956,719	3,580,509
Deferred revenue	2,115,340	1,498,531
Taxes payable other than income tax	1,643,273	1,198,333
Dividends payable (Note 22)	1,588,474	30,268,498
Payable to pension funds	740,301	674,322
Other	964,825	798,949
	11,008,932	38,019,142

As at 31 December 2014 and 31 December 2013, other current liabilities were not interest bearing and were primarily denominated in tenge.

▶ 29. REVENUE

Revenue for the years ended 31 December comprised the following:

<i>In thousands of tenge</i>	2014	2013
Data transfer services	98,716,817	83,195,307
Rendering of wireline and wireless phone services	64,220,809	70,893,249
Interconnect	14,907,303	14,213,905
Sale of equipment and mobile devices	11,204,624	5,596,720
Rent of lines	6,773,512	6,564,206
Other	6,123,366	5,375,449
	201,946,431	185,838,836

▶ 30. COMPENSATION FOR UNIVERSAL SERVICES PROVISION IN RURAL AREAS

According to the Resolution of the Government of the Republic of Kazakhstan No.451, dated 31 March 2009, "On the approval of subsidies for telecommunication operators' losses connected with the provision of universal telecommunication services in rural areas", the Group receives government subsidies as compensation for operators' losses for the provision of telephony services to socially important destinations. There are no unfulfilled conditions or contingencies attached to these subsidies. The amount of subsidy for the year ended 31 December 2014 totalled 6,276,853 thousand tenge (2013: 5,028,584 thousand tenge).

▶ 31. COST OF REVENUE

Cost of services provided for the years ended 31 December, comprised the following:

<i>In thousands of tenge</i>	2014	2013
Personnel costs (Note 34)	50,975,811	46,563,523
Depreciation and amortization	37,891,139	36,243,501
Equipment and mobile devices	11,053,304	5,762,261
Interconnect	9,242,814	9,188,969
Rent of channels	8,238,357	6,842,979
Repair and maintenance	7,720,512	7,624,529
Materials	6,237,494	6,382,829
TV Content	2,869,111	1,846,132
Electricity	2,836,545	2,257,648
Rental of equipment	2,812,855	2,069,462
Security and safety	2,545,210	2,040,968
Fees for use of frequency range	2,406,505	1,243,562
Fees for the right to provide telecom services	2,023,336	1,795,381
Other	6,315,941	5,864,017
	153,168,934	135,725,761

▶ 32. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended 31 December, comprised the following:

<i>In thousands of tenge</i>	2014	2013
Personnel costs (Note 34)	11,607,613	11,023,218
Taxes other than income tax	3,090,366	2,782,580
Impairment of property and equipment and intangible assets (Note 8 and 9)	2,442,170	-
Consulting services	1,110,050	1,484,531
Sponsorship	694,455	7,447
Bank fees	672,464	678,158
Social activities	646,931	658,811
Depreciation and amortization	440,677	627,935
Insurance	429,678	414,018
Business trips	377,714	485,631
Materials	281,060	358,714
Trainings	242,055	224,084
Repair and maintenance	237,788	248,311
Rental of equipment	186,146	234,483
Security and safety	93,341	103,341
Charge for bad debt expense (Notes 14, 16, 17 and 19)	601,992	326,471
Other	2,179,423	1,175,660
	25,333,923	20,833,393

▶ 33. SELLING EXPENSES

Selling expenses for the years ended 31 December comprised the following:

<i>In thousands of tenge</i>	2014	2013
Marketing and advertising	3,713,303	3,512,477
Dealer commissions	2,272,448	1,300,548
Other	486,107	537,905
	6,471,858	5,350,930

▶ 34. PERSONNEL COSTS

Personnel costs for the years ended 31 December comprised the following:

<i>In thousands of tenge</i>	2014	2013
Payroll	56,359,015	51,898,668
Payroll related taxes	5,462,315	4,972,980
Employee benefits expense (Note 25)	762,094	715,093
	62,583,424	57,586,741

The split of personnel costs for the years ended 31 December comprised the following:

<i>In thousands of tenge</i>	2014	2013
Cost of revenue (Note 31)	50,975,811	46,563,523
General and administrative expenses (Note 32)	11,607,613	11,023,218
	62,583,424	57,586,741

▶ 35. FINANCE (COSTS)/INCOME

Finance costs and income for the years ended 31 December comprised the following:

<i>In thousands of tenge</i>	2014	2013
Finance costs		
Interest on borrowings	(3,508,314)	(7,081,563)
Interest payable under finance leases	(2,223,737)	(2,211,460)
Discounting of long-term loans to employees	(1,064,878)	(1,497,698)
Amortization of discount reserve (ARO) (Note 26)	(217,639)	(32,561)
Discounting of other non-current financial assets (Note 13)	(158,645)	(251,846)
Interest on debt component of preferred shares (Note 22)	(96,542)	(98,450)
Amortization of long-term trade payables (Note 26)	(45,355)	-
	(7,315,110)	(11,173,578)

Finance income

Amortization of discount on long-term loans to employees	1,074,373	1,001,213
Amortization of discount on long-term trade receivables (Note 13)	998,219	887,673
Interest income on bank deposits	400,846	1,839,451
Interest income on guarantees issued (Note 26)	78,811	112,755
Income on current accounts	46,356	373,093
	2,598,605	4,214,185

▶ 36. FOREIGN EXCHANGE LOSS

On February 11, 2014 exchange rate of Kazakh tenge to the US dollar and other major currencies has been devalued by approximately 20%. As a result, the Group recognized a net forex loss in the amount of 7,629,945 thousand tenge for the year ended 31 December 2014.

▶ 37. OTHER INCOME/(EXPENSES)

Other income and expenses for the years ended 31 December comprised the following:

<i>In thousands of tenge</i>	2014	2013
Other income		
Rent income	2,417,125	1,905,616
Non-core operations	421,657	428,782
Other	861,707	817,166
	3,700,489	3,151,564
Other expenses		
Non-core operations	(451,732)	(450,918)
Rent income	(11,351)	(10,424)
Other	(322,961)	(549,451)
	(786,044)	(1,010,793)

Rent income mainly represents rent of spaces designated for the installation of technological equipment by third parties.

▶ 38. INCOME TAX

Corporate income tax expense for the years ended 31 December comprised the following:

<i>In thousands of tenge</i>	2014	2013
Current corporate income tax charge	3,532,023	4,107,939
Correction of prior year corporate income tax	902,012	-
Deferred tax expense/(income)	2,083,961	(162,080)
	6,517,996	3,945,859

The Group and its subsidiaries, other than Signum LLC and Online.kg LLC are subject to taxation in the Republic of Kazakhstan. Signum LLC is subject to taxation in the Russian Federation, Online.kg LLC is subject to income tax in Kyrgyzstan.

The tax rate for the Group and its subsidiaries except for subsidiaries indicated above was 20% at 31 December 2014 and 31 December 2013.

A reconciliation of corporate income tax expense applicable to profit before income tax at the statutory income tax rate of 20% (2013: 20%) to current income tax expense was as follows for the years ended 31 December:

<i>In thousands of tenge</i>	2014	2013
Profit before tax	13,242,346	23,506,779
Income tax, at statutory income tax rate of 20%	2,648,469	4,701,356
Correction of prior year corporate income tax	902,012	-
Inventory write off	559,816	287,000
Impairment of investments to subsidiaries	456,379	-
Change in unrecognized deferred tax assets	338,351	82,117
Impairment of CIP	254,380	-
Expenses for loyalty program	129,966	-
Sponsorship	138,891	1,489
Recreation activities	122,628	2,144
Bad debt allowance	62,593	-
Withholding tax for interest received	(34,184)	(389,609)
Non-deductible expenses / (Non-taxable gain)	938,695	(738,638)
Total income tax expense	6,517,996	3,945,859

▶ 38. INCOME TAX (continued)

