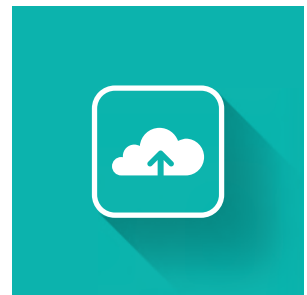
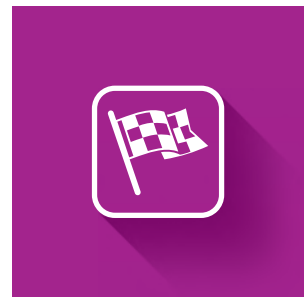


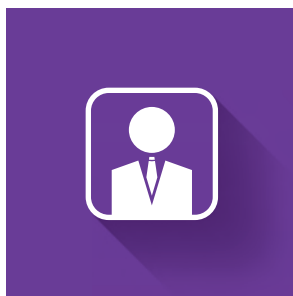


KAZAKHTELECOM

# ANNUAL REPORT 2015



THROUGH  
TRANSFORMATION  
- TOWARDS FURTHER GROWTH



# TABLE OF CONTENTS

<b>Introduction</b> .....	2
<b>Information about the Annual report</b> .....	3
<b>Brief introduction of the Company</b> .....	5
<b>Key performance indicators</b> .....	7
<b>Address of Chairman of the Board of Directors</b> .....	9
<b>Address of Chairman of the Management Board of Kazakhtelecom JSC</b> .....	10
<b>Calendar of events of 2015</b> .....	13
<b>Profile of the Company</b> .....	17
Basic facts .....	18
Mission, vision, strategic initiatives and objectives .....	20
Structure of authorized capital .....	21
<b>Business review</b> .....	23
Review of the telecommunications market .....	24
Review of the industry's regulatory environment .....	26
The Company's position in the industry .....	27
Business portfolio .....	29
Development of mobile segment .....	32
<b>Structure of the Company's assets: subsidiary organizations</b> .....	35
<b>Operational activity, key performance production and financial indicators</b> .....	41
The management's report on the results of financial and economic activity .....	42
Financial review .....	43
Development of telecommunications infrastructure .....	44
Information technologies .....	45
Innovation development .....	46
<b>Priority directions of development. Business plans for 2016</b> .....	49
<b>Risk management</b> .....	53
<b>Corporate governance</b> .....	57
Structure of corporate governance .....	58
Information on assignment to the Company of the Rating of corporate governance .....	60
Kazakhtelecom JSC's Board of Directors .....	61
Major issues considered by the Board of Directors in 2015 .....	72
Report on the remuneration paid to the Board of Directors' members .....	77
Kazakhtelecom JSC's Management Board .....	79
Report on the Management Board's activity in 2015 .....	86
Report on the remuneration paid to the Management Board's members .....	86
Material transactions of the Company .....	87
Information about the policy of settling the conflict of interests .....	87
<b>Quality management system</b> .....	88
<b>Share of local content in procurements</b> .....	89
<b>Personnel</b> .....	91
HR management .....	92
HR-indicators .....	92
The Company's HR-projects .....	92
Personnel training/Knowledge management .....	93
<b>Corporate social responsibility</b> .....	95
The Company's social projects .....	96
Sponsorship and charity .....	97
Social support of employees and retirees .....	98
The youth policy .....	99
Environment protection .....	99
<b>Glossary</b> .....	100
<b>Reference information for shareholders</b> .....	101
<b>Financial statements IFRS (addendum)</b> .....	103



FORWARD TO NEW HEIGHTS!

### THROUGH TRANSFORMATION TO THE FURTHER GROWTH

In 2014, Kazakhtelecom JSC adopted the strategy for increasing the shareholder value of the Group of companies aimed at transforming the Company into a multi-service operator. The flagship of the telecommunications industry of Kazakhstan that already has multi-profile portfolio of products and services made the decision to implement four strategic initiatives set out in the Transformation program called «Orleu». The major task of the transformation consists in renovating the business model which will allow the Group of companies of Kazakhtelecom JSC to gain competitive advantage in the market, preserve leading positions, increase efficiency of processes, expedite introduction of innovations, and meet to the highest degree possible the expectations of customers from their operator of telecommunications services.

**AS A WHOLE, THERE ARE AS MANY AS 63 PROJECTS BEING IMPLEMENTED ON THE «ORLEU» PROGRAM, ALL COMBINED INTO FOUR STRATEGIC INITIATIVES. IN 2015, THE PROGRAM IMPLEMENTATION PROCESS ENTERED THE MOST ACTIVE PHASE WHEN THE COMPANY PROCEEDED TO MAKING SYSTEM AND COMPLEX CHANGES ACROSS FOUR STRATEGIC INITIATIVES.**

The projects combined within the strategic initiative called «Supermarket for a whole family» are directed at meeting growing demand from customers through development of the existing and new products and services for various segments of the market, and also at enhancing the channels of services and sales. In 2015, the Company updated the tariff line and shifted to entirely packet offerings that included the services of fixed telephony, digital television and broadband access to the Internet.

The Company develops not only services, but also sales and service channels – in May 2015, the renewed portal with a subscriber's personal cabinet functional was launched to enable subscribers to submit applications and make payments online.

Within the framework of the strategic initiative – «Integrated operator», the Company carries out, jointly with its subsidiary companies, the work aimed at achieving synergy effect at the expense of close cooperation and integration that will result in improving the Group's performance. One of the examples of such cooperation is the launch of the convergent service called «Universal number» that includes local and mobile numbers in one SIM-card, unlimited calls onto local numbers across the whole territory of the country and within the ALTEL JSC's network, and also mobile Internet.

The strategic initiative «Information foundation of the Kazakhstani business» is aimed at expanding production line and providing complex info-communications solutions for various types of corporate customers, at shifting from production-based approach to client- and segment-oriented approach, at developing operators business. In 2015, within the framework of development of M2M technology, Kazakhtelecom launched the fiscal data processing service. In addition to that, the line of IT-products and services was supplemented with such services as «Virtual office», cloud application HappyDrive, «SaaS for business», with the list of data centers' virtual services increasing significantly.

The initiatives under the common name «Efficient business model» are directed at enhancing strategy, structure and business processes of Kazakhtelecom JSC. Simultaneously with external changes the Company is striving for changing itself from inside. Thus, the top-management key performance indicators were updated, interaction between divisions and affiliated companies was reinforced, a new motivation system of the employees of the centers for active sales of affiliated branches was adopted.

In 2016, Kazakhtelecom JSC will continue implementing strategic initiatives, developing and introducing new services, and improving internal processes.

## INFORMATION ABOUT THE ANNUAL REPORT

This Annual report of Kazakhtelecom JSC for 2015 has been prepared in accordance with the recommendations of the Sovereign Wealth Fund «Samruk-Kazyna» JSC for the Fund's Group of companies on how to make up Annual report, and in accordance with the requirements of the Kazakhstani stock exchange for the listed companies on preparation of Annual report, and it contains the Company's key performance indicators required by the best practices in preparing corporate annual reports.

The report describes the activity of the Group of companies of Kazakhtelecom JSC, business review, review of corporate management, key financial and production indicators, priority directions of development and plans for the forthcoming period. Some sections of the Annual report are dedicated to the issues of risks management, corporate social responsibility, HR management, quality management, etc.

The addendum to this Annual report contains the consolidated financial statements of the Group of companies of Kazakhtelecom JSC prepared in accordance with the International Financial Reporting Standards (IFRS) that includes the consolidated statement of financial position as of December 31, 2015, consolidated income statement, consolidated statement of changes in equity, statement of cash movement as of the indicated date, and the information on material aspects of accounting policy and other explanatory information. In this Annual report, the Group of companies means Kazakhtelecom JSC and its subsidiary companies.

THE CONSOLIDATED FINANCIAL STATEMENTS HAVE BEEN PREPARED IN ACCORDANCE WITH THE PRINCIPLES OF CONSOLIDATED FINANCIAL STATEMENTS DESCRIBED IN THE SECTION «THE BASIS FOR PREPARING FINANCIAL STATEMENTS» OF THE NOTES TO THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED ON DECEMBER 31, 2015.

The major languages used for preparing the Annual report are Kazakh, Russian and English languages. The Annual report will be placed in the Kazakhtelecom JSC's website (<http://www.telecom.kz>) in all the aforementioned languages.

The reported period is the period  
from January 1 through December 31, 2015.

The key performance indicators are presented in the dynamic  
over the last 5 years (2011 – 2015).



«To foresee means to manage»

*Blaise Pascal*



# **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.

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KAZAKHTELECOM JSC IS THE LEADING TELECOMMUNICATION OPERATOR OF THE REPUBLIC OF KAZAKHSTAN PROVIDING A WIDE RANGE OF INFO-COMMUNICATION SERVICES ACROSS THE WHOLE TERRITORY OF THE COUNTRY.

Kazakhtelecom JSC (hereinafter referred to as «The Company» or «Kazakhtelecom») possesses a powerful modern communication network of nationwide scale that covers all target markets for consumers of info-communications services. The Company is the largest operator of fixed telephony in Kazakhstan, the recognized leader in providing communications services, including in rural area, and one of the largest operators on the National data communications network.

The Company is acting upon the General License № 14014826 as of 09.10.2014 issued by the Committee for communication, informatization and information of the Ministry of Investments and Development of the Republic of Kazakhstan.

The major shareholder of Kazakhtelecom JSC is «Samruk-Kazyna» JSC, a state-owned company, holding 51% of the Company's ordinary shares.

## KEY PERFORMANCE INDICATORS

Financial indicators (consolidated)	Unit	2015	2014	2013	2012	2011
Revenues from sale of services	<i>KZT mln</i>	189 754*	208 223	190 867	175 669	173 344
Net profit	<i>KZT mln</i>	24 388	7 484	19 614	222 130**	50 167
EBITDA	<i>KZT mln</i>	66 745*	61 580	65 829	69 068	66 015
EBITDA margin	%	35.2*	29.6	34.5	39.3	38.1
Capital investments	<i>KZT mln</i>	38 699	55 154	61 503	63 270	43 641

Efficiency indicators	Unit	2015	2014	2013	2012	2011
ROACE	%	9.2*	6.1	7.1	62.5**	16.6
ARPU per mobile subscriber (Voice)	<i>KZT/month</i>	658	602	667	719	788
ARPU per mobile subscriber (Voice+Broadband)	<i>KZT/month</i>	1 051	1 088	771	750	820
Number of employees	<i>people</i>	27 452*	29 000	29 847	29 237	29 510
Revenues, total, per employee	<i>KZT thousand</i>	6 912.2*	7 180.1	6 394.8	6 008.4	5 874.1

Data on assets	Unit	2015	2014	2013	2012	2011
Assets, total	<i>KZT mln</i>	436 494*	417 693	416 135	419 259	421 696
Long term credits	<i>KZT mln</i>	27 300*	56 426	36 029	63 786	59 680
Own capital	<i>KZT mln</i>	292 421*	270 309	265 503	276 748	282 902

Technical indicators	Unit	2015	2014	2013	2012	2011
Number of fixed lines	<i>lines</i>	3 878 584	4 063 258	4 085 811	4 047 566	3 948 625
Level of digitization of local network	%	100	99.06	98.2	97.2	96
Number of subscribers of fixed broadband data communication (BDC)	<i>subscribers</i>	1 502 632	1 543 138	1 467 520	1 203 897	970 912
Number of mobile communication subscribers	<i>subscribers</i>	2 028 979	851 264	628 521	1 125 991	1 383 653
Number of mobile BDC subscribers (EVDO, LTE, UMTS)	<i>subscribers</i>	577 954	410 133	112 373	75 966	80 083
Number of pay TV subscribers	<i>points</i>	607 762	530 630	455 378	148 649	83 959

Macroeconomic indicators	Unit	2015	2014	2013	2012	2011
Population of Kazakhstan, total	<i>thousand people</i>	17 670.9	17 417.4	17 165.2	16 911.91	16 674.96
GDP growth	%	101.2	104.3	106.0	105.0	107.5
Consumer price index	%	113.6	107.4	104.8	106.0	107.4
USD/KZT, year average exchange rate	<i>KZT</i>	221.73	179.19	152.13	149.11	146.62

\* Financial performance of the Company in 2015 in accordance with the audited financial statements. On November 3, 2015, the Company announced its decision to conclude a joint venture agreement in the mobile segment with Tele2 Group on the basis of ALTEL JSC (ALTEL 4G brand) and Mobile Telecom Service LLP (Tele2 brand). In this connection, the operations of ALTEL JSC were discontinued.

\*\* Considering the sale of Kazakhtelecom JSC's interest (share of participation) in «GSM Kazakhstan Kazakhtelecom OJSC» LLP.





## ■ ADDRESS OF CHAIRMAN OF THE BOARD OF DIRECTORS

### DEAR SHAREHOLDERS, INVESTORS, CLIENTS AND PARTNERS!

The year 2015 became the year when the Company implemented large-scale projects, revised key directions in its business activities and strategic objectives taking into account new market conditions, introduced amendments to its plans and processes. Despite the high level of competition in and saturation of the market we have managed to accomplish the set objectives and achieved the target plans across all directions in the Company's activity thereby significantly strengthening our positions as a leading telecommunications operator of the country.

The Board of Directors' activity during the reported period was directed at further implementing the Strategy for increasing the shareholder value of Kazakhtelecom JSC. A number of important decisions were taken such as the deals on merger of ALTEL JSC and Tele2, on merger of affiliated branches and formation of regional telecommunications administrations, enlargement of regional telecommunications stations, optimization and modernization of models of regional management.

Joint work of the Board of Directors and Management Board, search for and finding of mutually acceptable solutions enabled to reach sustainable technological development and systematic achievement of joints objectives. Specifically, as a result of implementation of the largest and long term project Kazakhtelecom JSC ended up the year 2015 by achieving a 100% level of digitization of the local telephone communication. In addition to that, the Company carried on implementing a number of important infrastructure projects aimed at developing telecommunications, modernizing and developing rural communication based on the CDMA/EVDO standard, strengthening leading position in the mobile augment, developing operators segment: the capabilities and throughput of the backbone network were extended, the capacity of transit telecommunications channels increased, new joints were organized.

Development of perspective directions and introduction of innovative solutions are indicative of how well the Company's management understands the market needs from the Company's clients. Provision of client-oriented servicing and qualitative services are still regarded as the prioritized indicators the Company is being guided by when introducing new solutions.

The past year Kazakhtelecom JSC spent in the transformation mode: it continued implementing the Program «Orleu» that started in 2014 achieving a number of fast victories, revising its business processes, changing organizational structure and personnel management policy. As a result of introduction of the initiatives of the transformation program, the efficiency (impact) on the free cash flow as of the end of 2015 came up to KZT 16 bln.

Providing for strategic management and control the Board of Directors also analysis its own work in order to ensure planning and achievement of the set targets contributing to further development and increase of the Company's value. In 2015, the composition of the Board of Directors' independent directors completely changed, and with the new composition now in place we will continue developing our strengths and advantages, taking all necessary measures to provide for high level of corporate governance, transparency of financial activity, information openness, raising the level of corporate social responsibility, and further developing the innovation processes management system.

I am confident that in 2016 Kazakhtelecom JSC will manage to accomplish the set objectives directing the knowledge, competence and energy at implementing the Company's strategy and ensuring efficient work for many years to come.

Regards

**Baidauletov N.**  
Chairman of the Board of Directors  
Kazakhtelecom JSC



## ADDRESS OF CHAIRMAN OF THE MANAGEMENT BOARD OF KAZAKHTELECOM JSC



### DEAR SHAREHOLDERS, INVESTORS, CLIENTS AND PARTNERS!

I am pleased to bring to your attention the regular Annual report of Kazakhtelecom JSC. The year 2015 wasn't an easy one but the analysis of the work performed during the year shows that the Company has been successfully implementing the set tasks aimed at achieving strategic objectives, developing services and strengthening its positions in the telecommunications market of the country. Together we managed to rebuild the basic principles of governance, to take on the reality and challenges of the market, to adequately react to changes, to win a number of swift victories within the framework of the transformation program, and, as a result of that, to increase the Company's profitability. Owing to the work performed, we changed the image of Kazakhtelecom JSC: today the Company is perceived as a multi-service operator and not as an operator of fixed telephony or provider of access to the Internet only.

To ensure the required increase of efficiency of investment and operation activity we, a year earlier, having deeply analyzed the Company's activity, launched the program of transformation. Within the framework of the Program «Orleu» the Company started implementing the complex of interconnected changes and innovations – 23 blocks of initiatives and 63 projects directed at increasing efficiency of the Company, adherence to the client-orientation principles, introduction of innovations, strengthening of leadership positions in the market. The Company's organizational structure also undergoes qualitative changes: the oblast telecommunications administrations and local telecommunications administrations in Almaty city and Almatinskaya oblast, in Astana city and Akmolinskaya oblast began merging. Creation of the Common centre for servicing the supportive functions (CCS) became one of the results of the centralization. Changes at the organization level are impossible without revision of the principles of and approaches to personnel management: in this connection the Company developed and approved the new Strategy for personnel management, introduced innovative methods in the system of staff recruitment, assessment and motivation of employees. As a result of introduction of the transformation program's initiatives the effect on free cash flow as of the end of 2015 came up to KZT 16 bln.

In the difficult for the whole world time the large companies are looking into the possibility of expanding spheres of their interests and meeting the growing demand from customers for new services. In the past year we defined new perspective directions of business, and first and foremost we paid attention to the segment of electronic commerce and carried out preparatory work in order to become agragator of payments and to offer to out clients the best solution. In a number of mass media Kazakhtelecom was named as the native «Amazon» although we make only initial steps in this direction and are striving to not only bring the technology «to each home» but also to offer the broadest range of services. Analysing the key directions of the Company's activity in 2015, I have to point out that the convergent services – mixture of advantages of cell and fixed communications and mobile services themselves – were set as our priorities. By the way, as a result of the work performed in 2015 jointly with subsidiary company ALTEL JSC, the subscriber base of the network 4G/3G/2G/ exceeded 2.6 mln people showing the growth of more than 300% per year.

Transition of business processes to digital format is another world economic trend and in this regard Kazakhtelecom puts maximum efforts to set up the information foundation of Kazakhstani business. We actively work to increase penetration of cloud technologies, development of IT infrastructure and strengthening of the data centers' network. The technologies we apply enable to for operational infrastructure needed to run the business, including: commerce channels and advertisement, collection of payments, accounting, inventory and customer relationship control. A great deal of attention was also paid to M2M solutions directed at automating and informatizing the business – from the video surveillance and security systems services to the creation of «smart» productions. The project providing for transfer of fiscal data from control and cash machines to the Taxation committee in real time mode became one of the first projects in this direction. Specifically, from the outset of the project in July 2015, the total number of checks exceeded 200 mln units. Thus, the introduction of the project enabled to implement modernization of the existing system of applying cash machines, improve monitoring and analysis of cash operations and ensure maximum transparency of these processes.

Completion of the long term works aimed at achieving a 100% level of digitization became the Company's key achievement in 2015. Within the framework of these works we managed to change analogue stations with digital switching equipment to shift the subscribers living in rural and urban area to new equipment. We also carried on the work on connecting new subscribers to the telephony services. The number of fixed lines in the Kazakhtelecom JSC's network as of December 31, 2015, made up 3 878 584 units, including in local telecommunications network (LTN) – 2 808 439 units, in rural telecommunications network (RTN) – 1 070 145 units. Another imposing digit as of the end of 2015, the number of users of the access to the Internet service across the Group of companies of Kazakhtelecom JSC made up 4 337 878 subscribers. The achievement of these indicators gives evidence that the work in this segment of the market allows to generate profit.

Within the framework of modernization and development of rural communication on CDMA/EVDO technology the Company managed to install as many as 805 base stations on the network that ensure coverage with telecommunication services of around 6 170 rural settlements, including 3 650 rural settlements that have broadband access to the Internet on the EVDO technology.

In 2015, a separate attention was paid to development of transit potential of the country and increase of transit telecommunication flows through Kazakhstan at the expense of modernization of the Company's backbone network with the use of DWDM technology, and cooperation with international operators – partners on organization and advancement of the route Europe – South-East Asia through the Kazakhtelecom JSC's network. Namely, in 2015, the Company launched the project called REAL that has the best indicators on signal latency. Owing to the project DREAM that has been implemented and the work performed, the volume of transit flows organized through Kazakhtelecom's network increased by 30% compared to the previous year.

Apart from sustainable technological development the Company also works on preserving the efficient approaches to corporate governance. Specifically, in 2015, following diagnostics of corporate governance carried out across the Group of companies of «Samruk-Kazyna» JSC, the corporate governance rating of Kazakhtelecom JSC grew from 82% in 2014 to 85% in 2015.

High assessment of the Company's activity was also given by international analysts. International rating agency «Standard & Poor's» affirmed long-term credit rating at level «BB» with a stable outlook. At the same time the rating agency upgraded the Company's standalone credit profile from «bb-» up to «bb».

International rating agency «Fitch Ratings» upgraded twice the rating outlook of the Company at «BB» level with a positive outlook. The outlook reflects positive anticipations of Fitch Ratings' analysts in regard to successful development of mobile segment that in analysts' opinion will result in stronger cash flow generation with financial flexibility being improved.

In the past year, we managed to achieve the set targets, to increase the Company's profitability, to justify, once again, the shareholders' trust, and I personally would like to thank each and every employee of the Company for professionalism, high dedication to his/her work and focus on results. However, the forthcoming year requires from our team yet more mobilization and preparedness to changes, which imposes the huge responsibility on each of us and understanding that not only the results of collective work, but also high level of personal engagement may affect the image of Kazakhtelecom as a whole.

Our Company is undergoing through a difficult period of time – the period of transformation, and I am sure that the contemporary reality and challenges we face will serve catalysts for the Company's development, for defining points of growth, pursuit for new resources for development, for working out efficient business solutions.

We set up the development course for 2016. We set before ourselves the ambitious objectives, and there is no doubt that our joints efforts, knowledge and skills will facilitate their achievement!

Regards

**Yessekeyev K.**  
Chairman of the Management Board  
Kazakhtelecom JSC





«There is nothing easier than being occupied,  
and there is nothing more difficult  
than being effective»

*Allen MacKenzy*



# **CALENDAR OF EVENTS 2015**

## CALENDAR OF EVENTS 2015

JANUARY	<ul style="list-style-type: none"> <li>• Kazakhtelecom launched a new service called «Parents control» that enables to resolve the issue of providing secure access to the Internet by providing the service of filtering negative content.</li> </ul>
FEBRUARY	<ul style="list-style-type: none"> <li>• The international rating agency Standard &amp; Poor's confirmed Kazakhtelecom JSC's long term credit rating at «BB» level with a stable outlook.</li> <li>• The reporting back meeting with participation of the Kazakhtelecom JSC's staff and heads of its affiliated branches, representative offices and subsidiary companies on the performance results at the end of 2014 and on the tasks for the forthcoming period.</li> <li>• Kazakhtelecom signed Memorandums on development of local content with akimats (regional local governments) of 14 oblasts and with the akimat of the city of Astana.</li> <li>• Kazakhtelecom held the 3d winter sports and athletics meeting attended by the Company's Central Administration Office's employees, by the employees of the Regional Telecommunications Administration of Akmolinskaya oblast and the Committee for communication, informatization and information of the Ministry of Investments and Development of the RK.</li> </ul>
MARCH	<ul style="list-style-type: none"> <li>• Following the performance results across the industry for 2014, the affiliated branch of Kazakhtelecom JSC entered the top three companies. The Administration of information system of Kazakhtelecom JSC entered to the TOP-3 best enterprises of the National business – the rating of the RK in the category «The subject of the large entrepreneurship».</li> <li>• Following the Board of Directors' decision as of March 18, 2015, (Protocol № 2) the Kazakhtelecom JSC's Road map on transformation was approved.</li> </ul>
APRIL	<ul style="list-style-type: none"> <li>• Annual shareholders' meeting of Kazakhtelecom JSC. Approval of the Annual consolidated financial statements for 2014, Annual report of the Company for 2014.</li> <li>• On April 22, 2015, Kazakhtelecom JSC announced the total amount of dividends for 2014. The dividend per ordinary share of the Company made up KZT 101.73.</li> </ul>
MAY	<ul style="list-style-type: none"> <li>• Kazakhtelecom provided for technical support of the Astana economic forum by organizing Internet-café and media city (press center) at the Palace of independence, long distance domestic and international communications, high speed access to the Internet within the Organization Committee's headquarters, and also provided the aforementioned locations with all necessary office equipment.</li> <li>• Kazakhtelecom JSC and international backbone telecommunications operator «RETN» reached an agreement on connecting the Kazakhtelecom JSC's data communications network to the «RETN» company's ports. The connection is organized via fiber-optical joint junctions of the both companies by using lambda of the 40G level upon DWDM technology.</li> <li>• «KT Cloud Lab» LLP, Kazakhtelecom JSC's subsidiary company, was declared the best innovative enterprise of the year.</li> <li>• Kazakhtelecom participated at the 50<sup>th</sup> joint meeting of the Council of heads of AC PCC (Administration of Communications of the Regional council in the field of communications) and the 21<sup>st</sup> meeting of the Coordination council of CIS countries on informatization of the PCC.</li> <li>• On May 26, 2015, the Company paid out the dividends on the Company's ordinary shares.</li> </ul>
JUNE	<ul style="list-style-type: none"> <li>• Kazakhtelecom participated at the international conference IDC Cloud Leadership and Datacenter Transformation Roadshow 2015.</li> <li>• Following the Board of Directors' decision as of June 26, 2015, (Protocol № 5) the Policy of Kazakhtelecom JSC on management of the full cycle of capital investments was approved.</li> <li>• Within the framework of the transformation program «Orleu» the Company won a number of swift victories. The new telecommunications and IT-services were introduced for retail and corporate clients.</li> </ul>
JULY	<ul style="list-style-type: none"> <li>• Kazakhtelecom prepared optical transportation media up to the Exhibition center «Korme» within the framework of the organization of the National tele-bridge (satellite link-up) with participation of the Head of state on presentation of projects of the Industrialization Map that were to be introduced in the first six months of 2015. The Company organized the operation of the Press center at the Exhibition center (EC) «Korme» with presentation of telecommunications services and equipment. Also via the Company's telecommunications channels the IPVPN service was organized to set up a video-conference communication of the Head of state with akims (governors) of regional oblasts and the cities of Astana and Almaty.</li> <li>• Following the enactment of the Government of the Republic of Kazakhstan, Kazakhtelecom JSC was designated as a legal entity providing for transmission, in a prompt manner, of data on money transactions to taxation authority via public telecommunications networks.</li> <li>• The number of subscribers of the network ALTEL 4G:GSM of ALTEL JSC, subsidiary company of Kazakhtelecom JSC, reached 2.5 mln people.</li> </ul>

AUGUST	<ul style="list-style-type: none"> <li>• Kazakhtelecom JSC hosted the meeting with the delegation of the national telecommunications operators of Iran TCI. In the course of the meeting, the Iranian delegation were discussed the important strategic aspects of further mutual cooperation between the parties.</li> <li>• Kazakhtelecom JSC provided for technical support for holding the meeting of the Council of the Heads of CIS countries and of the Supreme Eurasian economic Council held annually in settlement Borovoe of the Akmolinskaya oblast. Taking into account high significance and scale of the event, all the services were provided at the highest level.</li> <li>• Kazakhtelecom JSC and The National company «Kazakhstan Gharysh Sapary» JSC concluded an agreement on cooperation on the issue of interaction in implementing joint projects based on modern space and information technologies.</li> <li>• Kazakhtelecom JSC went up from 166<sup>th</sup> to 138<sup>th</sup> line in the annual rating of Brand Finance 2015.</li> </ul>
SEPTEMBER	<ul style="list-style-type: none"> <li>• Kazakhtelecom JSC came forward and acted as the Official technical partner of the Eurasian Forum KAZENERGY.</li> <li>• Kazakhtelecom JSC and the Administration «The Academy of info-communication technologies», the Company's affiliated branch, held the IV-th International scientific and practical conference dedicated to the development of info-communication technologies, the perspective segments of the conception IoT, the role of telecommunications operators in electronic trade, the opportunities opened to telecommunications operators in the field of FinTech, BigData.</li> <li>• Kazakhtelecom came forward as a strategic partner and technical sponsor of TechGardenFest 2015.</li> </ul>
OCTOBER	<ul style="list-style-type: none"> <li>• The international rating agency Fitch Ratings confirmed the credit ratings of Kazakhtelecom JSC at «BB» level with «Positive» outlook.</li> <li>• Kazakhtelecom JSC launched a new service «HappyDrive». Application «HappyDrive» gives clients the opportunity to store and exchange data on the resources of the Kazakhtelecom JSC's Data center of Tier-III level.</li> <li>• Kazakhtelecom JSC combined all the corporate sites of the Company – www.idnet.kz, www.megaline.kz, www.idhome.kz, www.id-tv.kz, www.almatytelecom.kz on the unified portal of services telecom.kz.</li> <li>• Kazakhtelecom JSC and the Almaty University of power engineering and communication signed up the Memorandum of cooperation.</li> <li>• Kazakhtelecom JSC provided technical support for holding the IV-th international conference MobiEvent`15 dedicated to the situation in and issues of development of the market for mobile financial services and payment technologies of Kazakhstan and CIS countries.</li> </ul>
NOVEMBER	<ul style="list-style-type: none"> <li>• Within the framework of the constitutive meeting of the Kazakhstani-Britain Business Council (held on November 3, 2015, in London), the Agreement on commercial launch of roaming between ALTEL JSC and «Vodafone» was signed.</li> <li>• ALTEL JSC, Kazakhtelecom JSC's subsidiary company, became winner of the public contest «Choice of the year № 1 in Kazakhstan 2015» in the nomination «Telecommunication breakthrough of the year».</li> <li>• Kazakhtelecom JSC and Tele2 Group agreed on combining (merging) their subsidiary mobile operators ALTEL JSC (brand ALTEL 4G) and Mobile Telecom-Service LLP (brand Tele2) with a view to strengthening the positions of both companies in the market for mobile communications of Kazakhstan and giving the combined operators new opportunities of meeting demand from consumers of mobile services.</li> <li>• International rating agency Fitch Ratings confirmed credit ratings of Kazakhtelecom JSC at «BB» level with «Positive» outlook (upon publishing the information about setting up a joint venture in mobile segment).</li> <li>• Kazakhtelecom JSC provided for technical support for holding TechConnectAstana and presented its innovative projects within the event.</li> <li>• Kazakhtelecom JSC and the National Bank of the Republic of Kazakhstan signed an agreement on the data storage infrastructure provision service.</li> </ul>
DECEMBER	<ul style="list-style-type: none"> <li>• Within the framework of joint meeting of the Council on economic policy of the «Nur-Otan» party's fraction in the Parliament of the Republic of Kazakhstan (Majilis), Kazakhtelecom presented to deputies (lawmakers) plans and key performance results of Kazakhtelecom JSC within the framework of the Address of the President of the RK to the people of Kazakhstan.</li> <li>• Within the framework of the 3d Meeting of the Kazakhstani-Chinese Business Council (December 13–15, 2015, in Beijing) the parties signed: <ul style="list-style-type: none"> <li>– Memorandum of Understanding on strategic partnership between China Telecom Global Limited and Kazakhtelecom JSC;</li> <li>– Agreement on cooperation of Kazakhtelecom JSC with Huawei Technologies CO., LTD.</li> </ul> </li> <li>• Kazakhtelecom JSC was rewarded with the award of the Council of the International trade union of communications workers.</li> <li>• Kazakhtelecom JSC hosted the conference «Development of Kazakhtelecom's business in new digital reality». The major topic of the conference is the implementation of the transformation program «Orleu».</li> <li>• Kazakhtelecom achieved a 100 % level of digitization of the local telephone networks. Kazakhtelecom JSC completed the implementation of the large-scale program on digitization of the telecommunications network in the country.</li> <li>• The extraordinary General Shareholders' Meeting as of 07.12.2015, protocol №56, adopted the Code of corporate governance of Kazakhtelecom JSC.</li> <li>• Following the results of diagnostics in 2015, «PricewaterhouseCoopers» LLP assigned the corporate governance rating of Kazakhtelecom JSC at the level of 85%.</li> </ul>





«Any changes entail new opportunities»

*Jack Welch*



# PROFILE OF THE COMPANY

# PROFILE OF THE COMPANY

## ■ 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.

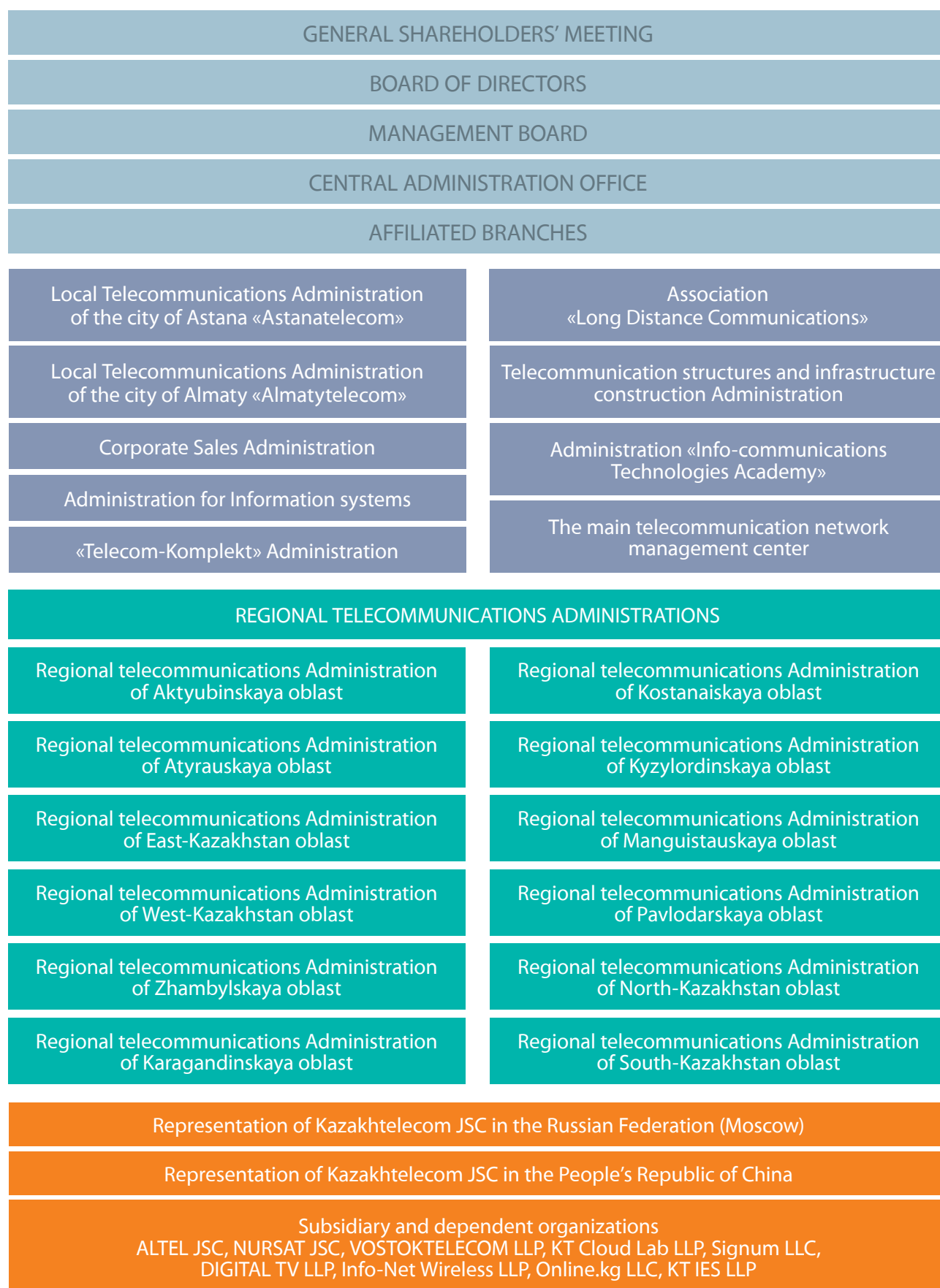
Kazakhtelecom JSC is a legal entity that consists of 21 affiliated branches and representation offices in the Russian Federation and the People's Republic of China. Subsidiary companies of Kazakhtelecom JSC also make part of the Company's assets.

The Company's central office is located in the city of Astana, the capital of Kazakhstan. There are about 28 thousand people working for the Company. 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 positions across all key market segments and legitimately gained the reputation of being sustainable and steadily developing company with high level of technical capabilities.

To date, the Group of companies of Kazakhtelecom JSC provides for access to the Internet to over 4 million subscribers across all cities and settlement of the country, including broadband to more than 1.5 million subscribers. There are as many as 120 telecommunications operators of the Republic of Kazakhstan getting connected to the Company's network. Besides, Kazakhtelecom JSC closely cooperates with more than 40 operators of overseas and CIS countries.

## ORGANIZATIONAL STRUCTURE OF KAZAKHTELECOM JSC



## MISSION, VISION, STRATEGIC INITIATIVES AND OBJECTIVES

### MISSION OF THE GROUP OF COMPANIES OF KAZAKHTELECOM JSC (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 AND MAIN DRIVERS OF GROWTH

The Group of companies of JSC Kazakhtelecom 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 OF THE GROUP

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

MISSION	VISION	STRATEGIC INITIATIVES	RESULT
To become indispensable and habitual part of everyone's life changing itself and surprising and surpassing expectations!	Leading integrated Kazakhstan operator in the info-communications market. 	 «Supermarket for services for a whole family»: choice #1 for communication, information and entertainment.  Integrated operator.  Kazakh business information foundation.  Effective business model.	Result of implementation of the strategy would be to increase shareholder value by more than 2 times the rated current shareholder value. 

The set objectives will be achieved as a result of the work to be done across the following strategic initiatives that form the Group's vision:

- ◆ **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.

- ◆ **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.
- ◆ **THE GROUP OF INITIATIVES «BUILDING UP AN INTEGRATED OPERATOR» MAKES PROVISION FOR:**
  - Development of mobile business to such an extent 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.
- ◆ **«MODERNIZATION OF A BUSINESS MODEL»** is a necessary condition for the Group to achieve the set strategic objectives both in terms of making direct impact on financial indicators and providing for necessary conditions to implement the most important strategic initiatives mentioned above. Modernization of a business model implies a complex of initiatives aimed at enhancing efficiency in organizing the work and of labor productivity, improvement of processes and corporate culture of the Group.

## IMPLEMENTATION OF STRATEGY IN 2015

Implementation on the strategy is expressed in the following target indicators in 2015 (according to the preliminary financial statements):

- The share of the fixed communications of the Group of companies of Kazakhtelecom JSC in the mass segment (B2C) within the initiative «Supermarket for a whole family» made up 89%, which ensured over fulfillment of the objective by 2%. In 2015, the market share of pay TV grew up to 37% which enabled to over fulfill the planned indicator by 9%.
- The share of mobile market within the framework of the initiative «Integrated operator» made up 8.3% which ensured non-fulfillment of the target by 1.7%. Nevertheless, the objective on the market share in subscribers made up 11% which is higher of the target indicator by 3%.
- The share of the market for fixed communication of the B2B segment within the framework of the initiative «Information foundation of the Kazakhstani business» made up 60% which ensured over fulfillment of the target indicator by 7%.
- Within the framework of the initiative «Efficient business model» the objective on the EBITDA margin was over fulfilled by 3%, with the CAPEX to earnings ratio making up 17% which is 4% lower of the target indicator.

## STRUCTURE OF AUTHORIZED CAPITAL

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 official list on the category «Debt securities of the quasi-state sector's entities».

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 «Debt securities of the quasi-state sector's entities».

On April 28, 2006, the state block of shares of Kazakhtelecom JSC was transferred to JSC Kazakhstani holding for management of state assets «Samruk» 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 JSC Kazakhstani holding for management of state assets Samruk with JSC Fund for sustainable development Kazyna. To date, the Fund is the Company's largest shareholder.

### *Owners of the JSC Kazakhtelecom's ordinary shares as of 31.12.2015*

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
<b>Total ordinary shares announced</b>	<b>10 922 876</b>	<b>100</b>

As of 01.01.2016, members of the Company's Management Board and Board of Directors are not owners of ordinary shares of Kazakhtelecom JSC, there is no cross possession of shares.



«Being able to see what other people  
cannot see is the key to success»

*Robert Toru Kiyosaki*



# **BUSINESS REVIEW**



## REVIEW OF THE TELECOMMUNICATIONS MARKET

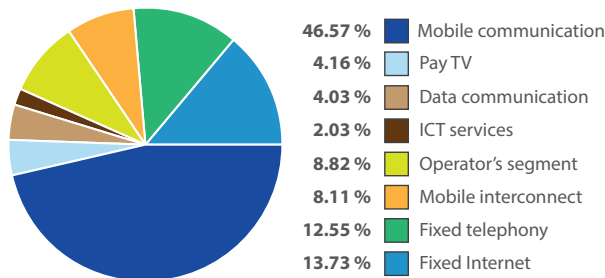
(based on the data collected by Just smart solutions LLP upon the marketing research)

To date, the market for telecommunications services is one of the most important sectors that are critically important for many branches of the economy.

According to the estimates of Just smart solutions LLP, the volume of the telecommunications market of the Republic of Kazakhstan from sales of info-communications services in 2015 made up KZT 619.39 bln, decline in the market growth rate in 2015 for the first time in 20 year made up in money terms up around 2% compared to 2014.

Decrease of the growth rate of the telecommunications market is attributed to the impact of both internal and macroeconomic factors. In the reports period, considering the ongoing world economic crisis, the GDP of Kazakhstan started slowing down thereby affecting all sectors of the economy, including the services sectors. In 2015, the population's real income growth rate reduced as did their purchasing power which reflected in a lower level of consumption of communications services. Specifically, according the statistics' data, the households' expenditure share for telecommunications services reduced from KZT 9 thousand in 2014 to KZT 7.1 thousand in 2015.

Structure of revenues of the telecommunications industry of the Republic of Kazakhstan across various types of services, 2015



Source: Just smart solutions LLP

In the structure of revenues across various types of services, the largest share is taken by mobile communication with mobile Internet (without considering mobile interconnect) – 47% (KZT 288.7 bln), 12.6% – the share of fixed telephony (KZT 77.8 bln), 14% – the share of fixed Internet (KZT 85.14 bln). Operators segment made up 8.8% (KZT 54.7 bln), mobile interconnect – 8.1% (KZT 50.28 bln). The pay TV market reached 4.2% (KZT 25.8 bln), the data communications market also grew up to 4% (around KZT 24.96 bln), the market share of ICT services – 2% (KZT 12.5 bln). Thus, positive development was achieved by small segments of the market: pay TV, data communication, ICT services.

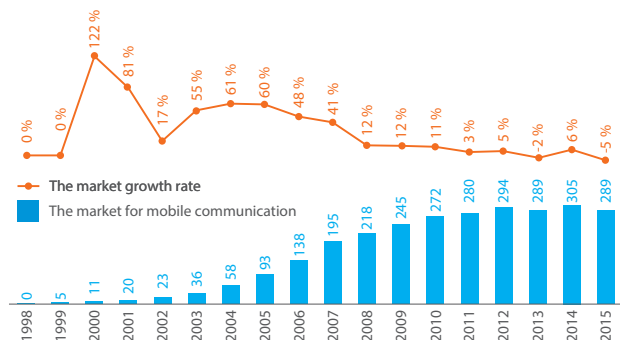
All other segments of the market showed a reduced growth rate with the mobile voice communication and fixed telephony segments having the largest losses.

## Situation in the market across various segments

**Fixed telephony.** Pursuant to the Just smart solution LLP's assessment, the volume of the market for fixed telephony in 2015 made up KZT 77.81 bln, which is 4.5% lower compared to 2014, with the traffic of voice communication on outgoing calls of long distance domestic and international telephony not decreasing, in physical terms (2 430 mln minutes). Decrease of the market volume in money terms is attributed exclusively to a significant reduction of fixed telephony subscribers – by as many as 197 thousand subscribers among the population, and reduction of revenues from local communication. In 2013–2015, the aggregate subscriber base among the population reduced by 288 thousand.

**Mobile communication.** The volume of the market for mobile communication across the services for subscribers in 2015 made up KZT 289 bln, and decreased compared to the previous year by 5%.

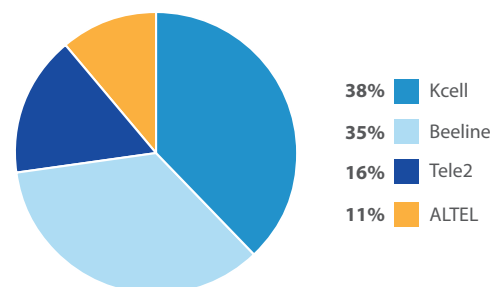
The growth rate of the market for mobile communication (without interconnect) in Kazakhstan for 1998–2015, in KZT bln



Source: Just smart solutions LLP

The total number of mobile communication subscribers as of November 2015 made up 27 960 thousand subscribers.

The market share of cell operators on subscriber base as of November 1, 2015



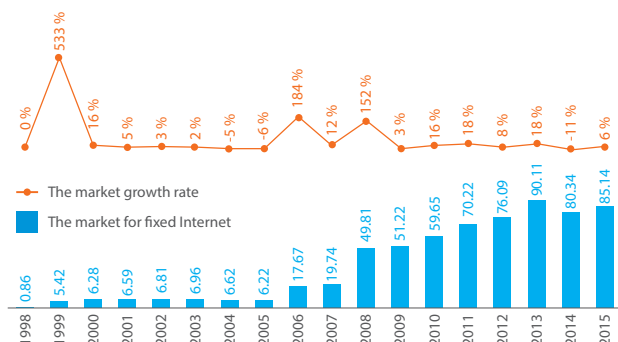
Source: Just smart solutions LLP

On the number of subscribers there are two leaders: Kcell (38%) and Beeline (35%), Tele2 serves 16% of all subscribers of cell communication, ALTEL JSC, subsidiary company of Kazakhtelecom JSC, reached 11% of the market on the volume of subscriber base.

The revenues from mobile voice communication services have a settled tendency toward reduction by 15%–20% per year due to a sharp increase of mobile Internet and mobile content services such as WhatsApp, Viber that enable to fully replace the traditional voice communication. The share of smartphones in the subscriber network exceeded 15% and continues actively increasing due to the actions undertaken by mobile communication operators. The mobile Internet, the share of which is expected to reach 80% of the market for mobile communication by 2022, is believed to be a major driver of the market for mobile communication.

**The market for fixed access to the Internet.** The total volume of the market for fixed broadband access to the Internet made up KZT 85.14 bln. The subscriber base of the fixed Internet grew in 2015 by only 0.62%, with the market volume increasing, in money term, by only 6%.

Volume and dynamics of the growth of the market for fixed access to the Internet in Kazakhstan 1998–2015, in KZT bln



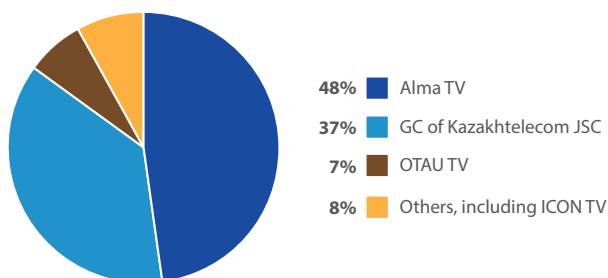
Source: Just smart solutions LLP (considering the data on 2014)

The depth of penetration of fixed access to the Internet in Kazakhstan makes up, on average, 42 per 100 households among urban population, and 13 per 100 households in rural area. The total number of subscribers of fixed access to the Internet makes up, pursuant to the providers' data, as of January 1, 2016, as many as 2 107.6 thousand.

**Pay TV.** The market for pay TV is the most dynamically developing market, however, due to its small share, it is not significantly contributing to the development of the communication market as a whole.

The revenues from pay TV services in 2015 made up KZT 25.8 bln. The total number of subscribers of digital, satellite and cable television reached 2 466 thousand, including pay TV subscribers – 1 322 thousand.

The share of the market for pay TV across revenues from services in 2015



Source: Just smart solutions LLP

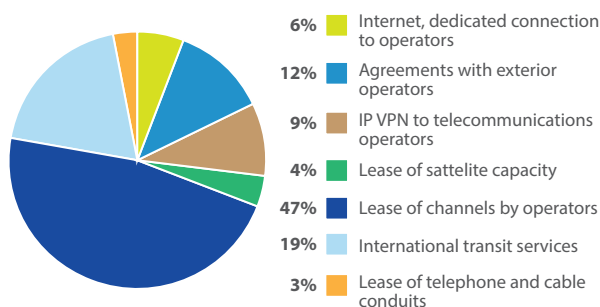
The total increase of the subscriber base of pay TV in Kazakhstan in 2015 made up 159 000 subscribers. Alma TV, kazakhstani operator of cable TV and provider of the Internet has the largest number of connections – 53% (84 000 new subscribers) due to promo actions and attractive prices, and also merger of the infrastructure of Alma TV and ICON TV. Around 11% of all new pay subscribers opted for the national satellite operator OTAU TV (18 000 subscribers), with 13% or 20 000 connections going to other operators.