At 31 December 2014 deferred tax balances, calculated by applying the statutory tax rates in effect at the reporting date to the temporary differences between the basis of assets and liabilities and the amounts reported in the consolidated financial statements, are comprised of the following:

In thousands of tenge	Consolidated statement of financial position		Consolidated statement of comprehensive income		In other comprehensive income	
	31 December 2014	31 December 2013	2014	2013	2014	2013
Deferred tax assets						
Tax losses carry-forward	2,483,476	1,383,399	1,100,077	661,641	-	-
Deferred income	30,418	6,191	24,227	(155,090)	-	-
Employee benefits obligations	1,159,471	992,692	(92,184)	(61,763)	258,963	20,008
Bad debt allowance	263,665	348,644	(84,979)	(81,977)	-	-
Intangible assets	76,736	190,828	(114,092)	147,020	-	-
Discount on non-current assets	1,367,668	1,547,178	(179,510)	(57,370)	-	-
Unused vacation reserve	328,301	331,735	(3,434)	138,110	-	-
Interest payable	198,983	212,952	(13,969)	212,952	-	-
Other	1,154,439	572,051	582,388	244,093	-	-
Less: unrecognized tax assets	(420,468)	(82,117)	(338,351)	(82,117)	-	-
Less: deferred tax assets offset with deferred tax liabilities	(4,962,859)	(5,151,353)	188,494	(741,458)	-	-
Deferred tax assets	1,679,830	352,200	1,068,667	224,041	258,963	20,008
Deferred tax liabilities						
Property and equipment	20,824,271	17,406,959	3,417,312	1,023,450	-	-
Intangible assets	604,957	1,058,135	(453,178)	(220,031)	-	-
Less: deferred tax assets offset with deferred tax liabilities	(4,962,859)	(5,151,353)	188,494	(741,458)	-	-
Deferred tax liabilities	16,466,369	13,313,741	3,152,628	61,961	-	-
Deferred tax (expense)/ income			(2,083,961)	162,080	258,963	20,008

Reflected in consolidated financial statements as follows:

In thousands of tenge	2014	2013
Deferred tax assets	1,679,830	352,200
Deferred tax liability	(16,466,369)	(13,313,741)
Net deferred tax liabilities	(14,786,539)	(12,961,541)

In thousands of tenge	2014	2013
Reconciliation of deferred tax liabilities, net		
Opening balance as at 1 January	12,961,541	12,429,279
Tax expense /(income) during the period recognized in profit or loss	2,083,961	(162,080)
Tax income during the period recognized in other comprehensive income	(258,963)	(20,008)
Deferred taxes acquired in business combinations	-	714,350
Closing balance as at 31 December	14,786,539	12,961,541

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. In accordance with Kazakhstan tax legislation tax losses can be carried forward up to ten years from the origination date and will start expiring in 2020 year. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

▶ 39. NON-CASH TRANSACTIONS

These transactions have been excluded from the consolidated statement of cash flows:

In 2014, under finance lease agreements, the Group received telecommunication equipment with a value of 7,545,272 thousand tenge (2013: 7,768,930 thousand tenge).

In 2014, the Group has obtained commodity loan from Bank of China Limited for the total amount of 941,941 thousand of tenge for the purchase of telecommunication equipment.

In 2014, 13,006,996 thousand tenge was paid for property and equipment purchased in the prior year (2013: 9,326,736 thousand tenge). Property and equipment of 11,111,364 thousand tenge was purchased in 2014 but not paid by 31 December 2014 (2013: 13,663,823 thousand tenge).

▶ 40. RELATED PARTY TRANSACTIONS

The category "parent-controlled entities" comprises entities controlled by the Parent, except for banks controlled by the Parent. Transactions with (purchases from) parent-controlled entities are mainly represented by transactions of the Group with NC Kazakhstan Temir Zholy JSC, NC KazMunayGaz JSC, KEGOC JSC, Kazpost JSC. The Group provides telecommunication services to Parent and parent-controlled entities.

Related party transactions were made on terms agreed to between the parties. Purchases and sales transactions are made on market terms. Outstanding balances at the year-end are unsecured, short-term and settlement occurs in cash, except as discussed below.