**The market for ICT services.** In the market for the ICT services provided by telecommunications licensed companies the situation is also characterized by tough competition in terms of both provision of both data center services, engineering of hardware, and various IT outsourcing services.

The market for ICT services in the telecommunications market is not considered to be a key market, but rather auxiliary one, and makes up only KZT 12.57 bln. The ICT services provided by telecommunications operators encompass the services of hosting, collocation, data storage, dedicated communications channels (lease of IP addresses), virtual hosting, lease of cloud SW, remote system administration, development and servicing of software.

**Operators market for telecommunications services.** In 10 months of 2015, the volume of revenues on the operators segment of the market participants made up around KZT 95.3 bln. The estimate for 2015 forecasts the volume of the operators segment to come to KZT 114.4 bln, an increase compared to 2014 made up 24%. This increase is attributed to the commissioning of new sections of telephone and cable conduits, backbone channels of FOCL with shares of participation of 4 (four) players of the market (TNS-Plus KaR-Tel LLP, ASTEL JSC, Transtelecom JSC and KazTransCom JSC), and to a subsequent increase of the data communication traffic via these channels.

The structure of the operators segment in 2015



Source: Just smart solutions LLP

The major changes of the market occur not due to emergence of new weighty niches that make impact on sales volumes, but rather due to internal diversification of the market segments. The large option of alternative types of services and liberalization of the market on the number of the licensed players led to intensification of tariff competition and reduction of prices for telecommunication services for the population and businesses. Further development of the market will occur in the overflow of revenues and subscribers between the various segments of the market, and also in the direction of concentration of the market between the largest telecommunications holdings currently operating in the market.

## REVIEW OF THE INDUSTRY'S REGULATORY ENVIRONMENT

The Law of the Republic of Kazakhstan «On Communications» which establishes legal basis of the activity in the field of communications within the Republic of Kazakhstan, specifies state bodies' terms of reference in respect to regulating this activity, rights and duties of individuals and legal entities providing or using communication services is the fundamental statutory act.

The Committee for Communications, 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.

The year 2015 saw significant changes in the legislative environment both on the issues related to the provision of services in the field of communication, and on those issues that have regulatory importance for the Company.

The most important are the following legislative acts adopted in 2015:

1. The Entrepreneurial Code of the Republic of Kazakhstan as of October 29, 2015, № 375-V, and the Law of the Republic of Kazakhstan as of October 29, 2015, № 376-V «On introduction of changes and amendments in some legislative acts of the Republic of Kazakhstan on the issues of entrepreneurship» that come into effect from January 1, 2016.
2. The Law of the Republic of Kazakhstan as of October 31, 2015, № 379-V «On state-private partnership» that gives the opportunity to subject of entrepreneurship to participate in the programs of state-private partnership.
3. The Law of the RK as of November 24, 2015, № 418-V «On informatization» and the Law of the RK as of November 24, 2015, № 419-V «On introduction of changes and amendments to some legislative acts of the Republic of Kazakhstan on the issues of informatization».

The Law of the Republic of Kazakhstan «On introduction of changes and amendments to some legislative acts of the Republic of Kazakhstan on the issues of informatization» introduced changes to the basic for the telecommunications industry Law of the RK «On communication». In addition to that the competence of the authorized body in the part pertaining to approval of normative acts including in the field of regulation and control in the sphere of natural monopolies and in the regulated markets was extended. Also, changes and amendments were introduced to the order of interaction of telecommunications networks. Pursuant to the changes introduced to the Law of the RK «On communication» the owners of buildings and structures are now obligated to provide the premises (area) to telecommunications operators on equal terms under an agreement on deployment by operators of telecommunications equipment with a view to providing telecommunications services.

Also, the Law of the RK «On communication» is complemented with an article on transfer of a subscriber number within the cell communications networks pursuant to which the transfer of a subscriber number is to be made free of charge. The subscriber is entitled to preserve and subsequently use the previous number when concluding new agreement on provision of cell communication services with another cell communications operator.

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

### Services in the sphere of natural monopolies

Pursuant to the order of the Minister of national economy as of December 30, 2014 № 186 «On approval of the List of regulated services (goods, works) of subjects of natural monopolies», making telephone conduit system available for use is attributed to the services in the sphere of natural monopolies in the field of telecommunications.

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

Pursuant to the Entrepreneurial Code of the Republic of Kazakhstan as of October 29, 2015, № 375-V of the Law of the Republic of Kazakhstan the Company is also subject to regulation by an Authorized Body in terms of the services that are on the list of the State Registrar of the market subjects occupying dominant or monopolistic positions in regulated markets:

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' 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 (individuals).
14. Services of telegraph communications (legal entities).
15. Services on passing through by connecting operators of telephone traffic from (to) equipment (access nodes) of IP-telephony operators (Internet telephony).
16. Services on connecting to PTN of IP-telephony (Internet telephony) operators' equipment (access nodes) at intercity level.

## 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 1 024 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 that were included in the List of services 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 and are subject to price regulation:

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

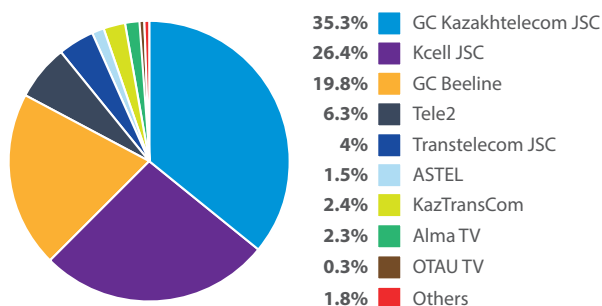
## THE COMPANY'S POSITION IN THE INDUSTRY

### 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.

In 2015, the market shares were divided between the operators in the following proportion:

*Shares of the market held by operators in the common market for communication services in 2015 on the aggregate revenues*



Source: Just smart solutions LLP

The Group of companies of Kazakhtelecom JSC (35.3%), Kcell JSC (26.4%) and GC Beeline (19.8%) preserve their dominant positions in the market in 2015. Concentration of the market by 9 key groups reached its limit of 98.2% (the share of small players makes up only 1.8% of revenues from communication services).

In 2015, the Group of companies of Kazakhtelecom JSC strengthened its leading position increasing its market share from 33.4% in 2014 (according to specified data) to 35.3% in 2015 mainly due to intensive development of its mobile asset – ALTEL JSC, providing cell communications services GSM and mobile broadband data communications services (BDC) in LTE standard.

To date, Kazakhtelecom JSC is the unconditional leader of the market for fixed communication and the largest universal

operator with the capability of providing its services practically in any point of the country being the key advantage over its rivals. The Company is holding leading positions in the market for telecommunications services for state managerial bodies of all level.

*The market share of the GC of Kazakhtelecom JSC (in percentage of subscribers) across major telecommunications services, in 2015*

Services	Share of the GC Kazakhtelecom JSC
Fixed telephony	93.3%
Cell communication	11% <sup>1</sup>
Fixed Broadband Data Communication (BDC)	72.7%
Pay TV	24.6%

<sup>1</sup> The market share of ALTEL JSC – subsidiary company of Kazakhtelecom JSC

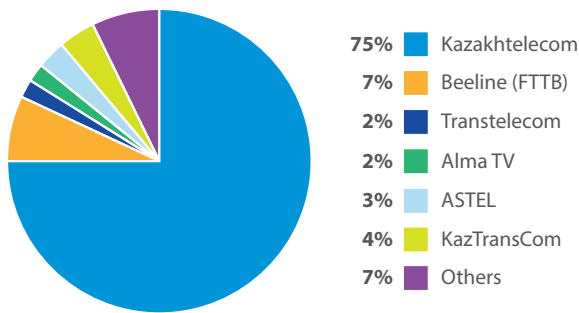
In the market for fixed types of communication, Kazakhtelecom JSC remains the leader. To preserve the leading positions in this market the Company undertook the measures directed at implementing the commercial proposals that meet to the highest degree possible the clients' demand for modern telecommunications products, at optimizing tariff lines as well as further enhancing quality of communication and efficiency of servicing.

The share of the Kazakhtelecom JSC's subscribers among the fixed telephony communication subscribers in 2005 made up 3 878 584 lines or 93.3% of the whole telephony subscriber base.

**IN THE SEGMENT OF FIXED BDC (BROADBAND DATA COMMUNICATION) IN THE INTERNET, KAZAKHTELECOM JSC PRESERVES ITS LEADERSHIP POSITIONS WITH MARKET SHARE ON REVENUES OF 75%.**

The share of the Kazakhtelecom JSC's fixed BDC Internet subscribers makes up 1 502 632 subscribers or 72.7% of the whole active subscriber base in Kazakhstan.

*The market share of fixed BDC in money terms in 2015*



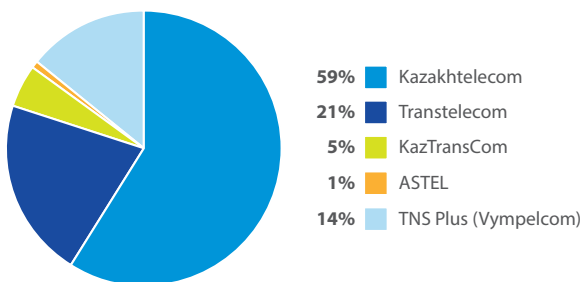
Source: Data provided by Just smart solutions LLP

The market for data communication via communications channels in 2015 made up KZT 26.6 bln. Kazakhtelecom JSC is the leader of the market with the market share of 74% followed by KazTransCom JSC – 20%, and Transtelecom JSC – 6%.

On the operators segment of the market the GC of Kazakhtelecom JSC also preserves its leading positions with the market share of 59% (without interconnect). In the reported year, this segment demonstrated small revenue increase – 4.9%. The Kazakhtelecom JSC's revenue growth rate in the operators segment was lagging behind the general growth rate of the operators market due to the proceeds that the incumbents started to receive from operating the FOCL in the direction of Horgos.

In 2015, the volume of the market for services to operators (without interconnect) made up KZT 54.70 bln, which is 20% higher than the 2014 indicator.

*Market shares divided between the incumbents in the market for operators services (without interconnect) in 2015*



Source: Data provided by Just smart solutions LLP

The mobile communication became the fastest growing type of business of the GC of Kazakhtelecom JSC in 2015 with the increase of revenues making up 77.8% against the previous year's figure. The Group's share in the total subscriber base grew from 4.58% in 2014 up to 10.7% in 2015.

Intensive development in the market for mobile communication was achieved due to flexible tariff policy on LTE services, 4G promo actions – the factors contributed to the fast inflow of subscribers of ALTEL JSC, subsidiary company of the Group.

## Affect of the state on the Company's activity

In its activity Kazakhtelecom JSC first and foremost follows the following basic legislative acts of the Republic of Kazakhstan:

1. The Law «On communication».
2. The Law «On natural monopolies and regulated markets».
3. The Law «On Joint Stock Companies».
4. The Entrepreneurial Code.

And yet the Company falls under the whole set of sub-legislative normative legal acts that regulate the issues related to the provision of communication services, adoption of tariffs, rights and obligations of a telecommunications operator, consumers of services and state, and other issues in the field of telecommunications.

The state regulates and controls the Company's activity through its authorized body – CCII MID RK. The CCII MID RK is also an authorized body in the sphere of natural monopolies in the field of telecommunications concurrently providing for control and regulation of the Company's activity as of the entity of natural monopoly. In addition to that, in the part pertaining to protecting competition, the Committee for regulation of natural monopolies and protection of competition of the Ministry of national economy of the RK exercises its terms of reference with regard to the Company's activity.

Kazakhtelecom JSC is registered in the Republican section of the State registrar of the entities (subjects) of natural monopolies, in the State registrar of the market entities (subjects) that hold dominant or monopoly position in the regulated markets, and also is an operator of «the universal services». Tariffs for services of the entities (subjects) of natural monopolies, for the regulated telecommunications services included on to the Registrar of the subjects of market that hold dominant or monopoly position, universal telecommunications services and services provided to enforcement bodies are subject to compulsory state regulation and approval by an authorized body in the field of communication.

Changes in the telecommunications market and emergence of new communication operators stipulates for changes in the industrial legislature of the RK. Specifically, as a result of changes introduced to the List of regulated services of subjects of natural monopolies approved by the order of the Ministry of national economy of the RK as of December 30, 2014, № 186, the number of types of regulated services being provided by the Company in the sphere of natural monopoly, in 2015, reduced from three to one type: making telephone conduit available for use.

Also, in 2015, following the Order of the acting Minister on investments and development of the RK as of February 24, 2015, № 171, the Company approved «The rules for providing communications services» that define the order for provision of telephone communications services, cell communications services, and access to the Internet services.

The Company's use of national resources in the field of communications is regulated by state administration bodies.

When introducing new services, 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 files, according to the established order, an application on E-licensing portal [elicense.kz](http://elicense.kz). The application is then to be considered by an authorized body within 30 calendar days upon which a corresponding permission is to be issued (Order of the CCII of the MID RK).

## Subsidies and guarantees of the state in the telecommunications industry

The laws of the Republic of Kazakhstan provide for a mechanism of subsidizing unprofitable universal telecom services. According to the Law «On Communications» of the Republic of Kazakhstan universal telecom services is the minimum list of telecom services developed by authorized body and approved by the Government of the RK. Universal service operators are obliged to provide those services to any user in any settlement within the established terms and of quality, and at affordable price.

Authorized body in the field of communications annually determines, on a competitive basis, a universal service operator. Taking into account that the development of telecom services in rural areas is economically unattractive for other telecom operators and other telecom operators do not participate in universal service operator tendering, these obligations are imposed on the Company, as on an 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.

In 2015, subsidies amounting to KZT 7.01 bln provided for in the Republican Budget were used by the Company in full.

## BUSINESS PORTFOLIO

*«There is only one real thing in the world – a passion for growth»*

*Pierre Teilhard de Chardin*

Kazakhtelecom JSC' growth in the telecommunications market is based on changing its services structure by increasing the share of up-to-date services by convergent fixed and mobile access, as well as by content and applications.

The Company is actively developing and introducing new types and packages of services based on traditional fixed services. Services in packages are more attractive for subscriber due to the convenience of using the wide spectrum of requested services. In 2015, Kazakhtelecom JSC continued to provide people and enterprises with innovative high-tech telecom solutions for home and office within its Long-term Development Strategy.

Kazakhtelecom JSC's business portfolio includes the full range of telecommunications services represented practically in all regions of our country and beyond.

### New services

Modern telecommunications facilities, by boosting people to interact using the means of communication, are a prerequisite for social cohesion, cultural and economic development of Kazakhstan. The list of provided services is constantly expanding with their quality being improved.

With the view to increasing ARPU and revenues Kazakhtelecom JSC carries out the huge work on developing new services and upgrading the existing ones.

The list of introduced new services was completed by such services such as Safe Internet (Parental Control), Protection against DDoS-attacks, Virtual Firewall, Deferred Payment, Cash Register Machines (Fiscal Data Operator), FMS Packages, and iD TV Online packages with Megogo movies library.

In general, Kazakhtelecom JSC develops new services in such areas as Converged Products, Cloud Services, Pay TV services, M2M.

### New broadband-based services include 7 main areas:

#### CONVERGED PRODUCTS

- FMS Products
- iD Net Wireless
- Mobile Office
- FMC

#### INTERNET FOR STATE BODIES

#### CLOUD SERVICES AND IT OUTSOURCING

- Microsoft Products
- Data Storage System
- Private Cloud Environment
- Print Services
- Cloud Webinar
- Remote access to IP KVM switch
- Dynamic Cloud Server
- Data Center Protection System

#### PAY TV SERVICES

- iD TV Online
- HD
- Smart TV
- Movies Library

#### M2M

- Fiscal Data Operator
- Emergency calls
- GPS-monitoring
- Video Surveillance (Safe Yard)
- Smart House

#### LLT TRANSIT SERVICE

#### AUXILIARY BROADBAND SERVICES

- Safe Internet (Parental Control)
- Protection against DDoS-attacks
- Virtual Firewall
- Deferred Payment

## Package solutions

Following the telecommunications market development trends and changes of users' preferences, Kazakhtelecom JSC focuses on the development of package solutions. In view of this, the Company is launching package solutions and offering converged packages of services to fixed and mobile subscribers.

Kazakhtelecom JSC's converged packages are unique in the Kazakhstani market and include the full range of telecommunications services: mobile and fixed telephony, and Broadband Internet Access (hereinafter – BIA) under «Megaline»/«iD Net» and «ALTEL 4G» brand names.

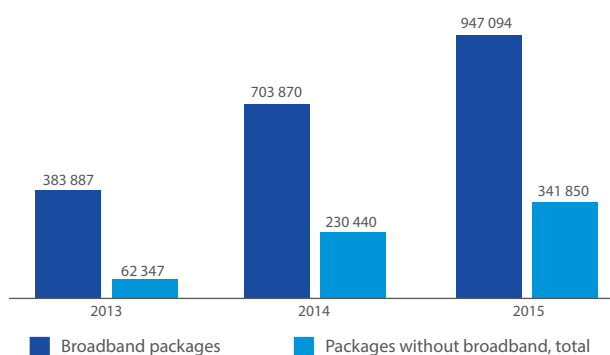
**FMS products** are the packages which include Kazakhtelecom JSC's services (fixed telephony, SIP-based platforms, broadband Internet, Asia Cell LLP's cable television services, Alacast LLP's digital TV services) and Partner's mobile services (mobile telephony, mobile broadband, auxiliary services).

Further development of Kazakhtelecom JSC's converged products resulted in the launch of «Family Solution» package of fixed and mobile communication in October 2015. Thus, Kazakhtelecom JSC has developed and implemented two lines of FMS products: packages of «Universal Number» and «Family Solution» services. These packages attract subscribers due to their cost effectiveness and ease of use.

The Company also continues to actively promote Double and Triple Play concept packages. Double Play package offers include broadband and telephony services or broadband and pay TV. The packages are represented in the market under «Megaline» and «iD Net» brand names. Triple Play package offers include the services based on broadband, pay TV, and telephony under «iD Home» brand name.

On 2015 results, the number of service package subscribers, including broadband and traditional telephony-based services, made up around 1 288.6 thousand people.

*Dynamics of package offer subscribers, 2013–2015*



## Major Services

### Internet access and data communication services

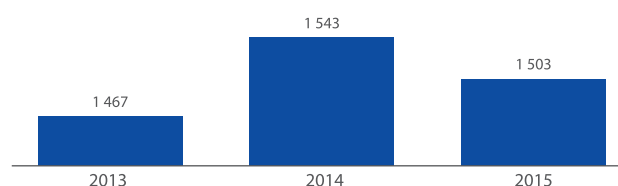
#### iD Net and Megaline broadband

#### Internet access services

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

In 10 years, the broadband customer base increased by more than 250 times from 6 thousand up to 1 502.6 thousand subscribers. Today, the «iD Net» access service is provided in oblast centers and large cities of the Republic of Kazakhstan.

*Fixed Broadband Subscribers (2013–2015), thousand ports*



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

- WLL CDMA EVDO
- Wi-Fi Internet in public places

The broadband WLL CDMA/EVDO-based service under «Megaline EVDO» brand name is offered to rural population with the aim to provide Internet access services in areas where fixed broadband services cannot be technically provided.

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

At year-end 2015, more than 20 thousand sites were interconnected into the corporate network across the Republic of Kazakhstan and beyond based on IP VPN service of Kazakhtelecom JSC.

### Info-communication Services

Kazakhtelecom Group continues to implement and develop **Info-communication services**.

The Company provides the operation of the largest Data Center in the CIS. A chain of data centers of 14 sites is operating in the country. Shared Hosting, VPS, Colocation, Dedicated, video conferencing system, Microsoft Hosted Exchange, and Microsoft Hosted SharePoint services are provided on the basis of these data centers.

## Pay TV

In 2015, the Company continued the development and promotion of **iD TV digital television services** including **subscription video on demand, karaoke, package of HD TV channels and Online access (iD TV Online)**.

**HD-broadcasting represents the packet of channels** with high definitions of images in the format Full HD. The structure of the HD TV packages enables users to choose standard or premium set of TV channels depending on personal preferences and needs. «Basic HD» package provides access to 10 HD channels. «Viasat Premium HD» package provides access to 5 channels.

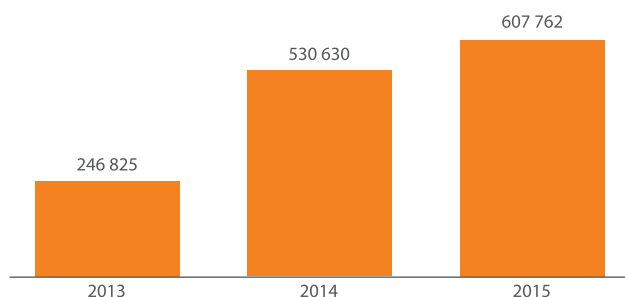
**Online access of «iD TV» service (iD TV Online)** – a supplementary service of iD TV that enables to watch TV channels and video content, without using Set Top Box, on different multimedia devices (PC, tablet, smartphone, media box, smart TV) connected to Kazakhtelecom JSC's broadband network (including Wi-Fi wireless technology). The numbers of channels in the services makes up 72 channels, and in addition to that, the users are provided with access to the movies library from Megogo company (more than 6 000) and Amedia (popular serials).

**Subscription video on demand** – a unique opportunity to order and watch any movie or program from regularly updated video catalogue. The user can choose an episode, stop watching and continue it in any convenient time within 24–72 hours after the purchase of the service. Video on a subscription is presented by such packages as **Amediateka** (over 50 rating popular series from HBO, Netflix, FOX, etc.), **Kazakhstan** (library of popular Kazakhstan shows, movies and series).

**«Karaoke» service** – supplementary service of «iD TV», provides access to the library of 3 000 songs.

**Regional packages** «Batys», «Shygys», «Ontustik», «Soltustik» – regional channels are provided in separate free packages for subscribers' convenience, available to subscribers from any region of the RK.

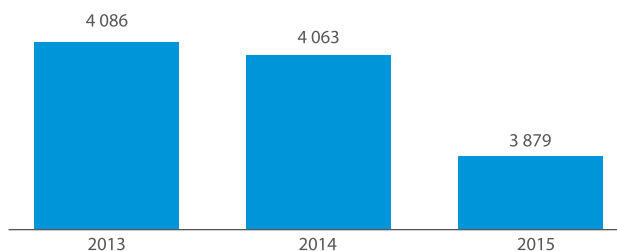
Pay TV Points, 2013–2015



## Traditional Services

**Local Telephony.** Kazakhtelecom JSC has provided local telephony services for more than 20 years. In 2009, our Company brought to the market virtual office telephony service under iD Phone brand name. In remote regions the Company provides CDMA – based telephony services.

Fixed Telephony Subscribers (2013–2015), 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 type of communications services in different areas, both within the Republic of Kazakhstan and beyond (CIS and overseas).

Kazakhtelecom JSC is continuously taking steps to reduce tariffs and improve the billing system with a view to increase subscribers' opportunities of keeping in touch with their nearest and dearest, colleagues and partners regardless of their geographic location.

**Intelligent Services.** Intelligent services of Kazakhtelecom JSC are the universal solutions for businesses which enable to immediately collect or provide any information by phone in automatic or semi-automatic mode as well as provide customers with other complimentary services, such as toll free, paid information service and televoting.

**Services provided to telecom operators.** Kazakhtelecom JSC provides services in operator segment in strict compliance with the applicable laws and principles of mutually beneficial partnership. The Company is committed to maintain and develop its competitive advantages, such as the 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 of high capacity that provides proper and reliable services to operators and their subscribers.

**The major categories of services in this segment are as follows:**

- organization of the Internet access for ISPs of the RK;
- leasing out the long distance domestic and international digital circuits to users.

Over the last years, the Group of companies of Kazakhtelecom JSC has been constantly undertaking measures aimed at ensuring competitiveness of the access to the Internet for ISP-providers of the RK and lease of backbone communications channels services by reducing tariffs and enhancing reliability and quality every year.



## Innovations of 2015

In conditions of stiff competition in the Kazakhstani telecommunications market, high mobile penetration, and increase of customer requirements to services rendered, one of the extremely challenging tasks of Kazakhtelecom JSC consists in churn prevention.

With the view to reduce the churn, churn specialist positions were introduced in the affiliated branches in 2015. Churn Management Regulations were developed and Save Desk Tariff Control System as well as the Churn Specialist Motivation System (SROA 1 – piecework-pay; SROA 2 – piecework-bonus) were introduced.

This work will be continued in 2016.

Along with the introduction of new types of telecommunications services, the major driver of Kazakhtelecom JSC's development is the improvement of telecommunications services quality.

In July 2015, within improving customer service quality, CRM Sensor customer evaluation system was introduced in affiliated branches. The system enables to evaluate customer service quality, control fake scores, as well as evaluate customer loyalty to Kazakhtelecom JSC's services (compared to the beginning of the system implementation, by the end of the reporting year, NPS increased from 68.6 to 89.4% with the service quality being risen from point 4.8 to point 5).

The possibility to evaluate customer loyalty was introduced on the corporate website and Method of Integrated Index Calculation «Customer Loyalty Index NPS» was worked out.

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## DEVELOPMENT OF MOBILE SEGMENT

*In little less than 30 years mobile communication technologies have made the dizzying pirouette. Subscriber does not feel geographic attachment and can use high quality telecommunications services wherever he/she is.*

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.

In 2015, Kazakhtelecom JSC jointly with ALTEL JSC, a subsidiary with 100% equity interest of the Company (hereinafter – Company), continued to implement 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 YEAR 2015 WAS EXTREMELY PRODUCTIVE FOR ALTEL JSC, THE COMPANY MANAGED TO DOUBLE THE NUMBER OF ACTIVE SUBSCRIBERS AND REVENUES. PACKAGES OF SERVICES, UNIQUE IN TERMS OF VOLUME AND CONTENT, WHICH ENABLED TO FEEL TO THE FULL EXTENT ALL ADVANTAGES OF USING LTE/GSM/UMTS MULTI-TECHNOLOGY NETWORK WERE ROLLED OUT. PREPARATORY WORKS TO LAUNCH THE MNP SERVICE HAVE BEEN ALSO CARRIED OUT SINCE JANUARY 1, 2016.

## THE COVERAGE BY LTE/ GSM /UMTS NETWORKS

### 2012 – 2013

- **The cities of 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, Satpayev, Semei, Temirtau, Turkestan, Ekibastuz, and their suburbs.

### 2015

- **81 regional centers**  
In addition, 464 settlements were covered by LTE/GSM/UMTS network.

### LTE/GSM /UMTS network as of the end of 2015:

- the first multi-technological converged network 4G+3G+2G;
- 664 settlements are covered by the network in Kazakhstan;
- LTE/GSM/UMTS network includes 3 119 base stations;
- coverage of population by LTE/GSM/UMTS network made up 65.5%;
- LTE/GSM/UMTS network covers Astana, Almaty, 14 oblast centers and their suburbs, as well as 81 regional centers;
- more than 2.6 million active subscribers.

In 2016–2017, further expansion and construction of LTE/GSM/UMTS network is planned in 80 regional centers.

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

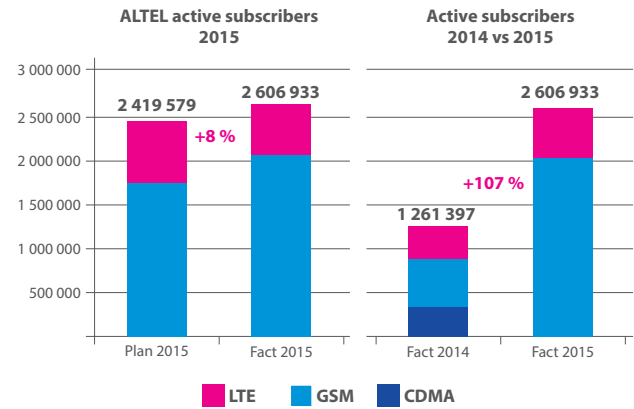
### Synergy of the LTE network construction project with the FTTH project of Kazakhtelecom JSC:

- high bandwidth capacity 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 bandwidth capacity of LTE network built upon the most distributed optical transportation network in the RK from Kazakhtelecom JSC.

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

### ALTEL JSC's position in the telecommunications market of Kazakhstan in 2015

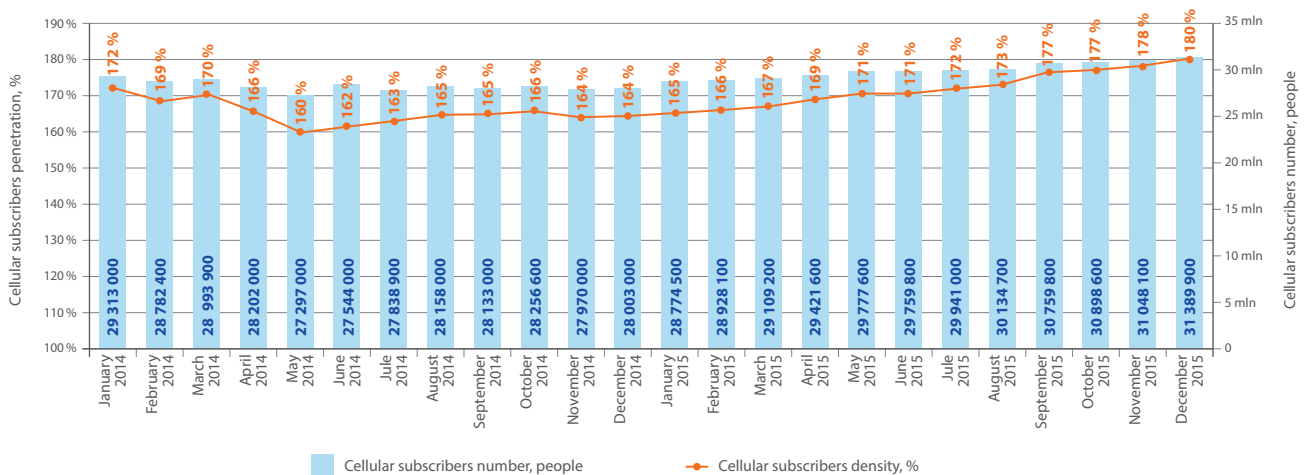
Marketing actions actively carried out during 2015 were aimed at attracting subscribers to use LTE/GSM/UMTS network and fulfilling subscriber base plan.



According to the operative data of the Committee for Statistics of the Ministry of National Economy of the Republic of Kazakhstan, subscriber growth in the mobile market of Kazakhstan for 2015 relative to 2014 made up 12%, while ALTEL JSC's growth reached 107%. Thus, due to clear marketing policy the Company managed to significantly exceed the market potential having increased its subscriber base by twice.

It is worth mentioning that the subscriber base was steadily growing in conditions of a stiff price competition and market saturation. On the results of 2015, the penetration rate made up 180%.

Cellular penetration of the RK





«The more active you are in trying something new, the more chances you'll have to get to know something worthwhile»

*Sergey Brin*

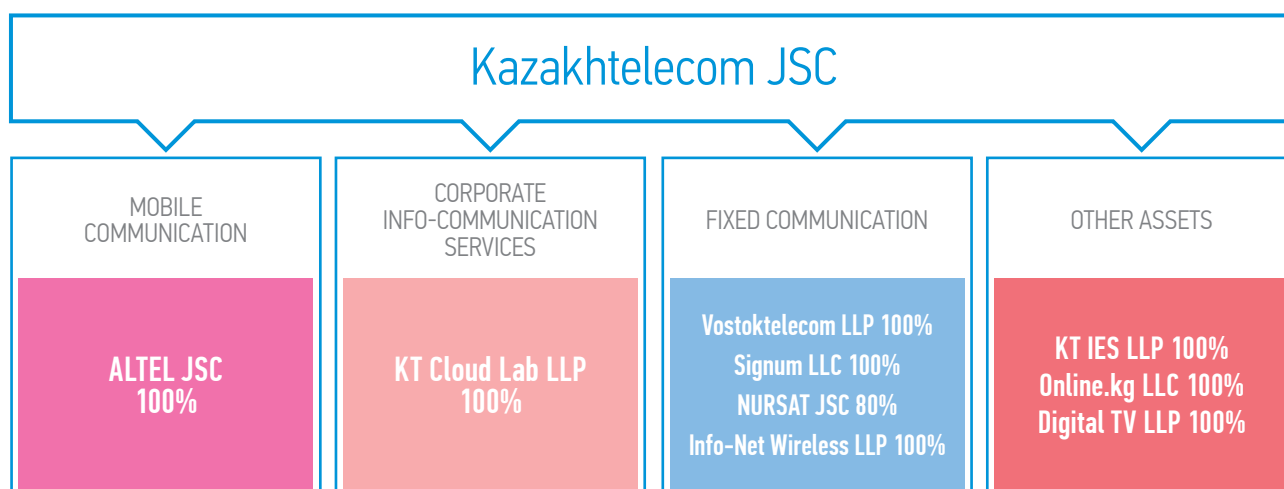


**STRUCTURE**  
**OF THE COMPANY'S ASSETS:**  
subsidiary organizations

## STRUCTURE OF THE COMPANY'S ASSETS: SUBSIDIARY ORGANIZATIONS

THE SUBSIDIARY ORGANIZATIONS DO CONTRIBUTE TO THE DEVELOPMENT OF KAZAKHTELECOM JSC BY PRESENTING AND PURSUING ACTIVITY IN THE KEY SEGMENTS OF THE TELECOMMUNICATIONS MARKET.

STRUCTURE OF THE GROUP OF COMPANIES: SUBSIDIARY ORGANIZATIONS AS OF 31.12.2015



Within the framework of the implementation of one of the 4 strategic initiatives on transforming Kazakhtelecom JSC – building up efficient business model of Kazakhtelecom JSC – in 2015, the Company continued the work on restructuring its subsidiary organizations:

- following the plan for integrating NURSAT JSC, the Company held actions aimed at optimizing the NURSAT JSC's networks and services, acquired a 100% interest (share of participation) of Info-Net Wireless LLP – subsidiary company of NURSAT JSC, and also redeemed 20% shares from the state;
- the Company acquired 100% interest (share of participation) of MaxCom LLP – subsidiary company of ALTEL JSC;
- within the framework of the program of modernization of the business model based on KT Cloud Lab LLP, the Company carried out the work on centralization of supporting functions in IT-sphere with the Single IT servicing Center of the Group of companies of Kazakhtelecom JSC providing the services;
- VOSTOKTELECOM LLP extended its sphere of servicing functions by providing maintenance services to ALTEL JSC's telecommunications structures within the framework of joint with Kazakhtelecom JSC works on technical maintenance of the equipment and structures of multicervice network LTE/GSM/UMTS of ALTEL JSC.

IMPLEMENTATION OF THE PROJECT ON STRATEGIC PARTNERSHIP IN MOBILE SEGMENT SEEN AS A MAJOR DRIVER FOR IMPLEMENTING STRATEGIC INITIATIVE ON TRANSFORMATION OF KAZAKHTELECOM JSC INTO AN INTEGRATED OPERATOR BECAME THE COMPANY'S FOCAL POINT.

In November 2015, Kazakhtelecom JSC made a deal with Tele2 Group on setting up a joint venture in mobile segment on the basis of the businesses of ALTEL JSC (brand «ALTEL 4G») and Mobile Telecom-Service LLP (brand «Tele2»). The partnership between Kazakhtelecom JSC and Tele2 Group in mobile communication segment does correspond to the strategic interests of both parties in creating a strong third party in the Kazakhstani market. The partnership will strengthen the positions of both parties in the market of Kazakhstan for mobile communication and provide the consumers of mobile services with new opportunities at the expense of extension of coverage by the network, use of advanced technologies, such as 4G/LTE and increase of the range of services provided. The new operator's registered subscriber base as of the moment of the deal closure (upon finalizing the terms of the deal) will exceed 7 mln subscribers, which will correspond to more than 20% share of the market.

УАҚЫТ КЕЛДІ • TIME HAS COME



## PROVISION OF CELL COMMUNICATION SERVICES (GSM, LTE, CDMA, EVDO)

**ALTEL JSC – THE OPERATOR OF MOBILE COMMUNICATION SERVICES OF THE GROUP OF COMPANIES OF KAZAKHTELECOM JSC.**

WITHIN THE FRAMEWORK OF THE IMPLEMENTATION, JOINTLY WITH KAZAKHTELECOM JSC, OF THE LARGE STRATEGIC PROJECT «INTRODUCTION OF LTE/GSM/UMTS NETWORKS ON THE TERRITORY OF THE RK IN 2012–2021» UNDER THE TRADE MARK «ALTEL 4G:GSM» THE COMPANY INTRODUCES THE CONVERGENT MULTI-TECHNOLOGICAL NETWORK WITH CONCURRENT SUPPORT OF 4G/3G/2G TECHNOLOGIES.

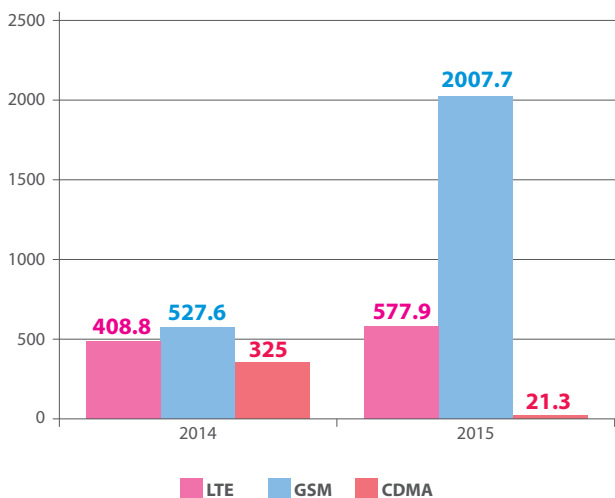
Outcome for 2015:

- active GSM subscriber base of ALTEL JSC increased by 3.8 times by the end of the year, as compared to 2014;
- on the results of 2015, revenues amounted to KZT 42.2 bln. Compared to 2014, the increase in revenue made up 113%.

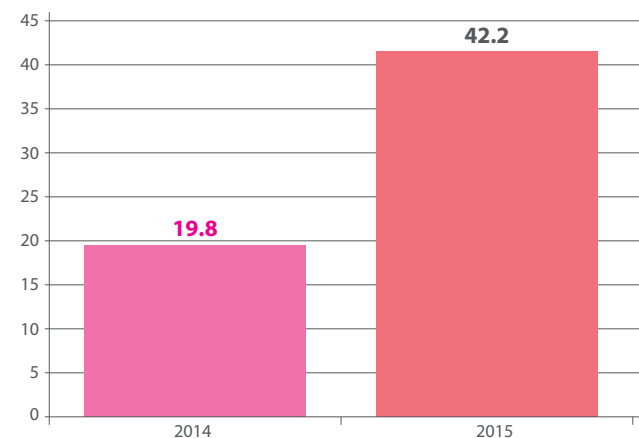
Tasks for 2016:

- to carry out activities within the joint venture with Mobile Telekom-Service LLP;
- to further extend and build LTE/GSM/UMTS network by covering regional centers;
- to increase subscriber base;
- to develop joint services with Kazakhtelecom JSC.

Subscribers of ALTEL JSC (thousand)



Revenues of ALTEL JSC (KZT bln)



## CORPORATE INFO-COMMUNICATION SERVICES

### The main activity directions of KT Cloud Lab LLP:

- Republican Contact Center of Kazakhtelecom Group;
- Data Center in FEZ «Park of Innovative Technologies»;
- Common IT Service Center of Kazakhtelecom Group.

The Company processes a technological base to provide the following commercial services:

1. TIER II Info-Communication Center in FEZ PIT in the city of Almaty. Services related to equipment placement, virtual servers lease, cloud-based electronic document turnover, and other services are provided on the premises of the Info-Communication Center.
2. Common Republican Contact Center (RCC) of Kazakhtelecom Group with 3 regional platforms in the cities of Astana, Almaty, and Karaganda. The platforms' geography ensures full backup, dynamic load distribution, and flexibility. Information and reference services for Kazakhtelecom JSC and cellular operators, outsourcing contact center services for e-Procurement of Samruk-Kazyna Contract LLP, Kaspi Bank JSC, ALTEL JSC, Common Securities Registrar JSC, and other customers are provided on the premises of the Republican Contact Center.

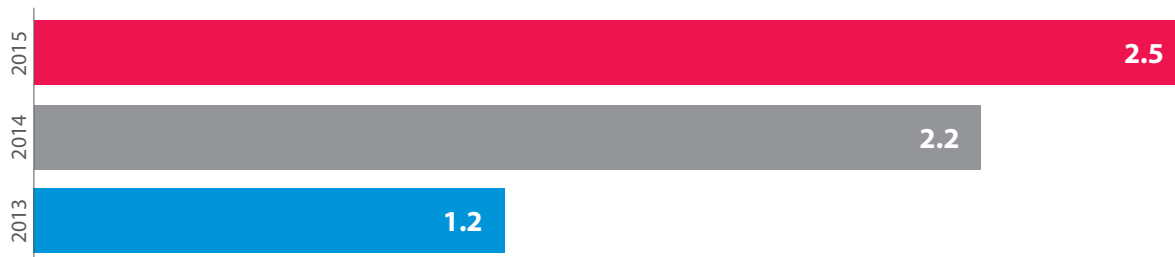
### Outcome for 2015:

- on 2015 results, the revenue yielded by the company amounted to KZT 2 451 242 thousand, compared to 2014 revenues increased by 13%;
- the Company was awarded the title «The Best Innovative Enterprise» of FEZ PIT;
- within the «Orleu» Transformation Program a Common IT Service Center of Kazakhtelecom Group was set up on the basis of KT Cloud Lab LLP: the Common Center's recourses were grouped, the work was organized, provision of services to the Company across Kazakhstan (more than 20 cities) was started.

### Tasks for 2016:

- further implementation of Data Processing Center services in FEZ PIT;
- implementation of new projects of outsourcing contact centers;
- development and implementation of new products, services, and cloud services;
- building competency of the Common IT Service Center.

Revenues from the sale of KT CL LLP (bln, tenge)



# VOSTOKTELECOM LLP

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

The company's activity is aimed at upgrading and developing the rural telecommunications networks on the basis of radio access network CDMA/EVDO-450 by building and bringing into operation base stations within the joint project with Kazakhtelecom JSC.

### Outcome for 2015:

- technical base of Vostoktelecom LLP, as CDMA/ EVDO-450 network operator, was extended up to 805 EVDO plateau base stations with the coverage of all RK oblasts that enables to provide telephony services to around 579 600 subscribers and broadband data communications services to around 72 450 subscribers of Kazakhtelecom JSC in rural settlements;

- within the intragroup project on maintenance of ALTEL JSC' equipment and LTE/GSM/UMTS multiservice network facilities, Vostoktelecom LLP maintained antenna-feeder devices and antenna mast structures of ALTEL JSC.

### Tasks for 2016:

- high-quality operation and maintenance of the existing wireless access network CDMA-450 to secure the provision by Kazakhtelecom JSC of telephony and broadband access services in rural area;
- extension of the area of intragroup service on maintaining telecom equipment and facilities.

# SIGNUM LLC

## TECHNICAL STATION WITHIN THE RUSSIAN FEDERATION (MOSCOW)

The company's activity is aimed at ensuring the operation of Kazakhtelecom JSC's communication station across the Russian Federation with the view to connecting and servicing Kazakhtelecom JSC's customers through the IPLC and IP VPN channels, and the operation of «Telepresence» high quality video conference communication system in the city of Moscow.

### Outcome for 2015:

- fail-safe and trouble free operation of the telematic services (divisions) and data communications services on LDDITS №9 (Long Distance Domestic and International Telephone Station) and connection of new corporate customers to the node equipment was provided;
- modernization increased the general bandwidth capacity of the node ports at LDDITS №9 up to 604 Gbps;
- technical support of «Telepresence» video-conference communications sessions was provided.



### Tasks for 2016:

- to provide the operation of the communications node with the aim of securing the growth of commercial traffic and new customer connections of Kazakhtelecom JSC.





«Establishment of efficient leadership consists in thinking through the Company's mission, its determination and setting in clear-cut and graphical manner. A leader sets up objectives, points out to priorities, sets and supports standards»

*Peter Ferdinand Drucker*



**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 2015, Kazakhtelecom JSC continued focusing on holding leading positions in the telecommunications industry. Significant efforts were aimed at retaining subscribers in the wholesale segment and accumulating customer base in the broadband and pay TV market. From the beginning of 2015, the following services were put in operation: «**Parental control**», «**Static IPv4**», «**Reception 24**», «**iD TV Online Plus**», «**SVoD for iD TV Online**», «**Fiscal data operator service**», «**Online video**», «**Safe Internet**» for legal entities, «**FMS**», «**Deferred payment**».

BY JANUARY 1, 2016 THE FOLLOWING INDICATORS WERE ACHIEVED:

Number of fixed lines made up  
**3.88 mln units;**

Number of fixed lines –  
**1.5 mln ports;**

Number of mobile subscribers (voice) –  
**2.029 mln subscribers;**

Number of mobile subscribers (broadband) –  
**about 578 thousand subscribers.**

Moreover, Kazakhtelecom JSC continued upgrading its backbone network. By developing the potential of the backbone network the Company breaks a ground for ensuring growing demand on modern and high quality telecommunications products and provides users with access to services in all oblasts of the country.

The backbone and transit traffic were switched to 100 Gbps DWDM network that enables to significantly reduce network latency and scale out in the long run.

The coverage area of the LTE/GSM/UMTS network was extended in addition to the covered cities of Almaty and Astana, oblast centers and their suburbs, as well as cities with populations over 50 thousand people. The population coverage made up 65.5%.

As of today, 15 data centers of Kazakhtelecom JSC have been operating across the Republic of Kazakhstan. Both traditional basic services (Collocation, Dedicated, Rent a rack) and cloud services (VPS, Virtual Hosting, Data Storage System, Dynamic Cloud Server, Virtual Data Center and others) were provided on the basis of these centers in 2015.

Consolidated revenues from the sale of Kazakhtelecom JSC's services amounted to KZT 189 754 mln<sup>2</sup>, or 91% compared to the previous year.

Consolidated net profit amounted to KZT 24 388 mln making up 145.3% of the plan.

Earnings before interest, taxes, depreciation and amortization, EBITDA, totaled to KZT 66 745 mln<sup>2</sup>, or 105.3% compared to the previous year.

The level of EBITDA margin made up 35.2%<sup>2</sup>, or 106.3% compared to the previous year, which was possible due to implementation of the strategy aimed at improving the operational efficiency and cost optimization.

Consolidated operating expenses of Kazakhtelecom Group amounted to KZT 159 952 mln in the reporting period.

CAPEX of Kazakhtelecom Group amounted to KZT 38 699 mln, or 70% to the previous year actual. Over the years the Company has been heavily investing in the development.

ARPU (average revenue per user) reached KZT 3 582 making up 101% of the plan. ARLB (average revenue per broadband) reached KZT 4 404 making up 102% of plan obligations.

During 2015, Kazakhtelecom JSC took measures on accumulating cash with the aim of repaying of loans denominated in foreign currency which enabled to avoid negative consequences of switching to free floating currency rate. By the end of 2015, there was the only USD rate adjustable loan in the Company's credit portfolio. The Company intends to continue reducing share of foreign currency loans in total debt.

In 2015, the Company held activities aimed at maintaining its credit ratings. As a result, the Company managed to maintain credit ratings at the same level.

International rating agency «Standard & Poor's» affirmed long-term credit rating at level «BB» with a stable outlook. At the same time the rating agency upgraded the Company's standalone credit profile from «bb-» up to «bb». This indicator reflects operating efficiency, management, and corporate governance upholding the Company competitive position in the market providing for getting advantages in the field of financial risks management and the reliability of the corporate management structure.

In 2015 international rating agency «Fitch Ratings» upgraded twice the rating outlook of the Company at «BB» level with a positive outlook.

In October 2015, analysts noted the improvement of the Company's financial soundness and the measures undertaken by the Company aimed at improving its currency position which allowed the Company to smooth out negative impact of the transition to the floating exchange rate.

In November 2015, analysts of Fitch noted that the creation of the joint venture by merging mobile business of Kazakhtelecom JSC and Tele2 will allow Kazakhtelecom JSC to strengthen its own positions in the mobile communications segment.