As at 31 December 2014 and 31 December 2013, the Group has not recorded any impairment of trade accounts receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Sales and purchases with related parties during the years ended 31 December 2014 and 2013 and the balances with related parties at 31 December 2014 and 31 December 2013, were as follows:

In thousands of tenge	2014	2013
Sales of goods and services		
Parent	463,492	261,011
Parent-controlled entities	3,897,595	4,289,648
Government bodies	29,807,164	23,863,594
Purchases of goods and services		
Parent	-	8,121
Parent-controlled entities	2,054,751	4,322,312
Government bodies	2,886,766	749,550
Interest earned on financial assets		
Alliance Bank JSC	650	92,416
Average interest rate on financial assets	2.03%	3.98%
BTA Bank JSC	896	25,313
Average interest rate on financial assets	2.35%	2.33%
Interest accrued on borrowings		
Development Bank of Kazakhstan JSC	1,775,469	5,730,179
Average interest rate on borrowings	8.29%	9.50%

▶ 40. RELATED PARTY TRANSACTIONS (continued)

<i>In thousands of tenge</i>	2014	2013
Cash and cash equivalents		
Alliance Bank JSC	-	759,639
BTA Bank JSC	-	330,513
Development Bank of Kazakhstan JSC	8,093	24,583
Temirbank JSC	-	73
Borrowings		
Development Bank of Kazakhstan JSC	34,686,421	16,242,112
Trade and other receivables		
Parent	99,895	87,086
Parent-controlled entities	586,209	1,211,106
Government bodies	4,419,402	2,005,348
Accounts payable		
Parent	-	14,505,462
Parent-controlled entities	442,926	256,026
Government bodies	468,926	354,949
Other non-current assets		
Long-term loans to key management personnel	40,289	44,137

In 2014 and 2013, the Group provided telecommunication services to enterprises controlled by the Parent Company, as well as from these companies were purchased goods and services for support operating activities in the sphere of provision telecommunication services.

Total compensation to key management personnel in general and administrative expenses in the accompanying consolidated statement of comprehensive income amounted to 895,312 thousand tenge and 826,998 thousand tenge for the years ended 31 December 2014 and 31 December 2013, respectively. Compensation to key management personnel includes salary stated in labor contracts and bonuses paid based on the results of the year.

As discussed in *Note 30*, the Government of the Republic of Kazakhstan provides certain subsidies to the Group for provision of universal services in rural areas.

As discussed in *Note 23*, some of the Group's borrowings for the amount of 1,581,164 thousand tenge were guaranteed by the Government of the Republic of Kazakhstan (at 31 December 2013: 1,512,557 thousand tenge).

▶ 41. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments consist of bank borrowings, lease liabilities, cash and cash equivalents as well as accounts receivable and accounts payable. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk and credit risk. The Group further monitors the market risk and liquidity risk arising from all financial instruments.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term borrowings with floating interest rates.

▶ 41. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before income tax (through the impact on floating rate borrowings). There is no impact on the Group's equity.

<i>In thousands of tenge</i>	Increase/decrease in basis points	Effect on profit before tax
2014	+2	(6,068)
	-2	6,068
2013	+3	(8,239)
	-3	8,239

* 1 basis point = 0.01%

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

As a result of significant borrowings, lease liabilities and accounts payable, cash and cash equivalents and accounts receivable denominated in US dollars, Euro and South Korean won, the Group's consolidated statement of financial position can be affected significantly by movement in the US dollar/tenge, Euro/tenge and Won/tenge exchange rates.

The following table demonstrates the sensitivity to a reasonably possible changes in the US dollar, Euro and Won exchange rates, with all the variables held constant, of the Group's profit before income tax (due to changes in the fair value of monetary assets and liabilities). There is no impact on the Group's equity.