Analysts also underlined strong positions of Kazakhtelecom JSC in the market for fixed communications in Kazakhstan with dominant market shares in the traditional telephony segment and in the services of fixed broadband communications. The Company is pursuing business in favorable regulatory environment. Kazakhtelecom JSC came back to the mass market for mobile communication by launching LTE/GSM in 2014 with the possibility of providing four-component set of services.

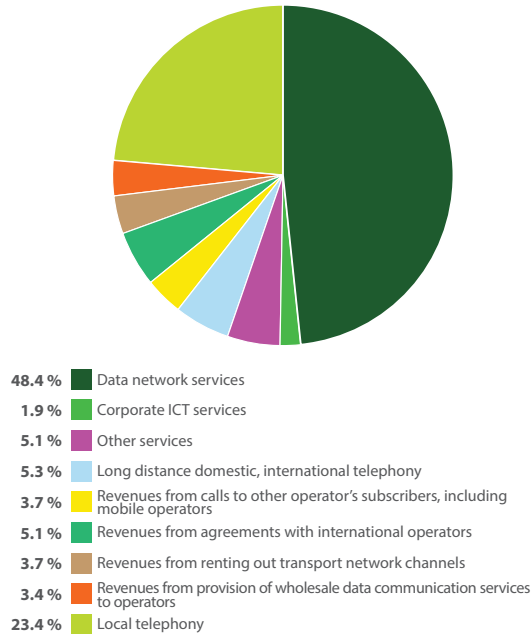
<sup>2</sup> With the account of the decision on closing the deal with Tele2 Group on setting up a joint venture in mobile segment on the basis of ALTEL JSC (ALTEL 4G brand) and MTS LLP (Tele2 brand). Thus, according to the audited statements, ALTEL JSC's activity was classified as dissolved.

## FINANCIAL REVIEW

Consolidated revenues from the sale of Kazakhtelecom JSC's services amounted to KZT 189 754 mln<sup>3</sup>.

<sup>3</sup> With the account of the decision on closing the deal with Tele2 Group on setting up a joint venture in mobile segment on the basis of ALTEL JSC (ALTEL 4G brand) and MTS LLP (Tele2 brand). Thus, according to the audited statements, ALTEL JSC's activity was classified as dissolved.

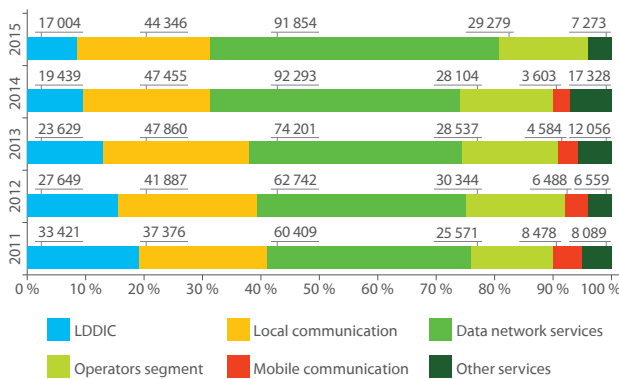
Structure of revenues across Kazakhtelecom Group



The largest share in the structure of revenues in 2015 is taken by the revenues from:

- data network services with the share in the general structure of revenues of Kazakhtelecom JSC making up 48.4%;
- local telephony services with the share in the general structure of revenues making up 23.4%;
- long-distance domestic and international telephony services with the share in the general structure of revenues making up 5.3%.

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



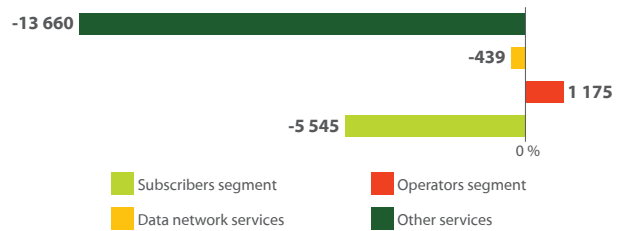
Over the past few years as well as all over the world, fixed telephony and voice traffic volume is declining that result in slowing LDDIC revenues in subscriber segment due to:

- high level of mobile penetration, low tariffs of mobile operators, and outflow of traffic to mobile networks;

- growing popularity of alternative types of making calls and substituting services (VoIP, Skype, etc.). Penetration of broadband access services in the Internet and development of IT-technologies changed the style of services consumption. More and more customers tend to consume voice services using VoIP technology through the Internet applications (Skype, agents, messengers) that affected the demand on traditional telephony services.

Data network and local telephony services make up the largest share of total revenues.

Changes in the structure of revenues in 2015 as compared to 2014, KZT mln

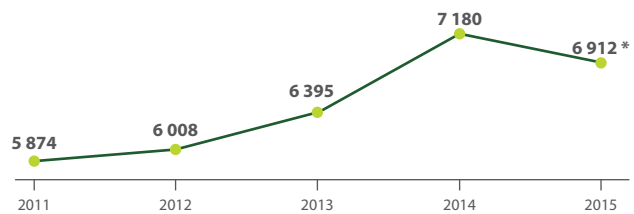


Economic stagnation and external factors have become the main impediments to the development of the market as a whole and Kazakhtelecom JSC in particular. There is also slowdown in fixed broadband access volumes that is due to market saturation and stiff competition including mobile broadband access development.

With a view to indemnifying the drop of revenues from the «mature» services and creating a balanced Product Portfolio, Kazakhtelecom JSC follows the strategy of the strong growth and the increase of the market share in segments where extensive growth is still possible, that is pay TV and mobile broadband access.

The Company is introducing, on timely basis, additional services which increase ARPU even in conditions of mature markets of traditional services. These are, above all, converged services, data center services, system integration, «Cloud Computing» (SaaS, PaaS, etc.), content services for a wide range of users (thematic web-portals, mobile commerce, mobile marketing, multimedia content, etc.).

Revenues per employee, KZT thousand



\* With the account of the decision on closing the deal with Tele2 Group on setting up a joint venture in mobile segment on the basis of ALTEL JSC (ALTEL 4G brand) and MTS LLP (Tele2 brand). Thus, according to the audited statements, ALTEL JSC's activity was classified as dissolved.

Fall of the revenues per employee, owing to decrease in volume of connections of the fixed telephony and decrease in a voice traffic is observed. As a result, decrease in growth rates of the income from Long distance domestic and international telephony communication (LDDIC) services on a subscriber segment.

## DEVELOPMENT OF TELECOMMUNICATIONS INFRASTRUCTURE

DEVELOPMENT OF INFO-COMMUNICATIONS INFRASTRUCTURE IS ONE OF THE STRATEGIC DIRECTIONS OF ECONOMY MODERNIZATION, AND INVESTMENTS IN COMMUNICATIONS INFRASTRUCTURE CONTRIBUTE TO STRENGTHENING STRATEGIC POSITION OF ANY COUNTRY IN THE LONG RUN.

In accordance with the National Plan of Actions to Implement the President's Address to the People of Kazakhstan as of December 14, 2012, «Kazakhstan – 2050»: Strategy – new political course of the established state», Kazakhtelecom JSC has developed transit potential of backbone network. From 2013 to 2014, within the projects on expansion of the bandwidth capacity of the National Information Superbackbone (NISB), construction of a new DWDM backbone network with total capacity of 2.97 Tbps with the possibility of expansion up to 4.8 Tbps was completed, as well as fiber-optical communication lines (FOCL) with the total length of 552 km were built on the following sections: Dostyk–Alashankou, input-output, Adayevka settlement (12 km), Almaty–Shyganak, Zharkent–China (China Unicom), Zharkent–China (China Telecom), Akkol–Zhuravlevka.

As part of the further transit potential development, in 2015, bandwidth capacity of DWDM backbone network was expanded for the internal needs of the Company by 20 lambda per 100 (10\*10) Gbps and 4 lambdas per 10 Gbps; the total capacity of the external Internet channels increased by 1.42 times; the border crossings at DWDM level from Uzbektelecom JSC on sections Abai–Pahta and Beineu–Karakalpakiya were extended.

PURSUANT TO THE STATE PROGRAM OF FORCED INDUSTRIAL-INNOVATIVE DEVELOPMENT OF THE REPUBLIC OF KAZAKHSTAN, THE PROGRAM TO ACHIEVE 100 PERCENT DIGITALIZATION OF TELECOMMUNICATIONS NETWORKS WAS FULFILLED IN 2015.

Kazakhtelecom JSC, in 2015, put into operation the following total capacities:

- POTS – 32 032 ports;
- ADSL – 11 840 ports;
- FTTx – 89 978 ports.

691.1 km of regional and rural FOCL was built in East Kazakhstan, Akmolinskaya, Pavlodarskaya, North Kazakhstan and South Kazakhstan oblasts. Digitalization of 39 settlements was completed in the West Kazakhstan, East Kazakhstan, Karagandinskaya, North Kazakhstan oblasts and Almaty city.

As of 01.01.2016, the local area network of Kazakhtelecom JSC was represented by 6 031 switching points.

The total installed capacity of the local telecommunications network for 2015, as compared to 2014, increased by 264 534 numbers and made up 5 392 227 numbers.

The installed capacity of the UTS made up 3 997 434 numbers.

The installed capacity of RTS made up 1 394 793 numbers.

The number of fixed lines as of 01.01.2016 made up 3 878 584 units, including 2 808 439 UTS units and 1 070 145 RTS units.

The density of telephones per 100 inhabitants as of January 1, 2016, made up 22.29 numbers including 29.21 UTS numbers and 13.74 RTS numbers.

Within the Government Program «Informational Kazakhstan – 2020», in 2015, Kazakhtelecom JSC jointly with ALTEL JSC continued implementation of the project «Implementation and construction of 4G LTE mobile communications networks» aimed at providing the country's population with up-to-date data communication services.

By the end of 2015, LTE network was rolled out in 212 settlements including the cities of Astana and Almaty, all oblast centers and cities of oblast importance – Kentau, Turkestan, Balkhash, Satpayev, Zhezkazgan, Temirtau, Zhanaozen, Ridder, Ekibastuz, and Semey.

During 2015, the network was further expanded in oblast centers, in the cities of Astana, Almaty and their suburbs, as well as in settlements of more than 50 thousand people and regional centers.

In 2014, three segments of mobile 4G/3G/2G LTE – based technologies were integrated that has enabled to construct a flexible converged network. To date, more than 550 settlements of the RK have been covered by the converged network simultaneously supported by 4G/3G/2G technologies. In total, 3 119 base stations (BS) have been installed on the network with 1 474 BS being connected via FOCL.

In 2015, construction of FOCL was completed for 311 base stations. As of 01.01.2016, the active subscriber base of GSM/UMTS network made up 2 010 436 subscribers, LTE – 577 422 subscribers.

In 2015, installation of additional base stations and organization of transport environment to the CDMA/EVDO-450 base stations was completed that enabled to cover more rural areas with telephony and broadband Internet access services. 805 base stations have been installed on CDMA/EVDO-450 network with active subscriber base making up 346 843 subscribers.

Joints with MMTS and PethNet JSC were organized and put into commercial operation on the border with Russia.

## ■ INFORMATION TECHNOLOGIES

INFORMATION TECHNOLOGIES IS THE FOUNDATION OF DIGITAL DIRECTION OF DEVELOPMENT OF THE COMPANY, A RAPIDLY GROWING INFO-COMMUNICATIONS BUSINESS AND NEW SERVICES, AND THEY CONTRIBUTE TO DEVELOPING INTERNAL DIGITAL COMMUNICATIONS AND BUSINESS-ANALYTICS.

### Development of info-communications business of Kazakhtelecom JSC

#### Development of the chain 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 11 310 m<sup>2</sup> that enable to deploy 22 732 units of equipment.

#### Data center-based services

In 2015, as many as 11 102 units of equipment were deployed within Kazakhtelecom JSC's Data Centers with about 10 500 (annual increase of 6%) customers using data center services and sales of services being increased by 35% compared to 2014.

#### Data center-based projects in 2015:

- backup data center for «The Ministry of Healthcare and Social Development of the RK» State Agency;
- migration of Kazatomprom NAC JSC's corporate information systems to Kazakhtelecom JSC's «cloud»;
- organization of a platform to store ALTEL JSC's data on Pavlodar Data Center premises;
- computing power was provided for G-Core Labs S.A. company under Tanks project;
- Video Online service was launched within SDP project;
- HappyDrive cloud storage service was launched;
- Parallels hosting platform was upgraded and a new module Linux Shared Web Hosting Next Generation was launched.

### Corporate information systems

In 2015, Genesys Contact Center was centralized, mobile workforce and change management systems were introduced on the telecommunications network. Astana city infrastructure and perimeter protection systems of the Company's Corporate Information System were upgraded.

The following automation works were completed in regards to Active Sales Center, interaction with dealers, claims processing, discount cancellation, **Parent Control** and **FMS** services, as well as interaction with content providers.

#### The following was achieved within «Orleu» project in 2015:

- virtualization platform was deployed within Pavlodar Data Center;
- affiliated branches' information systems (Astanatelecom UTC, Akmolinskaya OTC, Karagandinskaya OTC, Kostanayskaya OTC, Pavlodarskaya OTC, North Kazakhstan OTC) were transferred to virtualization platform.

## ■ INNOVATION DEVELOPMENT

*«Innovation distinguishes between a leader and a follower»*

Steve Jobs

KAZAKHTELECOM JSC IS A RECOGNIZED TECHNOLOGY LEADER IN INNOVATIVE SOLUTIONS FOR MULTIMEDIA SERVICES, CLOUD SERVICES, AND SECURITY. THE COMPANY HAS BEEN DEVELOPING AND PROMOTING NEW UP-TO-DATE AND INNOVATIVE COMMUNICATIONS PRODUCTS AND SERVICES INCLUDING HIGH-SPEED FIBER INTERNET, TV, AND OTHER SERVICES.

According to the Innovation and Technology Strategy of Kazakhtelecom JSC Group, innovation and rationalization activities in the Company are systematized with a view to capturing the maximum effect. The key innovative development areas include implementation of innovative projects, introduction of new services, and research work.

### In 2015, the Company implemented the following innovative projects:

- «Building LTE / GSM / UMTS networks across the Republic of Kazakhstan in 2012–2022»;
- «Implementation of OTT / WebTV»;
- «Organization of a range of «Safer Internet» services for broadband users;
- «Modernization of the network security system».

Today, the latest innovative solutions are available in the telecommunications market. Therefore, in the face of increasing demand on high-quality and up-to-date communication services, it is extremely crucial to maintain and enhance the technological advantage that the Company possesses.

During 2015, the active work on expanding the functions of innovative services developed last year, such as «**Parental Control**», «**Static the IPv4**», «**Reception 24**», «**iD TV Online Plus**», «**SVoD for iD TV Online**», «**Fiscal Data Operator Service**», «**Online Video**», «**Safer Internet**» for legal entities and FMS-based «**Family Decision**» and «**Deferred payment**» services, was continued.

### B2C services



**Parental control for iD Net | Megaline**  
90 thousand connections within 9 months



**Deferred payment for iD Net | Megaline**



**Static IP address**

### B2B services



**Up to 40 Gbps protection against DDoS**



**Fiscal Data Operator**



**Safer Internet for SME**

With a view to sharing knowledge on the open platform, Kazakhtelecom JSC held the Forth International science-to-practice conference on ICT development, perspective IoT concept segments, network operators' role in e-commerce, and new FinTech and BigData opportunities for network operators.





Innovation Committee, that considers innovation proposals received through specialized portal «Fund of Ideas», is working on a constant basis.

A crowd sourcing project on collecting employees' innovation proposals has been implemented within three years in Kazakhtelecom JSC. A database, in which 14 thousand employees of the Company are registered, was created to discuss, in efficient and timely manner, ideas on portal «Fund of Ideas». The project collected 540 proposals and projects, the most of which have been implemented.

Each employee of the Company may share his/her vision on a breakthrough project, submit proposals on improving and optimizing business processes. The authors, whose works were approved and recommended to be introduced, are change agents and Company development engine. They will be provided with methodical and practical support on site when introducing innovative idea. The portal «Fund of Ideas», where individual development plans and training programs for projects authors are posted, enables to maintain communication among innovators and generate joint proposals aimed at improving business processes in the Company and new developments.

### PERFORMANCE RESULTS OF THE «FUND OF IDEAS» OVER THE LAST 3 YEARS

- 14 298 system users
- 540 proposals
- 40 ideas to be implemented
- all the idea movers received monetary rewards and gifts
- the winner undertook a training course in Silicon Valley (USA)

April   2013 >>>	March   2014 >>>	November   2014 >>>	September   2015 >>>
 <b>Launch into pilot operation</b>	 <b>First Innovation Committee</b>	 <b>Competition «We are the best!»</b>	 <b>Competition «Driving innovation in sales»</b>
<ul style="list-style-type: none"> <li>• 13 775 system users;</li> <li>• 39 experts;</li> <li>• replication in all branches of the Company.</li> </ul>	<ul style="list-style-type: none"> <li>• 84 registered applications;</li> <li>• 3 ideas to be implemented;</li> <li>• monetary rewards in the amount of KZT 100 thousand paid out.</li> </ul>	<ul style="list-style-type: none"> <li>• 222 registered applications;</li> <li>• launch of idea of «iD TV-karaoke» (by Assem Tapalova, Kostanayskaya OTC), the service is available in the product portfolio 2015.</li> </ul>	<ul style="list-style-type: none"> <li>• 71 registered applications;</li> <li>• 29 ideas submitted to the Innovation Committee.</li> </ul>





«Success means a translational motion and not a point one should be trying to get to»

*Anthony Robbins*



**PRIORITY DIRECTIONS OF  
DEVELOPMENT**  
BUSINESS PLANS FOR 2016

# PRIORITY DIRECTIONS OF DEVELOPMENT. BUSINESS PLANS FOR 2016

Kazakhtelecom JSC as the leading network operator is seeking to use the existing potential for growth in all of the most dynamic segments of the industry. We intend to further increase our presence in the market by investing in products and services, creating additional value for our shareholders, and providing high profitability level.

In 2016, implementation of «Orleu» Transformation Program will be continued in four strategic directions:

1. **«Supermarket of services for the entire family».**
2. **«Integrated operator».**
3. **«Informational foundation of Kazakhstani business».**
4. **«Effective business model».**

<b>SUPERMARKET OF SERVICES FOR THE ENTIRE FAMILY</b>	<ul style="list-style-type: none"> <li>• Quadra-play (single FMS packages)</li> <li>• KT App (iOS&amp;Android)</li> <li>• Further development of content services</li> <li>• Development of remote service sales channels</li> </ul>
<b>INTEGRATED OPERATOR</b>	<ul style="list-style-type: none"> <li>• Adding new services in FMS: geolocation, parental control</li> </ul>
<b>INFORMATIONAL FOUNDATION OF KAZAKHSTAN BUSINESS</b>	<ul style="list-style-type: none"> <li>• Entrance to new industries for M2M</li> <li>• Development of data centers and cloud services</li> <li>• Further virtualization of offices</li> </ul>
<b>EFFECTIVE BUSINESS MODEL</b>	<ul style="list-style-type: none"> <li>• Introduction of organizational structure of Central Administration</li> <li>• Common Service Center and outsourcing development</li> <li>• Centralization of call-centers</li> <li>• Introduction of MNOCC (Main Network Operation Control Center), improvement of mobile personnel performance</li> <li>• HR: remunerations and benefits, performance control system, corporate culture development</li> <li>• Management accounting optimization</li> <li>• Subsidiaries and dependent companies optimization</li> </ul>

Specific measures to promote products and services and improve business efficiency were identified for each strategic area for 2016. At the same time operating business performance is to be maintained above the average level for peers with return on capital investments being increased.

Kazakhtelecom JSC will continue to implement the large-scale investment program aimed at introducing advanced innovations. Our sustainability and growth strategy is based upon investments. The Company adopted an investment program focused on development of best-in-class fixed and mobile networks, introduction of technological innovations, and improvement of customer service.

The Company intends to strengthen the leadership in the Kazakhstani telecommunication market by actively building LTE networks, converging fixed GPON / FTTB networks, and using its network to increase the penetration of broadband access and IPTV. The Company is committed to providing subscribers the best customer experience in using their services.

BROADBAND DEVELOPMENT	• It is planned to implement the next stage of the broadband development project and put into operation additional optic FTTH ports (using GPON technology) in multidwelling buildings and cottages in oblast centers and cities.
	• It is planned to purchase of 12 718 LTE terminals to provide fixed broadband services by using LTE wireless access technology in wireless cluster.
IPTV	• The increase of IPTV subscriber base up to 450 thousand users with 50 thousand being connected via OTT technology is scheduled to be achieved till the end of 2016. The launch of «iD TV Online» service on SmartTV – LG/Samsung TV sets is planned. It is planned to extend the OTT - node capacities and introduce Multiscreen functions which will enable subscribers to purchase converged solutions on «iD TV» and «iD TV Online» services.
B2B, B2G, B2C	• Implementation of the next stage of SIP project provides for the purchase of 18 000 subscriber licenses for SIP-platform and customer SIP- terminals to provide fixed communication services in B2B, B2G, and B2C segments.
	• It is scheduled to implement the second stage of the project on building out the network to connect mobile and other major operators.
	• It is scheduled to implement projects aimed at optimizing the technical infrastructure, inter alia, upgrading synchronization equipment and improving reliability of the backbone transport networks in critical strands, and optimizing telephone network for B2B/B2G segment.
	• Implementation of the next stage of the project on introducing services for 75 000 cash register machines is in the planning stage.
BUSINESS TRANSFORMATION	• It is scheduled to implement business transformation projects aimed at operating costs optimization, revenue increase, and business-processes improvement.
	• It is planned to implement the initiatives on contact centers centralization and mobile staff management, placement of information systems in virtual environment, networks management process centralization, using gasoline engine oil, and setting up a common HR-processes service center. It is planned to organize optical access networks for new 2 754 points of corporate customers.

## INNOVATION PROJECTS AND DEVELOPMENT OF NEW SERVICES

In tough conditions of the continuously developing world economic crisis Kazakhtelecom JSC strives for improvement not only in such long-present areas as FITH, IPTV, but also seeks other high-tech sources to generate revenue: Internet of things, media services, iD TV Online and much more.

Within the framework of fulfilling the objectives set for business transformation, the Company intends to develop unique products and services aiming at promoting the use of innovative digital technologies in every-day life.

Security	Launch of «Secure Internet» into commercial service for legal entities
	Implementation of the video surveillance platform
Family	Launch of additional services for the service «Family solution», such as call control, black and white lists, mobile parental control
Startups	Implementation of mobile payment system based on FinTech startup
E-commerce	Implementation of C2C, B2C, B2B e-commerce platforms
IoT	Implementation of M2M, IoT and the industrial Internet offering solutions for different industries platforms

## ACCESS TO FOREIGN MARKETS AND DEVELOPMENT OF TRANSIT POTENTIAL

Development of backbones is an integral part of the Company's comprehensive approach to satisfying the increasing demands of the Customer and developing transit potential of the country. Increasing the network capacity with an account of traffic forecasts, as well as the operational presence remain our top priorities in this area.

Transit potential	20% increase of range of the transit services provided to international operators
Improved connectivity to the global Internet network	Expansion of external Internet channels by 1.12 times

## BUSINESS PLANS FOR 2016

Under the current difficult economic conditions the Company has set the task for the forthcoming period to achieve the key financial and economic indicators approved in the Plan for development for 2016–2020 and secure financial stability of the Company.

In 2016, the Company set aside the amount of KZT 15 bln as CAPEX for implementation of investment projects.

Further work on reducing operating expenses, along with administrative expenses, is planned. Kazakhtelecom JSC intends to continue carrying out measures to diversify currency risk, and improve foreign exchange position. On an ongoing basis, the Company will work with rating agencies so as to maintain the its credit rating.



«The whole life is a risks management  
and not risks exclusion process»

*Walter Wriston*



# **RISK MANAGEMENT**

# RISK MANAGEMENT

*«There can be no great accomplishment without risk»*

*Neil Armstrong*

The risk management process is the foundation that guarantees the achievement of purposes, continuity and security of any organization's business. In the period of transformation processes the risk management of Kazakhtelecom JSC is increasingly acquiring the features of proactive influence; it is an integral part of the corporate culture and effective tool in achieving its ambitious strategic goals.

Technological advances and the global market are constantly creating new factors for rapid changes. At this stage, when the external environment of a company changes faster than the internal one, the continuous improvement of the corporate risk management system as a tool to maintain stability and business continuity becomes urgent like never before, as on its foundation it is possible to align new fast-growing high-yielding areas.

The Company ensures constant improving of the corporate risk management system (CRMS) and internal control (ICS) through:

- formation of proactive risk culture within the Company;
- continuous integration of risk management and internal control systems in branches and subsidiaries;
- further integration of best practices and standards of risk management and internal control systems.

## Formation of proactive risk culture

In the early stages of development of the CRMS and ICS, the Company developed methodological and regulatory documents in accordance with international standards, in which it sought to take into account and apply the best international practices, which today allow building a corporate culture of risk management at all levels – from top management to each employee of the Company.

Over the past period there have been prepared teaching materials for the introductory course of risk management both for new employees, as a part of the adaptation program, and already working employees of the Company. So far risk-coordinators of all departments, branches and subsidiaries have taken the risk management course, which in subsequent periods will also be taken by all employees of the Group in online mode. This will strengthen the existing risk culture and enhance the understanding of the need for proactive attitude to risk and emerging challenges, when achieving goals; that is of paramount importance during the transformation process, as it will accelerate the positive update not only of the business processes, but also of the consciousness of employees, as well as improve the conditions for the formation of corporate habits for proactive actions to the benefit of the Company.

## Continuous integration of risk management and internal control systems in branches and subsidiaries

Improvement of the Group's efficiency applied in risk management practice involves improving operation and interaction of the subjects of the risk management process. In 2015, the Company introduced the functions of risk management and internal control in its branches and subsidiaries, and conducted training of chief officers, area managers and staff in charge of organizing the risk management process in the entity.

Information on potential risks, collected and continuously updated at the level of branches and subsidiaries, allows capturing and evaluating the factors affecting both the local level and the whole Group. This furthers more effective taking preventive actions to mitigate risks at the local level, as well as making complex decisions based on integrated data from all entities.

Branches and subsidiaries started Registers and risk maps, which are reassessed and updated on a regular basis. The projects for addressing considerable risks, influencing not only local indicators, but also corporate risks, and requiring investments to reduce them, were prepared and defended, and shall aim at the implementation of measures next year.

## Further integration of best practices and standards of risk management and internal control systems

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. In the reporting period, approaches to risk assessment of the company's investment projects were improved. And although the development of regulations is ongoing, today we can see the results in the form of raised awareness and competence of the divisions in charge of developing investment projects in various areas in the field of risk management of both individual projects and the entire investment portfolio.

As to the basic processes of the CRMS and ICS, no significant change occurred, since the earlier systems were built based on existing standards and best practices. All the Company's risk field is classified as follows:

- **strategic;**
- **financial;**
- **operative;**
- **legal/compliance.**

## 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;
- constant development of technologies of the industry.

## 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.

## Operational risks

Operational 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;
- impact of external factors on the Company's 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 Risk Register, which reflects the risks that could affect the attainment of its long-term strategic objectives and key performance indicators of the Development Plan approved by the Board of Directors.

The Corporate Risk Register is updated annually. In 2015, it was actualized with an account of the information on the risks in branches and subsidiaries. On a quarterly basis, the Company updates the risk management measures and reviews qualitative and quantitative risk assessment at both the corporate level and at the level of the Group entities.

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.

The Company's internal control system is a set of the following five interconnected components:

- the control environment;
- risk Assessment;
- control procedures;
- information and communication;
- monitoring.

All five components must be in place, function, and interact with one another, and related seventeen evidentiary standards according to COSO IC.

The Internal Control System launched in the Company ensures integration of processes with the control systems, which allows improving the efficiency and transparency, timely responding to threats and opportunities, as well as quickly rebuilding the production and management processes to enhance the degree of confidence in achieving objectives in the following categories:

1. operational objectives with respect to effectiveness and efficiency of financial and economic activities of the Company, as well as safeguarding of assets, prevention and detection of fraudulent activities / operations and errors;
2. objectives with regard to compliance of the Company's activities with applicable legal requirements and the requirements of internal documents;
3. objectives related to timely preparation of reliable financial and non-financial reports, and ensuring reliability of financial statements.

Control of deviations from the planned indicators and monitoring of the risk level are fundamental for actualization of business processes and controls in the operating activity.

Pursuant to the Risk Management Policy in place, the Board of Directors regularly reviews the Company's report on the CRMS, receives information on annual assessment of the effectiveness of corporate risk management and internal controls systems, performed by both internal and external audits. For instance, assessment of the effectiveness of the internal control conducted in 2015 confirmed functioning of the interacting components of the system, which has greatly improved the total score compared with previous periods.





«When figuring out the secret of managerial success one should be looking not at the decisions taken but at the way they were taken that allowed to come to those decisions»

*Justin Menkes*



# **CORPORATE GOVERNANCE**

# CORPORATE GOVERNANCE

TRADITION OF FOLLOWING THE PRINCIPLES AND STANDARDS OF CORPORATE CONDUCT ADOPTED IN THE WORLD PRACTICE, PROMOTES, ABOVE ALL, THE SUCCESSFUL DEVELOPMENT OF THE COMPANY AND IMPROVES ITS INVESTMENT ATTRACTIVENESS.

## ■ STRUCTURE OF CORPORATE GOVERNANCE

The system of corporate governance of Kazakhtelecom JSC represents a set of processes ensuring management and control over the Company's activities, as well as the system of relations between the Management Board, the Board of Directors, shareholders, and stakeholders. The Company's Charter explicitly states the order and procedure of decision-making.

### THE COMPANY'S BODIES

**GENERAL SHAREHOLDERS' MEETING** is a supreme body of the Company through which the shareholders exercise their rights to participate 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 daily operations of the Company with a view to accomplishing the tasks and implementing the Company's strategy

**INTERNAL AUDIT SERVICE** is a body in charge of control over the Company's financial and economic activity, assessment in the field of internal controls, risks management, execution of documents in the field of corporate governance, as well as advisory with a view to improving the Company's activity

The effective management in the group of companies of Kazakhtelecom JSC shall result in enhanced operational efficiency, improved quality of reporting and standards of corporate culture and ethics, a greater transparency, reduced risks, and proper internal control system.

Kazakhtelecom JSC targets for long-term value whilst ensuring sustainable development and balancing the stakeholders' interests. Sustainable development activity complies with the best international standards.

Observance of shareholders' rights is a key prerequisite to attraction of investment into Kazakhtelecom JSC. The company ensures exercising the shareholders' rights and fair treatment of each and every of them, the Board of Directors and the Management Board do a collaborative work for the benefit of the Company.

The Company launched an effective system of risk management and internal controls aiming at reasonable securing achievement of its strategic and operational objectives, and representing a set of organizational policies, procedures, standards of conduct, and management methods and mechanisms, established by the Board of Directors and the Management Board.

With a view to effective organization of the activity of the Board of Directors and interaction of the Board of Directors, the executive body, with the shareholders, the Board of Directors appoints a Corporate secretary.

**The Corporate secretary** is accountable to the Board of Directors and ensures effective interaction between the Company and the shareholders, along with effective interaction between the Company's bodies pursuant to the provisions of the Charter and other internal regulatory documents of the Company.

The main functions of the corporate secretary include timely and effective decision-making by the Board of Directors and General Shareholders' Meeting, advisory for the members of the Board of Directors concerning all the aspects of their activities, adherence to the provisions of the Corporate Governance Code and monitoring its implementation, as well as participation in improving the Corporate Governance.

Mr. B. K. Abydkalykov, the 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 of corporate governance and the Institute of Corporate Secretaries.

## Regarding the Company's adherence to the Corporate Governance Code

The Corporate Governance Code of National Welfare Fund «Samruk-Kazyna» JSC was approved by Government Resolution No. 239 dated 15 April 2015 (Hereinafter – the Code).

In accordance with the Decision of the Management Board of «Samruk-Kazyna» JSC No. 22/15 dated 27 May 2015, the Code is regarded as a mandatory corporate standard for the legal entities, if over 50% of voting shares of the entities directly or indirectly are owned by «Samruk-Kazyna» JSC.

The Corporate Governance Code of Kazakhtelecom JSC was approved by the Resolution of the Extraordinary General Shareholders' Meeting No. 56 as of 07 December 2015.

Pursuant to item 7 of the Code of Kazakhtelecom JSC, the information on facts and causes of non-compliance with the provisions of the Code shall be included in the Annual Report from 1 January 2017 onward.

The earlier reports on compliance with the principles of the Corporate Governance Code of Kazakhtelecom JSC, approved by the Resolution of the Extraordinary General Shareholders' Meeting as of 11 March 2008, Protocol No. 35 (has lost legal effect in connection with the adoption of new Code) were posted on the Company's official website. At the present time, the report for 2014 is available on the website, and all the principles of the Code are met by the Company.

## Policy on Assessment of the Board of Directors' Performance

The Rules of assessment of the Board of Directors' performance were approved by the Resolution of the Board of Directors dated 5 August 2015 (Protocol No. 7).

In 2015, the members of the Company's Board of Directors conducted assessment of the Board of Directors' annual performance results 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 in charge of assessing the effectiveness of the internal control system. The supervision of IAS activities is carried out by the Audit Committee of the Board of Directors.

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. The activity of IAS is guided by the legislation of the Republic of Kazakhstan, the Charter, decisions of the Company's divisions, the internal regulatory documentation of the Company, and international professional internal auditing standards.

The main aim of IAS is providing the Board of Directors with independent and objective guarantees and advisory with a view to improving the risk management system, internal control system, and the Corporate Governance of the Company.

IAS's activity is based on the Regulations on the Internal audit Service of Kazakhtelecom JSC and the Policy of Organization of Internal audit in Kazakhtelecom JSC approved by the Company's Board of Directors. The audits are conducted in accordance with the annual audit Plan agreed with the Committee for Audit and approved by the Company's Board of Directors.

In 2015, in accordance with the annual audit plan, the Company carried out 20 planned audits. The audits were mainly associated with the assessment of the effectiveness of risk management processes, internal controls, and corporate governance. Based on the results of audits performed by the IAS, 280 recommendations were approved and endorsed by the Board of Directors. As a part of the action plans for the implementation of the recommendations of the Internal Audit Service, the Company fully fulfilled 216 recommendations, when the deadline to implement them was fixed for 2015.

On a regular basis IAS submits to the Board of Directors reports (quarterly, annual) on its activity, preliminarily examined by the Committee for audit.

IAS has won the high praise of independent advisers (Ernst & Young LLP/advisory Services) for the compliance with the Definition of Internal Audit, Code of Ethics, and International professional internal auditing standards. 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 Dividend Policy Regulations of Kazakhtelecom JSC were approved by the extraordinary General Shareholders' Meeting on 18 January 2013, Protocol No. 49.

Dividend Policy of Kazakhtelecom JSC aims at ensuring the balance of between the Company and Shareholders, as well as transparency and predictability when defining the amount of dividends, and the order and procedure of payment thereof.

The amount of dividends to be paid out depends on current financial and economic situation in Kazakhtelecom JSC based on financial sustainability and liquidity indicators. The order and procedure of payment and settlement with shareholders on outstanding dividends is regulated by the Dividend Policy of Kazakhtelecom JSC.

Pursuant to the Resolution of the General Shareholders' Meeting (Protocol of AGSM No. 54 dated 22.04.2015) the dividends were distributed in the amount of KZT 101.73 per 1 share on the basis of the performance results in 2015. The payment of dividends was made during the period from 27.04.2015 to 26.05.2015. The list of shareholders entitled to receive dividends was made as of 00.00, April 26, 2015.

In December 2015, guaranteed dividends were paid out in the amount of KZT 300 per 1 preference share.

Kazakhtelecom JSC acts in compliance with resolutions of the General Shareholders' Meeting, and fully performs its obligation to pay out dividends to persons entitled to them.

## Information Policy

With a view to improving transparency and efficiency of disclosing processes of Kazakhtelecom JSC, the Company designed the Information Policy (amended in December 2012, Protocol No. 15 dated 29 December 2012), which was approved by the Resolution of the Board of Directors (Protocol No. 45 dated 26 October 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 stakeholders, 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 aims 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.

In 2015, the Company deliberately worked with the target audience on an ongoing basis: 129 PR events were organized, 5 310 materials were published and announced in mass media, including 1 681 materials in regional mass media, 1 596 of them were positive ones, 3 699 of them were neutral ones, and 15 of them were negative. The Company prepared 129 news, held 32 records of comments/interviews, prepared 55 responses to mass media inquiries.

By the end of 2015 the number of subscribers and readers of Kazakhtelecom's pages in social networks constituted around 118 000 people. All content is duplicated in Kazakh language. The Company updated its channel on YouTube video hosting platform, which contains films about the company's history, activities of its branches, employees' competition works presented in corporate events, news stories, and specialized programs (111 videos) collected during 2015.

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

In 2015, in accordance with the Methodology of Corporate Governance Diagnostics adopted in the Group of Companies of «Samruk-Kazyna» JSC, PricewaterhouseCoopers LLP diagnosed the system of corporate governance.

In the course of diagnostics, events and materials of the 1<sup>st</sup> half-year of 2015 were examined, and the members of the Board of Directors, the Management Board and the Company's management were interviewed.

As a result of the diagnostics conducted, the level of the corporate governance in Kazakhtelecom JSC made up **85%**, which furthered the achievement of target planned for 2022.

The next objective set by Kazakhtelecom JSC is to follow up on the recommendations provided in the course of diagnosing the corporate governance by PricewaterhouseCoopers LLP. To that end, the company approved a set of measures to improve the corporate governance system in 2016.

## ■ KAZAKHTELECOM JSC'S BOARD OF DIRECTORS

**The Board of Directors** is the management body performing general management of the Company, and is in charge of developing its strategy and controlling the Management Board's activity, except for the issues referred by the Law of the Republic of Kazakhstan «On Joint Stock Companies» and (or) the Articles of Association to the exclusive competence of the General Shareholders' Meeting.

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:**

1. individual shareholders – physical persons;
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 are not proposed (not recommended) for election to the Board of Directors of the Company as representatives of the shareholders.

A CANDIDATE TO THE POSITION OF A MEMBER OF THE BOARD OF DIRECTORS, AS WELL AS ITS CURRENT MEMBERS MUST HAVE GAINED RELEVANT WORK EXPERIENCE, EXPERTISE, POSITIVE ACHIEVEMENTS NECESSARY FOR PERFORMING HIS/HER DUTIES, AND SPOTLESS REPUTATION IN BUSINESS AND INDUSTRY ENVIRONMENT SO AS TO ENSURE EFFECTIVE WORK OF THE BOARD OF DIRECTORS IN A WHOLE FOR THE BENEFIT OF THE COMPANY AND ITS SHAREHOLDERS.

The Board of Directors shall include a number of independent directors sufficient to guarantee the independence of decision-making and equitable treatment of all shareholders.

From January 1, 2015, till June 30, 2015, the Company's Board of Directors was composed pursuant to the Resolution of the Annual General Shareholders' Meeting of Kazakhtelecom JSC dated on 08.05.2012 (Protocol No. 47).

On 25 February 2015, the powers of N. Ye. Akentyeva, the Board member of Kazakhtelecom JSC (independent director), were terminated.

The Extraordinary General Meeting of Shareholders of Kazakhtelecom JSC, dated 30 June 2015 (protocol No. 55) early terminated the powers of all members of the Board of Directors of Kazakhtelecom JSC and elected a new composition of the Board of Directors of Kazakhtelecom JSC as follows:

### MEMBERS OF THE BOARD OF DIRECTORS OF KAZAKHTELECOM JSC (as of 31.12.2015)

1. NURZHAN BAIDAULETOV
2. KUANYSHBEK YESSEKEYEV
3. AIGUL NURIYEVA
4. ADILBEK SARSENOV
5. SERIK SAUDABAYEV
6. ALEXEI BUYANOV
7. GARRETT MARTIN JOHNSTON
8. DMITRIY ZAIKA
9. YERMEK KUDABAYEV

According to the Resolution of the Board of Directors of Kazakhtelecom JSC dated July 16, 2015 (protocol No. 6) Mr. Nurzhan Baidautov was elected as the Chairman 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:	June 30, 2015
Status:	Chairman of the Board of Directors Representative of «Samruk-Kazyna» JSC (5 570 668 ordinary voting shares)
Share ownership:	None

## Education:

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09.1977 – 06.1986	The Moscow Institute of Railway Engineering Qualification: Management of Railway Transportation Processes
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## Places of employment and positions occupied over the last five years:

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02.06.2014 – as of 31.12.2015	<b>Samruk-Kazyna JSC</b> Chief Assets Management Officer
01.04.2014 – as of 31.12.2015	<b>Kazpost JSC</b> Chairman of the Board of Directors
24.01.2012 – as of 31.12.2015	<b>KTZ NC JSC</b> Chairman of the Board of Directors
26.12.2008 – till present	<b>Air Astana JSC</b> Chairman of the Board of Directors
27.11.2008 – 01.06.2014	<b>Samruk-Kazyna JSC</b> Managing Director

## 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:	June 30, 2015
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	<b>Kazakhtelecom JSC</b> Chairman of the Management Board, member of the Board of Directors
23.02.2007 – 15.03.2010	<b>The Agency of the Republic of Kazakhstan for Informatization and Communications</b> 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:	June 30, 2015
Status:	Member of the Board of Directors Representative of the Company'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 – as of 31.12.2015	<b>Alnair Capital LLP</b> Managing Director
11.07.2008 – as of 31.12.2015	<b>Alnair Capital Holding JSC</b> Member of the Board of Directors
26.05.2008 – as of 31.12.2015	<b>Alnair Capital Holding JSC</b> Managing Director
10.06.2005 – 02.09.2012	<b>Bodam B.V.</b> 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:	June 30, 2015
Status:	Member of the Board of Directors Representative of the Company's shareholder – Bodam B.V. (1 842 725 ordinary voting shares)
Share ownership:	None

### Education:

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

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

10.12.2010 – 10.12.2013	<b>Television Broadcaster ERA LLP</b> Member of the Supervisory Board
01.08.2010 – till present	<b>Amun Capital Advisors KZ LLP</b> Telecommunication Assets Management Director
09.12.2008 – 06.09.2010	<b>National Company «Kazsatnet» JSC</b> Chairman of the Board of Directors
06.11.2008 – 06.09.2010	<b>National Information Technologies JSC</b> Member of the Board of Directors
06.11.2008 – 02.08.2010 06.11.2008 – 21.02.2011	<b>National Information and Communication Holding «Zerde» JSC</b> Chairman of the Management Board Member of the Board of Directors
19.10.2007 – 30.07.2010	<b>Kazakhstan Holding for Management of State Assets «Samruk» JSC</b> Director of the Telecommunication 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:	June 30, 2015
Status:	Member of the Board of Directors Representative of the Company's shareholder – Sovereign Welfare Fund «Samruk-Kazyna» JSC (5 570 668 ordinary voting shares)
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	<b>«Samruk-Kazyna» JSC</b> Deputy Director of Asset Management
17.06.2010 – 10.05.2014	<b>Sovereign Welfare Fund «Samruk-Kazyna» JSC</b> Telecommunication Assets Management Director
13.08.2010 – 31.03.2014	<b>Kazpost JSC</b> Member of the Board of Directors
14.08.2007 – 16.04.2008 17.04.2008 – 18.05.2010	<b>Kazakhtelecom JSC</b> Deputy Head of the Legal Department Corporate Secretary

## ALEXEI BUYANOV

Date of birth:	August 15, 1969
Citizenship:	The Russian Federation
Date of the first election to the Board of Directors:	June 30, 2015
Date of the current election to the Board of Directors:	June 30, 2015
Status:	Independent director
Share ownership:	None
Independence criteria:	Meets the criteria specified in sub-paragraph 20, Article 1 of the Law of the Republic of Kazakhstan «On Joint Stock Companies»

### Education:

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1986 – 1992	Moscow Engineering Physics Institute (MEI) Specialty: applied mathematics and physics Qualification: engineer-physicist
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### Places of employment and positions occupied over the last five years:

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30.06.2014 – till present	<b>Redline Capital Management S.A.</b> <b>(Investment Fund of V. P. Yevtushenkov)</b> Managing Director
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## GARRETT MARTIN JOHNSTON

Date of birth:	July 22, 1968
Citizenship:	Ireland, the Russian Federation
Date of the first election to the Board of Directors:	June 30, 2015
Date of the current election to the Board of Directors:	June 30, 2015
Status:	Independent director
Share ownership:	None
Independence criteria:	Meets the criteria specified in sub-paragraph 20, Article 1 of the Law of the Republic of Kazakhstan «On Joint Stock Companies»

### Education:

1985 – 1990	University of Dublin Speciality: economy
1990 – 1991	Trinity College, Dublin, Ireland Speciality: International trade, TMI (Postgraduate Diploma International Commerce)

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

15.06.2015 – till present	<b>Macroscope consulting</b> Owner and CEO
01.10.2014 – till present	<b>Appselekt.com</b> Chief Marketing Officer
15.01.2014 – 30.09.2014	<b>Digicel Caribbean and Central America</b> CEO Enterprise Solutions
27.12.2011 – 11.01. 2014	<b>Rosnano MedInvest (RMI Partners)</b> Vice President of Marketing and Strategy
30.03.2011 – 22.12.2011	<b>Tuš Group</b> Advisor to the President and Owner on the Strategy and Restructuring
20.06.2010 – 28.03.2011	<b>X5 Retail Group</b> Strategic Marketing Advisor to the President
03.09.2007 – 11.06. 2010	<b>MTS</b> Strategic Marketing Director of the Group
01.02.2006 – 02.09.2007	<b>MTS, Russia</b> Marketing Director

## DMITRIY ZAIKA

Date of birth:	April 27, 1975
Citizenship:	The Republic of Kazakhstan
Date of the first election to the Board of Directors:	June 30, 2015
Date of the current election to the Board of Directors:	June 30, 2015
Status:	Independent director
Share ownership:	None
Independence criteria:	Meets the criteria specified in sub-paragraph 20, Article 1 of the Law of the Republic of Kazakhstan «On Joint Stock Companies»

### Education:

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1992 – 1998	Almaty Institute of Energy and Communications Specialization: radio engineering Qualifications: radio Engineer
2003 – 2005	Kazakh State Economic University Specialization: Financial Management Qualification: economist (diploma with distinction)

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

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20.04.2012 – till present	<b>ALTEL JSC</b> Independent director
29.08.2011 – till present	<b>Khimfarm JSC</b> Independent director

## YERMEK KUDABAYEV

Date of birth:	April 7, 1970
Citizenship:	The Republic of Kazakhstan
Date of the first election to the Board of Directors:	June 30, 2015
Date of the current election to the Board of Directors:	June 30, 2015
Status:	Independent director
Share ownership:	None
Independence criteria:	Meets the criteria specified in sub-paragraph 20, Article 1 of the Law of the Republic of Kazakhstan «On Joint Stock Companies»

### Education:

1987 – 1993	Moscow Institute of Steel and Alloys (MISA) Faculty of Economics and Metallurgy Management Qualification: engineer-economist
1994 – 1996	Kazakhstan Institute of Management, Economics and Strategic Research (KIMEP) Qualifications: Master of Business Administration
1998 – 2004	Association of Certified Chartered Accountants (ACCA), London, UK Faculty of Finance and Accounting ACCA degree (international diploma of financier-accountant)

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

25.10.2013 – till present	<b>KazPetroDrilling JSC</b> Managing Director of Economics and Finance
01.07.2013 – 01.11.2013	<b>Meridian Petroleum LLP</b> New Projects Manager
01.11.2010 – 15.04.2013	<b>Chagala Group Limited</b> CFO (Chief Financial Officer)
12.11.2012 – till present	<b>ALTEL JSC</b> Independent director

## CRITERIA FOR DETERMINATION OF INDEPENDENCE OF MEMBERS OF THE BOARD OF DIRECTORS

In accordance with Article 1, sub-item 20 of the Law of the Republic of Kazakhstan «On Joint Stock Companies» an **independent director** is defined as a member of the Board of Directors, who:

- is not an affiliate of the Joint Stock Company or its affiliates and has not been appointed to this position for three years prior to his election to the Board of Directors (except in the case of his tenure as an independent director of the Joint Stock Company);
- is not affiliated to the affiliates of the Joint Stock Company;
- is not associated with the subordination to the officials of the joint stock company or organization or its affiliates and has not been subordinate to them for three years prior to his election to the Board of Directors;
- is not a government employee;
- is not a shareholder's representative at meetings of the bodies of the joint stock company and has not been one for three years prior to his election to the Board of Directors;
- does not participate in the audit of the joint stock company as an auditor of an audit organization, and has not taken part in such audits for three years prior to his election to the Board of Directors.