<i>In thousands of tenge</i>	2014		2013	
	Increase/decrease in exchange rate	Effect on profit before tax	Increase/decrease in exchange rate	Effect on profit before tax
US dollar	+17%	(3,253,155)	+30%	(3,219,911)
	-17%	3,253,155	+10%	(1,073,304)
Euro	+18%	827	+30%	(407,142)
	-18%	(827)	+10%	(135,714)
Won	+17%	(274,648)	+30%	(453,767)
	-17%	274,648	+10%	(151,256)

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept, and by monitoring exposures in relation to such limits.

The Group does business only with recognised, creditworthy parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in *Notes 13, 16, 17, 18 and 19*. There are no significant concentrations of credit risk within the Group.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and cash on deposits, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

41. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

OBJECTIVES AND POLICIES (continued)

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances.

To limit this risk, the Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivables, other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and finance leases. The Group's policy is that not more than 30% of borrowings should mature in the next 12 month period, 17% of the Group's debt will mature in less than one year at 31 December 2014 (at 31 December 2013: 26%) based on the carrying value of borrowings reflected in the financial statements, excluding discontinued operations.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2014 based on contractual undiscounted payments.

<i>In thousands of tenge</i>	On demand	Due later than one month but not later than three months	Due later than three month but not later than one year	Due later than one year but not later than five years	Due after five years	Total
As at 31 December 2014						
Borrowings	–	4,709,591	5,403,144	54,833,966	17,348,710	82,295,411
Finance lease liabilities	–	2,672,552	6,649,778	12,192,561	–	21,514,891
Accounts payable	16,315,811	2,119,432	2,966,530	–	–	21,401,773
Employee benefit liability	–	–	742,288	4,892,044	6,115,055	11,749,387
Other financial liabilities	–	6,510,018	–	4,759,461	–	11,269,479
	16,315,811	16,011,593	15,761,740	76,678,032	23,463,765	148,230,941

As at 31 December 2013

Borrowings	–	5,445,790	5,388,065	25,066,756	21,463,022	57,363,633
Finance lease liabilities	–	2,600,337	6,238,172	12,496,169	–	21,334,678
Accounts payable	16,725,541	2,172,656	3,041,027	–	–	21,939,224
Employee benefit liability	–	–	362,721	4,095,632	5,119,540	9,577,893
Other financial liabilities	–	34,647,956	–	1,129,722	–	35,777,678
	16,725,541	44,866,739	15,029,985	42,788,279	26,582,562	145,993,106

Cash flow risk

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount.

Cash flow requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise. The management of the Group believes that any possible fluctuations of future cash flows associated with a monetary financial instrument will not have material impact on the Group's operations.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

41. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to the holders of ordinary shares, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2014 and 2013.

The Group monitors capital using a debt-to-equity ratio, which is net debt divided by total capital. The Group's policy is to keep the ratio not greater than 1.0. The Group includes within net debt interest bearing loans and borrowings, accounts payable and finance lease liabilities. Capital includes equity attributable to the equity holders of the Group.

The debt-to-equity ratio at the year-end was as follows:

<i>In thousands of tenge</i>	31 December 2014	31 December 2013
Borrowings	62,188,975	45,146,067
Accounts payable	21,401,773	21,939,224
Finance lease obligations	18,149,319	17,683,471
Net debt	101,740,067	84,768,762
Equity	270,309,348	265,503,335
Debt-to-equity ratio	0.38	0.32

Fair value

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

The table below shows the hierarchy of fair value of assets and liabilities of the Group. The fair value hierarchy for financial instruments measured at fair value as at 31 December 2014 was as follows:

<i>In thousands of tenge</i>	Date of valuation	Fair value measurement using			Total
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2014	8,729,297	–	–	8,729,297
Other non-current financial assets	31 December 2014	–	–	11,884,667	11,884,667
Other financial assets	31 December 2014	–	–	21,362,797	21,362,797
Accounts receivable	31 December 2014	–	–	20,764,872	20,764,872
Liabilities for which fair values are disclosed					
Borrowings	31 December 2014	–	–	62,188,975	62,188,975
Finance lease liabilities	31 December 2014	–	–	18,149,319	18,149,319
Accounts payable	31 December 2014	–	–	21,401,773	21,401,773
Employee benefit liability	31 December 2014	–	–	5,797,354	5,797,354