In 2015, the following 4 independent directors-members of the Board of Directors worked in full compliance with the requirements of the legislation of the Republic of Kazakhstan applied to the notion of «independent director»:

- **Natalya Akentyeva,**
- **Vitaliy Kuchura,**
- **Dmitriy Larionov,**
- **Yermek Okayev.**

The Extraordinary General Shareholders' Meeting of Kazakhtelecom JSC, dated 30 June 2015 (protocol No. 55) early terminated the powers of all members of the Board of Directors of Kazakhtelecom JSC and elected new independent members of the Board of Kazakhtelecom JSC, as follows:

*Members of the Board of Directors, independent directors:*

- **Alexei Buyanov,**
- **Garrett Martin Johnston,**
- **Dmitriy Zaika,**
- **Yermek Kudabayev.**

According to paragraph 5, Article 54 of the Law of the Republic of Kazakhstan «On Joint Stock Companies», the proportion of independent members shall not constitute less than thirty percent of the composition of the Board of Directors. Kazakhtelecom JSC meets the requirement; moreover, the Company exceeds the minimum threshold of 30%, where the current percentage of independent Board members makes up 44%.



## MAJOR ISSUES CONSIDERED BY THE BOARD OF DIRECTORS IN 2015

The Meetings of the Board of Directors of Kazakhtelecom JSC are convoked in accordance with the annual work plan, as well as on an as-needed basis. In 2015, the Company's Board of Directors held 12 meetings in total, including 8 in-person meetings and 4 meetings in absentia.

In total, 98 issues were submitted for the consideration of the Company's Board of Directors in 2015, the most important Resolutions of the Board are as follows:

- on approval of the development plan of Kazakhtelecom JSC;
- on amendments and additions to the innovative and technological strategies of the Group of companies of Kazakhtelecom JSC until 2022;
- on optimization of the structure of the Group of companies of Kazakhtelecom JSC;
- on approval of the Transformation Roadmap of Kazakhtelecom JSC;
- on approval of the Policy on full cycle management of capital investment of Kazakhtelecom JSC;
- on approval of the Policy on competence development and involvement of outside experts by the Board members of Kazakhtelecom JSC;
- on approval of the Rules of assessment of the Board of Directors' performance and the performance of the Board members of Kazakhtelecom JSC;
- on conclusion of transactions with related parties;
- on Preliminary approval of the financial statements of Kazakhtelecom JSC for 2014;
- on submitting to the Annual General Shareholders' Meeting of Kazakhtelecom JSC the proposal on the order and procedure of net income distribution of Kazakhtelecom JSC in 2014, and the amount of dividend paid out per one ordinary share in 2014;
- on a regular basis (quarterly) the Board of Directors of Kazakhtelecom JSC reviews the reports of the Management Board on the implementation of major investment projects of Kazakhtelecom JSC, on the implementation of the Development Plan, on risks, on transparency of Kazakhtelecom JSC, and on assessment of the effectiveness of disclosure processes of the transactions in the execution of which there was an interested party, provided the Decision to make such transactions was taken by the Management Board of Kazakhtelecom JSC or by the Internal Audit Service.

## Participation of members of the Board of Directors at the Board's meetings held in 2015

Members of the Board of Directors	No. 1 16.02	No. 2 18.03	No. 3 20.04 held in absentia	No. 4 18.05	No. 5 26.06 held in absentia	No. 6 16.07	No. 7 05.08 held in absentia	No. 8 04.09	No. 9 19.10 held in absentia	No. 10 03.11	No. 11 16.11	No. 12 25.12	%
N. Baidaletov	+	+	+	+	+	+	+	+	+	+	+	+	100
N. Akentyeva	-	terminated her powers on February 25, 2015 on her own initiative											0
K. Yessekeyev	+	+	+	+	+	+	+	+	+	+	+	+	100
V. Kuchura	+	+	+	+	+	The General Shareholders' Meeting early terminated the member's powers on 30 June 2015 (protocol No. 55)						100	
D. Larionov	+	+	+	+	+	The General Shareholders' Meeting early terminated the member's powers on 30 June 2015 (protocol No. 55)						100	
A. Nuriyeva	+	+	+	+	+	+	+	+	+	+	+	+	100
Ye. Okayev	+	-	+	+	+	The General Shareholders' Meeting early terminated the member's powers on 30 June 2015 (protocol No. 55)						80	
A. Sarsenov	+	+	+	+	+	+	+	+	+	+	+	+	100
S.Saudabayev	+	+	+	+	+	+	+	+	+	+	+	+	100
A. Buyanov	A Board member pursuant to the Resolution of the General Shareholders' Meeting of Kazakhtelecom JSC, dated 30 June 2015 (protocol No. 55)					+	+	+	+	+	+	+	100
Garrett Martin Johnston	A Board member pursuant to the Resolution of the General Shareholders' Meeting of Kazakhtelecom JSC, dated 30 June 2015 (protocol No. 55)					+	+	+	+	+	+	+	100
D. Zaika	A Board member pursuant to the Resolution of the General Shareholders' Meeting of Kazakhtelecom JSC, dated 30 June 2015 (protocol No. 55)					+	+	+	+	+	+	+	100
Ye. Kudabayev	A Board member pursuant to the Resolution of the General Shareholders' Meeting of Kazakhtelecom JSC, dated 30 June 2015 (protocol No. 55)					+	+	+	+	+	+	+	100

## COMMITTEES OF THE BOARD OF DIRECTORS OF KAZAKHTELECOM JSC

With a view to preliminary consideration of the most important issues under the competence of the Board of Directors, as well as to improving the efficiency of the Board of Directors of Kazakhtelecom JSC, ensuring effective performance of the functions of the Company's Board of Directors the following Committees are established and actively operating in the Company:

1. The Committee for Audit.
2. The Committee for Appointments, Remunerations and Social Affairs.
3. The Committee for Strategic planning of the Board of Directors.

In accordance with the Resolution of the Board of Directors of Kazakhtelecom JSC dated March 18, 2015, the Committee for Appointments and Remunerations and the Committee for Social Affairs were abolished, and the Committee for Appointments, Remunerations and Social Affairs was established on their basis.

Each Board Committee shall consist of not less than 4 members, highly qualified and having substantial experience in the profile of the relevant committee.

On considering the issues under their competence, the Committees conduct in-depth analysis of the proposed initiatives and preparing recommendations for the Board of Directors, thereby improving the quality of decisions made by the Company.

**Committee for Strategic planning** of the Board of Directors of Kazakhtelecom JSC was established by the Resolution of the Board of Directors (Protocol No. 14, dated 19.11.2010). The Committee represents a consulting and advisory body of the Board of Directors of Kazakhtelecom JSC, operating in accordance with the Regulation of the Committee for Strategic planning.

From 1 January 2015 till 30 June 2015 the Committee for Strategic planning was composed of representatives of the shareholders and independent directors of the Company elected by the Resolution of the Board of Directors of Kazakhtelecom JSC as of 18 May 2012 (Protocol No. 7):

*Chairman of the Committee:*

Adilbek Sarsenov – representative of the shareholder – Bodam B.V.

*Members of the Committee:*

Vitaliy Kuchura – Independent director;

Dmitriy Larionov – Independent director;

Serik Saudabayev – representative of the shareholder – «Samruk-Kazyna» JSC.

In accordance with the Resolution of the Board of Directors of Kazakhtelecom JSC dated 16 July 2015 (Protocol No. 6), the Committee for Strategic planning of the Board of Directors of Kazakhtelecom JSC was reelected as follows:

*Chairman of the Committee:*

Alexei Buyanov – Independent director.

*Members of the Committee:*

Dmitriy Zaika – Independent director;

Adilbek Sarsenov – representative of the shareholder – Bodam B.V.;

Serik Saudabayev – representative of the shareholder – «Samruk-Kazyna» JSC.

In 2015, the Committee held 12 meetings on strategic planning, including 11 in-person meetings and 1 meeting in absentia; where 30 issues were considered and the corresponding recommendations were given to the Board of Directors. Among the issues addressed are the following: business planning, implementation of the Company's Strategy, recruitment of consultants, the Company's development plan, adoption of strategic documents, optimization of subsidiaries and other important issues of the Company.

### Participation of members of the Committee for Strategic planning at the meetings held in 2015

Members of the Board of Directors	No. 1 09.02	No. 2 18.03	No. 3 15.05	No. 4 28.05	No. 5 16.06	No. 6 25.06	No. 7 03.09	No. 8 23.10	No. 9 26.10	No. 10 03.11	No. 11 16.11	No. 12 30.11 held in absentia	%	
Adilbek Sarsenov	+	+	+	+	+	+	+	+	+	+	+	+	100	
Vitaliy Kuchura	+	+	+	+	+	+	+	terminated his powers on June 30, 2015					100	
Dmitriy Larionov	+	+	+	+	+	+	+	terminated his powers on June 30, 2015					100	
Serik Saudabayev	+	+	+	+	+	+	+	+	+	+	+	+	100	
Alexei Buyanov	the Committee's member pursuant to the Resolution of the Board of Directors of Kazakhtelecom JSC, dated 16 July, 2015 (protocol No. 6)						+	+	+	+	+	+	+	100
Dmitriy Zaika	the Committee's member pursuant to the Resolution of the Board of Directors of Kazakhtelecom JSC, dated 16 July, 2015 (protocol No. 6)						+	+	+	+	+	+	+	100

Giving assessment to the performance of the Committee for Strategic planning of the Board of Directors of Kazakhtelecom JSC, it should be noted that the Committee performed its duties for the benefit of the Company, reasonably and in good faith.

The Committee fulfills the objective of specifying and presenting recommendations to the Board with regard to setting priorities of the Company's Activity and its development strategy, including the development of activities to enhance the efficiency of the Company's Activity in the long term.

In 2015, the Committee for Strategic planning achieved the goals and objectives and fulfilled all the responsibilities provided for by the Corporate Governance Code, Regulation of the Committee for Strategic planning, Resolutions of the Board of Directors, Orders of the Board of Directors, as well as the Work Plan of the Committee for 2015.

## The Committee for Audit

From 1 January 2015 till 30 June 2015 the Committee for Audit was composed of the independent directors elected by the Resolution of the Board of Directors of Kazakhtelecom JSC as of 18 May 2012 (Protocol No. 7):

*Chairman of the Committee:*

Dmitriy Larionov – Independent director.

*Members of the Committee:*

Natalya Akentyeva – Independent director;

Yermek Okayev – Independent director.

On 25 February 2015 Natalya Akentyeva terminated her powers as an Independent director- member of the Board of Directors of Kazakhtelecom JSC on her own initiative.

In accordance with the Resolution of the Board of Directors of Kazakhtelecom JSC, Protocol No. 2, dated 18 March 2015, the Independent director Vitaliy Kuchura was introduced to the Committee for Audit.

In accordance with the Resolution of the Board of Directors of Kazakhtelecom JSC dated 16 July 2015 (Protocol No. 6), the Committee for Audit of the Board of Directors of Kazakhtelecom JSC was reelected as follows:

*Chairman of the Committee:*

Yermek Kudabayev – Independent director.

*Members of the Committee:*

Alexei Buyanov – Independent director;

Garrett Martin Johnston – Independent director;

Dmitriy Zaika – Independent director.

In 2015, the Committee held 9 meetings, including 7 in-person meetings and 2 meeting in absentia; where 21 issues were considered and the corresponding recommendations were given to the Board of Directors. Among the issues addressed are the following: post-monitoring of investment projects, control over effectiveness of functioning and reliability of risk management, implementation of recommendations of the external auditors, ensuring business investment, reports of the Internal Audit Service of the Company and other important issues.

### Participation of members of the Committee for Audit at the meetings held in 2015

Members of the Board of Directors	No. 1 13.01	No. 2 27.01	No. 3 11.02	No. 4 12.03	No. 5 28.04	No. 6 31.07 held in absentia	No. 7 20.08	No. 8 13.10	No. 9 20.11 held in absentia	Absence reason	%
Dmitriy Larionov	+	+	+	+	+	terminated his powers on June 30, 2015				100	
Natalya Akentyeva	+	+	terminated her powers on February 25, 2015 on her own initiative							100	
Vitaliy Kuchura	the Committee's member pursuant to the Resolution of the Board of Directors of Kazakhtelecom JSC, dated 18 March, 2015 (protocol No. 2)			+	+	terminated his powers on June 30, 2015				100	
Yermek Okayev	+	-	+	+	-	terminated his powers on June 30, 2015				2 - business trip	60
Yermek Kudabayev	the Committee's member pursuant to the Resolution of the Board of Directors of Kazakhtelecom JSC, dated 16 July, 2015 (protocol No. 6)					+	+	+	+		100
Alexei Buyanov	the Committee's member pursuant to the Resolution of the Board of Directors of Kazakhtelecom JSC, dated 16 July, 2015 (protocol No. 6)					+	-	+	+	1 - business trip	75
Garrett Martin Johnston	the Committee's member pursuant to the Resolution of the Board of Directors of Kazakhtelecom JSC, dated 16 July, 2015 (protocol No. 6)					+	+	+	+		100
Dmitriy Zaika	the Committee's member pursuant to the Resolution of the Board of Directors of Kazakhtelecom JSC, dated 16 July, 2015 (protocol No. 6)					+	+	+	+		100

Giving assessment to the performance of the Committee for Audit of the Board of Directors of Kazakhtelecom JSC, it should be noted that the Committee performed its duties for the benefit of the Company, reasonably and in good faith.

The Committee conducts a thorough supervision of the audit process, regularly interacts with the Internal Audit Service and meets with the external auditor, as well as with representatives of companies rendering audit and consulting services. In 2015,

the Committee for Audit achieved the goals and objectives and fulfilled all the responsibilities provided for by the Corporate Governance Code, Regulation of the Committee for Audit, Resolutions of the Board of Directors, Orders of the Board of Directors, as well as the Work Plan of the Committee for 2015.

## Committee for Appointments and Remunerations

was established by the Resolution of the Board of Directors, Protocol No. 3, dated 06.02.2007.

In accordance with the Resolution of the Board of Directors of Kazakhtelecom JSC dated March 18, 2015, Protocol No. 2, the Committee for Appointments and Remunerations and the Committee for Social Affairs were abolished, and the Committee for Appointments, Remunerations and Social Affairs was established on their basis.

The Committee is accountable to the Board of Directors and operates pursuant to the Regulation of the Committee for Appointments, Remunerations and Social Affairs of the Board of Directors of Kazakhtelecom JSC.

From 1 January 2015 till 30 June 2015 Committee for Appointments, Remunerations and Social Affairs was composed of the independent directors elected by the Resolution of the Board of Directors of Kazakhtelecom JSC as of 18 May 2012, Protocol No. 7, as of 18 March 2015 (Protocol No. 2).

### *Chairman of the Committee:*

Yermek Okayev – Independent director.

### *Members of the Committee:*

Dmitriy Larionov – Independent director;

Natalya Akentyeva – Independent director;

Vitaliy Kuchura – Independent director.

On 25 February 2015 Natalya Akentyeva terminated her powers as an Independent director – member of the Board of Directors of Kazakhtelecom JSC on her own initiative.

In accordance with the Resolution of the Board of Directors of Kazakhtelecom JSC dated 16 July 2015 (Protocol No. 6), the Committee for Appointments, Remunerations and Social Affairs of the Board of Directors of Kazakhtelecom JSC was reelected as follows:

### *Chairman of the Committee:*

Dmitriy Zaika – Independent director.

### *Members of the Committee:*

Alexei Buyanov – Independent director;

Garrett Martin Johnston – Independent director;

Yermek Kudabayev – Independent director.

In 2015, the Committee for Appointments, Remunerations and Social Affairs held 11 in-person meetings, where 25 issues were considered and the corresponding recommendations were given to the Board of Directors. Among the issues addressed are the following: election of members of the Management Board, appointment of chief executives in the subsidiaries, approval of KPIs for management personnel, remunerations, HR management, and other important issues.

## Participation of members of the Committee for Appointments, Remunerations and Social Affairs at the meetings held in 2015

Members of the Board of Directors	No. 1 15.01	No. 2 11.02	No. 3 17.02	No. 4 12.03	No. 5 15.05	No. 6 29.05	No. 7 29.06	No. 8 20.08	No. 9 03.09	No. 10 23.10	No. 11 25.12	Absence reason	%
Yermek Okayev	+	+	+	+	+	+	+	terminated his powers on June 30, 2015					100
Natalya Akentyeva	+	+	-	terminated her powers on February 25, 2015 on her own initiative								1 – sick leave	66
Vitaliy Kuchura	+	+	+	+	+	+	+	terminated his powers on June 30, 2015					100
Dmitriy Larionov	+	+	+	+	+	+	+	terminated his powers on June 30, 2015					100
Dmitriy Zaika	the Committee's member pursuant to the Resolution of the Board of Directors of Kazakhtelecom JSC, dated 16 July, 2015 (protocol No. 6)							+	+	+	+		100
Alexei Buyanov	the Committee's member pursuant to the Resolution of the Board of Directors of Kazakhtelecom JSC, dated 16 July, 2015 (protocol No. 6)							-	+	+	-	2 – business trip	50
Garrett Martin Johnston	the Committee's member pursuant to the Resolution of the Board of Directors of Kazakhtelecom JSC, dated 16 July, 2015 (protocol No. 6)							+	+	+	+		100

Giving assessment to the performance of the Committee for Appointments, Remunerations and Social Affairs of the Board of Directors of Kazakhtelecom JSC, it should be noted that the Committee performed its duties for the benefit of the Company, reasonably and in good faith.

Thus, in 2015, the Committee for Appointments, Remunerations and Social Affairs achieved the goals, objectives and fulfilled all the responsibilities provided for by the Corporate Governance Code, Regulation of the Committee for Appointments, Remunerations and Social Affairs, Resolutions of the Board of Directors, Orders of the Board of Directors, as well as the Work Plan of the Committee for 2015.

## REPORT ON THE REMUNERATION PAID TO THE BOARD OF DIRECTORS' MEMBERS

Board members, except for the independent directors do not receive remuneration. Board members who are independent directors receive a fixed annual remuneration and additional remuneration for participating at the meeting of the Committee of the Board of Directors of Kazakhtelecom JSC.

An Independent director is reimbursed for expenses (travel, accommodation, daily allowance, telephone within the territory of the Republic of Kazakhstan, scanning, photocopying, faxing, printing, access to the Internet within the territory of the Republic of Kazakhstan, courier services, and postal services), associated with their participation in the in-person Board meetings, the meeting of its Committees, the Annual General Shareholders' meetings, as well as meetings convened at the initiative of shareholders or the Company, held outside the place of permanent residence of the Independent director.

According to the Resolution of the Extraordinary General Shareholders' Meeting of Kazakhtelecom JSC dated December 16, 2006, Protocol No. 31, the remuneration for the performance of functions of a Board member of Kazakhtelecom JSC is paid out only to the independent directors, elected to the Board of Directors.

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

- 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.
- The amount of additional remuneration of each independent member of the Board of Directors of Kazakhtelecom JSC for participation at each in-person meeting of the Committees of the Board of Directors, as well as at the meetings held via TV and video conferencing is determined as follows:
  - for non-residents of the Republic of Kazakhstan that are the members of the Committee – USD 500;
  - for residents of the Republic of Kazakhstan that are the members of the Committee – KZT 75 000.

### Payments to independent directors in the first half-year 2015

No.	Name	Currency	Amount of annual remuneration	Amount of annual remuneration in the first half-year	Amount of additional remuneration for participation at the meeting of the Committees	Total
1	N. Akentyeva	KZT	6 660 000	1 044 306.12	525 000	<b>1 569 306.12</b>
2	V. Kuchura	USD	45 000	22 500	8 500	<b>31 000</b>
3	D. Larionov	KZT	6 660 000	3 330 000	1 575 000	<b>4 905 000</b>
4	Ye. Okayev	KZT	6 660 000	3 330 000	975 000	<b>4 305 000</b>

### Payments to independent directors in the second half-year 2015

No.	Name	Currency	Amount of annual remuneration	Amount of annual remuneration in the second half-year	Amount of additional remuneration for participation at the meeting of the Committees	Total
1	A. Buyanov	USD	45 000	22 500	4 000	<b>26 500</b>
2	Garrett Martin Johnston	USD	45 000	22 500	3 000	<b>25 500</b>
3	D. Zaika	KZT	6 660 000	3 330 000	825 000	<b>4 155 000</b>
4	Ye. Kudabayev	KZT	6 660 000	3 330 000	450 000	<b>3 780 000</b>

Kazakhtelecom JSC discloses information on the remuneration of Board members to all interested parties in accordance with the legislation of the Republic of Kazakhstan, and the Charter of Kazakhtelecom JSC.



## ■ KAZAKHTELECOM JSC'S MANAGEMENT BOARD

The executive body is accountable to the Board of Directors and is in charge of day-to-day activity of the company and responsible for implementing strategy, development plan and decisions adopted by the Board of Directors and general shareholders' meeting. The Management Board is the collegial executive body which is in charge of 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 the 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 31.12.2015)

## MR. KUANYSHBEK YESSEKEYEV

Date of birth: June 10, 1975

Citizenship: Republic of Kazakhstan

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 14, 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, 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
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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: October 13, 1967

Citizenship: Republic of Kazakhstan

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: 03.06.2015

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: June 7, 1971

Citizenship: Republic of Kazakhstan

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: 09.09.2015

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:

07.05.2009 – 08.09.2013

Kazakhtelecom JSC, Operator Relations Managing Director

09.09.2013 – 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: September 15, 1961

Citizenship: Republic of Kazakhstan

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 MAKHANBETAZHIEV

Date of birth: March 12, 1972

Citizenship: Republic of Kazakhstan

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: 03.06.2015

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:

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: none

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



## MRS. ALUA NURKEYEVA

Date of birth: November 29, 1980  
 Citizenship: Republic of Kazakhstan  
 Date of the first election to the Management Board of Kazakhtelecom JSC: 02.03.2015  
 Date of the current election to the Management Board of Kazakhtelecom JSC: 02.03.2015  
 Status: Member of the Management Board of Kazakhtelecom JSC, Chief Financial Officer of Kazakhtelecom JSC

Education: higher

1997 – 2002	The Kazakh State University named after Al-Farabi Qualification: Economics & Management
2004 – 2006	Texas Christian University, M.J. Neeley School of Business Qualification: Investments Degree: Chartered Financial Analyst

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

2010 – 2014	Executive positions in the field of investments, member of the Board of Directors' Audit Committee of Kazkommertsbank JSC
2012 – 2014	Member of the Board of Directors of two subsidiaries of Kazkommertsbank JSC: Grantum PSF JSC and Kazkommerts-Life JSC
11.2014 – 03.2015	Kazakhtelecom JSC, Managing Director – Deputy Chief Financial Officer
03.2015 – till present	Kazakhtelecom JSC, Chief Financial 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. DARYN TUYAKOV

Date of birth: May 25, 1969

Citizenship: Republic of Kazakhstan

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: 21.07.2015

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 Defense (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 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 the RF Degree: Ph.D of Business Administration

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

05.2009 – 01.2012	Kazakhtelecom JSC, Managing GR-Director
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 2015

In 2015, the Management Board of Kazakhtelecom JSC held 46 in-person meetings and took 237 decisions of the Management Board. 19 decisions of the Management Board were taken by the absentee voting ballots.

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

### The most significant decisions taken by the Management Board in 2015:

- Corporate Governance Policy in Kazakhtelecom JSC's subsidiaries;
- Fraud Management Policy in Kazakhtelecom JSC;
- Report on Completion of Actions under «Orleu» Modernization Program Projects for 2014;
- Provision on Current Stimulation of Kazakhtelecom JSC's Affiliated Branches for Operating Activity Results and Labour Costs Financing;
- Standard Organizational Management Structure of OTD – Kazakhtelecom JSC's affiliated branch, as amended;
- Report on Compliance with Kazakhtelecom JSC's Corporate Governance Code Principles;
- Rules for Providing Special-Purpose Loans to Kazakhtelecom JSC's Employees;
- Rules for Paying Personal Allowances at Kazakhtelecom JSC's Central Administration.