▶ 41. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

OBJECTIVES AND POLICIES (continued)

Fair value (continued)

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial assets that are not carried at fair value in the consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

<i>In thousands of tenge</i>	Carrying value 2014	Fair value 2014	Unrecognised gain 2014	Carrying value 2013	Fair value 2013	Unrecognised loss 2013
Financial assets						
Cash and cash equivalents	8,729,297	8,729,297	–	42,352,823	42,352,823	–
Other non-current financial assets	11,884,667	11,884,667	–	10,807,868	10,807,868	–
Other financial assets	21,362,797	21,362,797	–	12,146,401	12,146,401	–
Trade accounts receivable	20,764,872	20,764,872	–	16,192,756	16,192,756	–
Financial liabilities						
Borrowings	62,188,975	57,893,510	4,295,465	45,146,067	42,730,424	2,415,643
Finance lease liabilities	18,149,319	18,149,319	–	17,683,471	17,683,471	–
Accounts payable	21,401,773	21,401,773	–	21,939,224	21,939,224	–
Employee benefit liability	5,797,354	5,797,354	–	4,963,458	4,963,458	–
Total unrecognised change in fair value			4,295,465			2,415,643

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Financial liabilities carried at amortized cost

The fair value of borrowings is estimated by discounting future cash flows using rates currently available for loans on similar terms, credit risk and remaining maturities.

▶ 42. COMMITMENTS AND CONTINGENT LIABILITIES

Capital commitments

The Group generally enters into contracts for the completion of construction projects and purchase of telecommunication equipment. As at 31 December 2014, the Group had contractual commitments totalling 46,635,714 thousand tenge (as at 31 December 2013: 42,361,938 thousand tenge) related mostly to the purchase of telecommunication equipment and construction of telecommunication network.

Operating lease commitments – Group as lessee

The Group has entered into property lease contracts for office buildings and office space in different regions of Kazakhstan. Property lease contracts for office buildings have remaining lease terms of, on average, 1 year. The office space lease has a remaining lease term of five years with a renewal option included in the contract. There are no restrictions placed upon the Group by entering into this lease.

▶ 42. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Operating lease commitments – Group as lessee (continued)

Future minimum rentals payable under non-cancellable operating lease are as follows:

<i>In thousands of tenge</i>	2014	2013
Within one year	2,304,700	1,379,056
After one year but not more than five years	360,698	415,340
	2,665,398	1,794,396

License commitments

Under the terms of certain licenses on the provision of wireless telecom services, the Group has certain obligations in terms of coverage area of the Group's network. The Group is obliged to expand the cellular telecommunication coverage to the regions along the major highways and small-sized towns and urban-type communities of the Republic of Kazakhstan. The Group's management believes that the Group is in compliance with the terms of the licenses.

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. In addition, management believes that international agreements, under which the Group works with non-residents residing in International Telecommunication Union, and which provide for certain tax exemptions, have a priority over national tax legislation. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2014. As at 31 December 2014 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained.

Guarantees issued

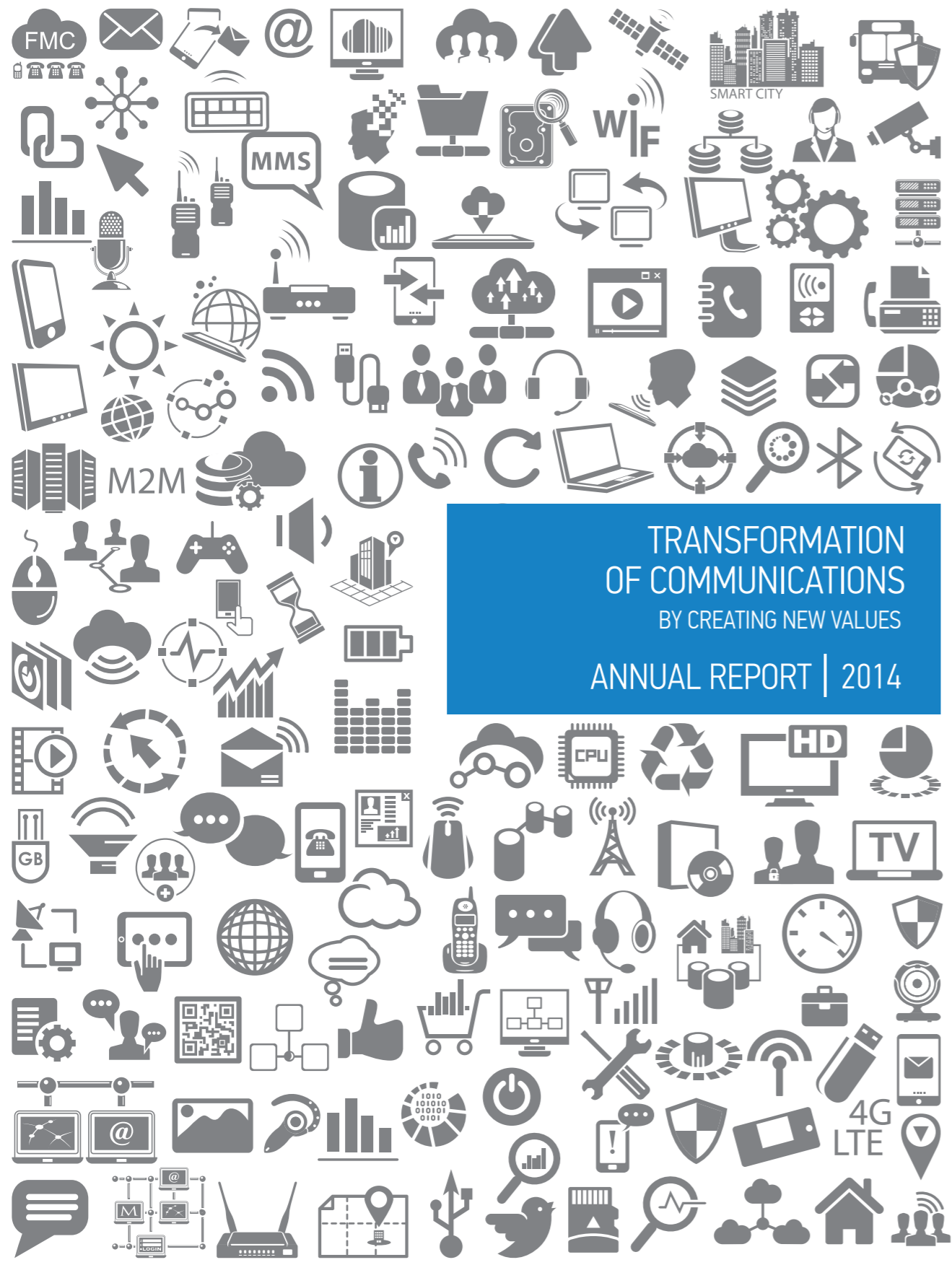
On 14 November 2009 the Group signed an agreement with Kazakhmys Plc, Parent and China Development Bank ("CDB") where the Group and Kazakhmys provided a 12 to 15 years guarantee to CDB for loans of the Parent. The Group's liability under the guarantee is capped at 300 million US dollars of principal plus 15% of any interest and any other duly payable costs and expenses. For this purpose, the Group and Parent signed an agreement on full compensation of any amounts paid by the Group arising from the guarantee agreement by the Parent.

▶ 43. SUBSEQUENT EVENTS

On 2 February 2015, the Group made early repayment to Sberbank of Russia JSC of the loan in the amount of 6,455,750 thousand tenge.

On 26 January and 11 February 2015, the Group made early repayment of loans in the amount of 1,700,291 and 2,382,823 thousand tenge, respectively, received from the Bank of China Limited, Shenzhen Branch.

On 17 February 2015, the Group made early repayment of the loan in the amount of 1,905,062 thousand tenge received from Kazkommertsbank JSC.



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