### The documents approved by the Company's Management Board and submitted to the Company's Board of Directors:

- Kazakhtelecom JSC's Policy on Full Capital Expenditures Cycle Management;
- Kazakhtelecom JSC's Draft Mission;
- Corporate Governance Codes of some subsidiaries;
- Kazakhtelecom JSC's Annual Report for 2014;
- Annual Financial Statements of Kazakhtelecom JSC's affiliated branches for 2014;
- Kazakhtelecom JSC's Corporate Social Responsibility Report for 2014;
- Kazakhtelecom JSC's Risk Management Reports in 2015, Registrar and Risks Map of Kazakhtelecom JSC of 2016;
- Internal Control and Process Management Policy in Kazakhtelecom JSC;
- Kazakhtelecom JSC's Investment Activity Parameters for 2016;
- Draft Provision on Compensations & Benefits to Kazakhtelecom JSC's Central Administration employees;
- Draft Provision on Representative Office of Kazakhtelecom Joint Stock Company in the Russian Federation, Moscow city;
- Issues of Info-Net Wireless LLP and Kazakhtelecom JSC.

## REPORT ON THE REMUNERATION PAID TO THE MANAGEMENT BOARD'S MEMBERS

The conditions and procedure of paying remuneration to Kazakhtelecom JSC's Management Board's members are determined by Provision on the Management Board of Kazakhtelecom JSC, Provision on Compensations and Benefits to Kazakhtelecom JSC's Central Administration Office employees, and Rules for Year-End Remuneration of Executives and Head of Internal Audit Service of Kazakhtelecom JSC which were worked out in accordance with «Samruk-Kazyna» JSC's Policy for Assessment and Remuneration of Executives.

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 paying remuneration and bonuses to 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.

In 2014, the Company's Management Board updated Kazakhtelecom JSC Group's Strategy: areas of business improvement were identified, target business model of the Group of Companies was created, as well as approaches to new business directions were developed. This work enabled to form the basis for retaining Group development rate in period of significant changes in the info-communications market.

«Orleu» Modernization Program approved in May 2014 became the Plan of Actions of the Strategy. This Program includes 4 strategic initiatives and 18 blocks of projects which create conditions for increasing the Group's shareholder value by more than twice up to 2022.

February 2014's national currency devaluation significantly increased most of the Company's costs. The general negative effect caused by the increase of the cost of supplies, service contracts, international traffic transit, channels lease, CLM, and others, amounted to KZT 8 bln.

With the view to prevent the further increase of operating costs, the Management Board carried out a number of actions including the following:

- working with suppliers aimed at price cutting;
- optimizing third parties' materials and services use;
- entering into long-term fixed price agreements in tenge;
- eliminating and cutting non-operating costs.

Despite the Tenge devaluation, structural changes in the telecommunications market and stiff competition, the Company managed to boost its financial and economic figures.

In the reporting year, Kazakhtelecom JSC' Group revenue share in the telecommunications market increased by 1.6% and made up 33.9%. Thus, in terms of revenues, the Group has taken the first market position.

Corporate KPIs were achieved above target due to individual contribution of each Management Board's member. The effectiveness of motivational corporate KPI made up 116.9%.

In accordance with the Annual Audit Plan, the Internal Audit Service carried out an audit of senior management remuneration accrual.

The size of Kazakhtelecom JSC Management Board's members remuneration on 2014 results was approved by decision of Kazakhtelecom JSC's Board of Directors № 8, as of March 18, 2015. The maximum size of the Management Board's members remuneration does not exceed the triple annual salary of an employee. Remuneration is paid after the approval of Kazakhtelecom JSC's consolidated financial statements. Kazakhtelecom JSC's Management Board's members remuneration, on the results of 2014, totaled to KZT 325 671 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 paragraph 1, Article 73 of the Law of the Republic of Kazakhstan «On Joint Stock Companies» and to paragraph 5 of Article 42 of Kazakhtelecom JSC's Charter 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 2015:

- On conclusion of Interested-party transactions with NURSAT JSC, whereby Kazakhtelecom JSC acts as an interested party;
- On conclusion of Interested-party transactions, whereby Kazakhtelecom JSC acts as an interested party (Indemnity Contract concluded with Kazkommertsbank JSC for benefit of Kazkommertsbank JSC on NURSAT JSC's loan repayment liabilities under the Agreement on opening a credit line, as well as Agreement on NURSAT JSC's fulfillment of obligations to Kazakhtelecom JSC concluded with NURSAT JSC);
- On conclusion of a major transaction by Kazakhtelecom JSC (On some issues of joint venture in mobile segment);
- On conclusion of transactions, whereby Kazakhtelecom JSC acts as an interested party (Share Purchase Agreement to acquire 100% stake in the equity capital of MaxCom LLP, and Debt Claim Assignment and Set-Off Agreement);
- On conclusion of transactions, whereby Kazakhtelecom JSC acts as an interested party (Contract on maintaining antenna towers and antenna-feeder devices concluded between VOSTOKTELECOM LLP and Kazakhtelecom JSC);
- On conclusion of Interested-party transactions with Info-Net Wireless LLP, whereby Kazakhtelecom JSC acts as an interested party.

According to item 4 article 42 of Kazakhtelecom JSC's Charter, decisions on entering into the transactions in which the Company is the interested party shall be taken by the Company's Management Board with regard to the issues of provision of communications and IT services in accordance with the standard market conditions.

In 2015, the Management Board of Kazakhtelecom JSC took the following decisions of the Management Board concerning entering into the transactions in which the Company is the interested party:

- On entering into the transaction in which Kazakhtelecom JSC is the interested party – Addendum to the Agreement between Kazakhtelecom JSC and ALTEL JSC on the lease of digital trunk circuits;
- On entering into the transaction in which Kazakhtelecom JSC is the interested party with «Sovereign Wealth Fund «Samruk-Kazyna» JSC and approving operating costs;
- On entering into the transaction in which the Company is the interested party with «Sovereign Wealth Fund «Samruk-Kazyna» JSC.

## INFORMATION ABOUT THE POLICY OF SETTLING THE CONFLICT OF INTERESTS

The Conflict of Interest Policy of Kazakhtelecom JSC (hereinafter – the Policy) 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.

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

Along with signing an employment agreement each employee signs a statement of understanding providing for the procedures for the settlement of the conflict of interests in Kazakhtelecom JSC, as well as the obligation to comply with the Policy and be guided by them in his/her professional activities.

All employees should behave in a manner preventing a conflict of interest either in respect of themselves (or persons related to them), or in respect of others.



## ■ QUALITY MANAGEMENT SYSTEM

### *Quality management system as an effective tool to improve the management system.*

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 quality management philosophy, enables to build effective business processes of consistent high quality and ensures qualified and sound management of all quality affecting factors.

Since 2005, Kazakhtelecom JSC has successfully implemented the quality management system (hereinafter «QMS») in accordance with ISO 9001:2008 International Standard Requirements.

QMS is developed in the Company in accordance with the objectives set out in Kazakhtelecom JSC's Quality Policy which represents principles and values referred to in the Mission, Objectives, and Strategy of the Company.

QMS effectiveness is ensured due to constant monitoring of the system by measuring, analyzing, and correcting processes.

In November 2014, the Company successfully passed the recertification audit by the authorized organization Bureau Veritas for compliance with the requirements of MS ISO 9001:2008. On the audit results, registration certificate that is valid for three years and requires the organization to maintain quality management system in accordance with the above standard requirements was reissued. The certificate was issued by Bureau Veritas Certification, one of the world's leading certification bodies accredited to certify international standards compliance.

The certificate covers all the quality management system of the Company in part of organization and provision of telecommunications services, operational management of logistical chain of procurement of goods, works and services, centralized and decentralized supply of equipment and inventories (including import) to transit warehouses, storage, distribution, and delivery of goods to end users, and equipment maintenance.

THE CERTIFICATION INCLUDED  
THE AUDIT OF KAZAKHTELECOM JSC'S  
CENTRAL ADMINISTRATION  
AND 21 AFFILIATED BRANCHES'  
TELECOMMUNICATIONS SERVICES QUALITY  
ACROSS KAZAKHSTAN.  
THE CERTIFICATE PROVES  
THE COMPLIANCE OF THE COMPANY'S  
ACTIVITIES WITH INTERNATIONAL  
QUALITY STANDARDS.

Due to the launch of the new version of the standard, ISO 9001:2015, that sets out substantial changes compared to the 2008 version, a series of activities aimed at the Company's moving to the new standard have been planned in 2016.

## 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 2015 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.

With the view to ensuring procurements transparency, in 2015, 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](http://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](http://www.kmks.kz)).

Taking into account switching from currency corridor to regime of floating rate of the national currency, that is subject to the market demand, made by the National Bank of Kazakhstan in 2015, as well as the business needs for procurement of modern telecom equipment from foreign companies, corresponding adjustment of the volume of imported telecom equipment was made.

In total, in 2015, Kazakhtelecom Group signed 17 147 agreements amounting to KZT 85.866 billion with the share of local content of 56% (goods amounting to KZT 44.342 billion (the share of local content is 28%), works amounting to KZT 13.529 billion (the share of local content is 83%), services amounting to KZT 27.995 billion (the share of local content is 95%).

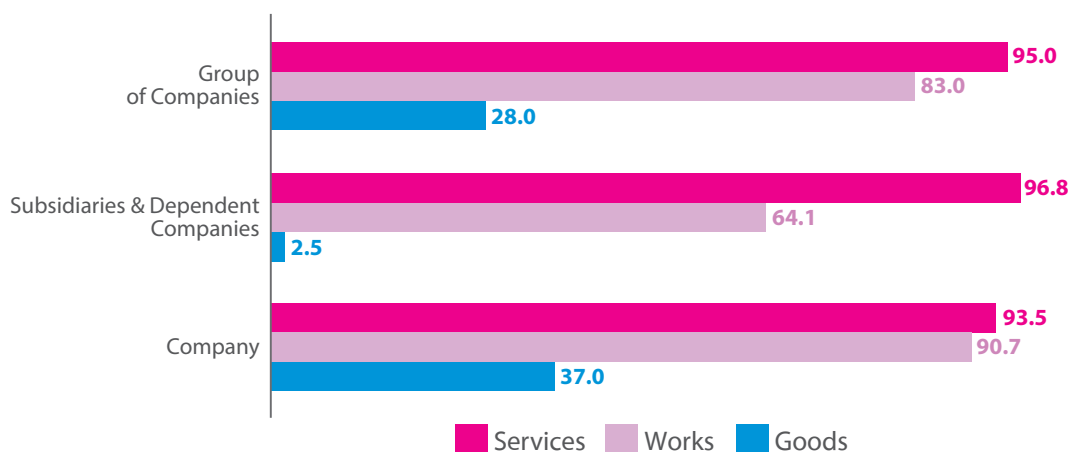
The share of goods in the total amount of procurements of Kazakhtelecom Group amounted to 51.64%, the share of works – 15.76%, the share of services – 32.60%.

WITH THE VIEW TO ACHIEVING THE LOCAL CONTENT TARGETS, THE COMPANY IS DEVELOPING INTER-HOLDING 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.

In 2015, the Company signed 30 long-term agreements totaling to KZT 12.755 billion with the share of local content of 73%.

The long-term agreements are aimed at developing relationships with domestic manufacturers in terms of procurement of goods manufactured in Kazakhstan, assist in the development of new import-substituting goods, works and services as well as support domestic manufacturers in conditions of Kazakhstan's accession to the WTO.

Local content in procurements of goods, works and services in 2015





«Trust is the only key to success when performing  
the work oriented towards people»

*Plutarch*



**PERSONNEL**

# PERSONNEL

THE COMPANY CONSIDERS INNOVATIVE THINKING AS THE MAIN FACTOR OF THE COMPANY'S COMPETITIVE ADVANTAGE. THE HUMAN RESOURCES REMAIN THE MAJOR STRATEGIC RESOURCE AND FOUNDATION FOR TRANSFORMATION OF THE COMPANY.

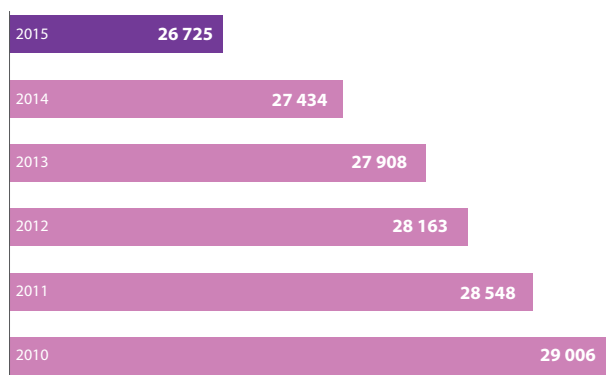
## HR MANAGEMENT

In the long-term development strategy 2020 of the Group of companies of Kazakhtelecom JSC, particular attention is paid to human capital as a strategic resource. The transformation program «Orleu» launched in 2014 also extends beyond a set of strategic initiatives, but aims to change thinking and behavior of the staff at all levels. The transformation creates new opportunities for all employees and will contribute to the development of the personnel's new skills to meet changing objectives.

In view of this, the Personnel Management Strategy of Kazakhtelecom JSC was updated in 2015. The main components of HR management for the upcoming years are determined as follows: organizational development, improved efficiency, and modified corporate culture.

**Structure of the Company's personnel.** The actual number of employees of Kazakhtelecom JSC amounted to 26 725 people (including, 7.1% – administrative staff and 92.9% – industrial staff). Thus, the Company maintains the downward trend in the number of administrative personnel.

*Dynamics of changes in the actual number of employees Kazakhtelecom JSC, 2010–2015*



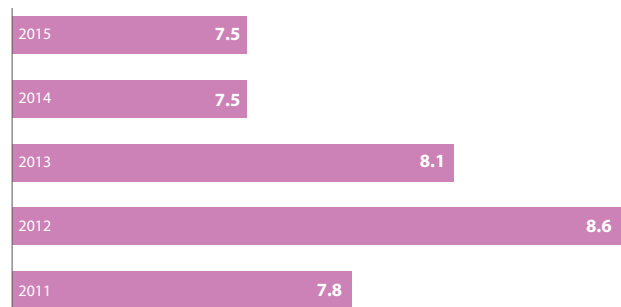
In 2015, within the framework of the implementation of the transformation Program, the decision was taken to merge some affiliated branches: Local Telecommunications Center (LTC) Almatytelecom with the Regional Telecommunications Administration (RTA) of Almatinskaya oblast, and LTC Astanatelecom with RTA of Akmolinskaya oblast, and set up, on their basis, Regional Telecommunications Administrations Astanatelecom and Almatytelecom.

In addition, initiatives on optimizing the transport department, and management levels, as well as centralizing administrative and support functions were implemented, thereby having optimized 1 834 staff units.

## HR-INDICATORS

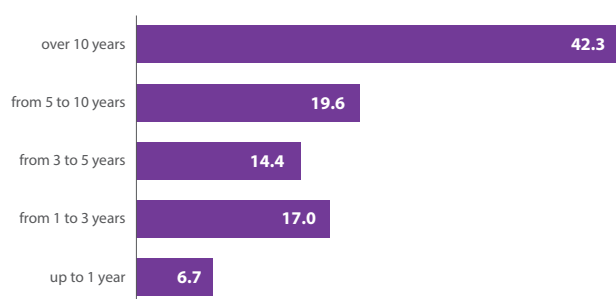
The key HR-indicators of the Company remain stable. The turnover rate of personnel accounted for 7.5%, while the turnover rate of administrative personnel made up 6.8%, and that of industrial personnel constituted 7.6%.

*The turnover rate, % (2011–2015)*



Over the past 2 years, the turnover rate remains 7.5%, which is within the limits of the plan value.

*Employment period, % (2015)*



More than 40% of employees have the length of service exceeding 10 years, which is a testimony of a high level of personnel stability.

## THE COMPANY'S HR-PROJECTS

**Employment of the personnel.** The project mainly targets for building a highly professional, effective and efficient team, capable to fulfill the Company's objectives in a time-efficient way, as well as selection of highly-qualified staff, able and willing to work, having respective competences, and sharing the Company's values.

As a part of the project implementation, Kazakhtelecom JSC re-considered the procedure of employment of the personnel and introduced a transparent competitive staff selection system.

**Organizational development. Centralization of administrative and support functions.** In the framework of the Company's organizational development, such initiatives as centralization of administrative and support functions, optimization of management levels, modification of the regional management model, and modernization of organizational structure are being implemented.

Improved efficiency of internal processes is one of the strategic tasks performed in the framework of the transformation program «Orleu». One of the steps taken in this connection is designing a model of the shared service center, which implies outsourcing support business processes being executed in each branch into the shared service center.

In the reporting year, we completed a pilot project aimed at establishing a Shared Services Centre for HR management (SSC), where unified 46 processes of HR administration and typed more than 30 documents. SSC will service all branches of the Company by the end of 2016.

**Talent management.** Using the talent map, the Company set up the Personnel Pool, thus unifying the employees of the Central Administration Office and those of branches with high performance and leadership potential. In the course of implementation of HR initiatives of Kazakhtelecom JSC's transformation program, as well as succession planning, the Company undertook a set of measures for the selection of candidates for key management positions.

The Personnel Pool consists of Top-25/the operational pool, including employees with high leadership potential, ready for taking up management positions, as well as strategic pool that includes workers available to take up management positions in the mid-run (within 2–3 years), once undergone proper training.

On the Pool basis, the Company will develop the Succession Matrix, along with the Leadership Development Program.

**Increasing staff efficiency.** One of key elements of the system of increasing staff efficiency is the so-called performance management system, which intends to set clear, measurable goals and objectives for the corresponding period in the form of key performance indicators (KPI), where the employee's remuneration will be contingent on the implementation of his KPI. Alongside with that, the Company plans to launch the system of individual development plan (IDP), which will allow each employee to focus on developing his knowledge and skills, and enhance personal effectiveness and productivity.

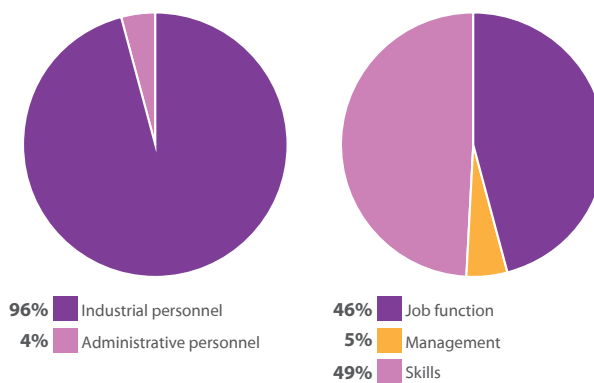
In 2015, Kazakhtelecom JSC piloted the project in the Central Administration Office, and, in 2016, the system will be replicated throughout the Company.

Another important element of the efficiency increasing system is assessment of positions and related functions, or «grading», which implies ranking positions based on such criteria as the level of qualification, complexity of work, degree of responsibility of the position, independence in decision making, impact on strategic objectives and business results of the Company. Application of the grading system, when remunerating personnel, shall give the Company a number of advantages, including, among others, the achievement of internal justice, when the same level positions have an identical range of salaries, increased staff efficiency due to stimulation, as the employee's remuneration will be up to his/her performance results.

## PERSONNEL TRAINING/KNOWLEDGE MANAGEMENT

Personnel training and development is one of strategic directions of the Company. The number of employees covered by internal training in 2015 made up 28 004 trainees, where 25 385 studied full-time and 2 619 through distance learning courses.

Number of trainees by types of training, % (2015)



In 2015, we built an interaction model with the Corporate University, – our subsidiary, established on the basis of the Directorate of «Academy of Info-communication technologies». Its activities will be carried out in accordance with the world best practices and standards. In addition, we are starting a common IT platform in cooperation with the Corporate University of «Samruk-Kazyna» JSC, owing to which Kazakhtelecom employees will be able to choose a course of study in the online mode in line with their individual development plans.

The Company launched a project in a pilot mode aimed at developing and implementing professional competences for technical personnel, compulsory education programs, as well as career maps. The project targets to systematize the requirements for professional competencies associated with specific positions, identifying areas of the staff training and development, ensuring transparency in career planning, as well as developing and promotion of employees within the Company.

As a part of the outplacement program, Kazakhtelecom JSC developed a training/re-qualifying program aimed at possible employment of the personnel outplaced to the in-demand positions of the Company.

Within the framework of implementation of HR-Initiatives of the Transformation Program, Kazakhtelecom JSC has launched an internship program with a view to the Company's participation in professional training with an emphasis on the development of practical knowledge and skills, acceleration of the adaptation process of young specialists to the production activities through the integration of learning and production processes, and establishment of talented trainees pool for purposes of further hiring.

The Company signed memorandums on cooperation in the field of professional training with 3 Regional Chambers of Entrepreneurs.



«To create efficient organization, the power should be replaced with responsibility»

*Peter Ferdinand Drucker*



# **CORPORATE SOCIAL RESPONSIBILITY**



# CORPORATE SOCIAL RESPONSIBILITY

INTEGRATION OF CORPORATE SOCIAL RESPONSIBILITY PRINCIPLES IN THE BUSINESS STRATEGY IS A CHARACTERISTIC FEATURE OF SUCCESSFUL COMPANIES.

THE TELECOMMUNICATIONS BUSINESS IS A PRIORI SOCIALLY ORIENTED, AS IT PLAYS AN IMPORTANT ROLE IN THE DAILY LIFE OF EVERY SOCIETY MEMBER AND PROVIDES ACCESS FOR CITIZENS, PUBLIC AUTHORITIES, BUSINESS STRUCTURES TO MODERN INFO-COMMUNICATIONS RESOURCES.

Taking into consideration the significant scale of the Company's business, Kazakhtelecom JSC is aware of its role in participation in socially significant processes.

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. On an annual basis, the Company publishes the report in the field of corporate social responsibility following recommendations of the Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI Guidelines).

**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 annual social reports of the Company;
- 3 maintaining dialogues with stakeholders for improving efficiency of corporate social responsibility governance.

## THE COMPANY'S SOCIAL PROJECTS

In an effort to contribute to sustainable development of the society, the Group of companies of Kazakhtelecom JSC is actively taking part in projects aimed at systematic fulfillment of socially important objectives of rural communications development, support for education programs, elimination of «digital divide», as well as improving life quality by improving the availability of telecommunications services.

SINCE 2014, THE VOLUNTEER MOVEMENT «AYAULYM ALAKAN» HAS BEEN ACTIVELY DEVELOPING, AND ITS MEMBERS ARE ACTIVELY INVOLVED IN SOCIAL ADAPTATION OF SENIOR PUPILS-ORPHANS, assisting their cultural, moral and physical education, providing assistance to pensioners, the elderly, and employees being in need of the Company's support. Participation in various charity events develops and forms new skills and competencies, as well as expands social intercourse. The Corporate Volunteering Program implements the principles of corporate social responsibility, promotes and strengthens corporate values and culture, social activity and initiative of employees on assisting socially protected citizens.

In order to ensure access of educational institutions to the best educational resources and technologies in the framework of the State Education Development Program of the Republic of Kazakhstan for 2011–2020, the Company takes steps to provide educational institutions with broadband Internet access (broadband). Therefore, as of January 01, 2016, 6 164 public schools, or 85.36%, among which 4 538 are rural schools, or 81.77%, were provided broadband Internet connection (with the minimum access speed of 256 Kbit/s).

In the framework of implementing the project of the Ministry of Education and Science of Kazakhstan «E-learning System» (ELA), the Company ensured access to the Internet at the speed of 4 up to 10 Mbit/s for 2 959 education institutions in all regions of the country.

With a view to improving the availability of services, the Company pursues a flexible tariff policy and offers bundled telecom services. Bundled services are distinctly cheaper for users than certain unbundled telecom services.

IN 2015, KAZAKHTELECOM JSC DEVELOPED AND APPROVED NEW TARIFF LINE PACKAGES FOR INDIVIDUAL SUBSCRIBERS, WHICH CATERS TO THE NEEDS OF CUSTOMERS AT THE REASONABLE PRICE, SHAPING THEIR NEW NEEDS, AND RESULTING IN ADDITIONAL SALES.

**In particular:**

- the cost of a new package of voice services, «Your Kazakhstan» for the city subscribers reached KZT 1 299, VAT included. The package includes local telephone services and long-distance telephone service, and an additional one hour-call to subscribers of ALTEL mobile operator. The same package for rural residents costs KZT 999, VAT included;
- the cost of the basic services package, «Minimal» for the city subscribers reached KZT 2 699, VAT included. The package includes four services: local telephone services, long distance telephone services, broadband Internet access, and additional one hour-call to subscribers of ALTEL mobile operator. If one purchases the same services separately, the fee will be KZT 5 096, VAT included. The same package for rural residents will be KZT 2 099, VAT included.

In addition, within the framework of implementing joint projects with ALTEL JSC, the Company developed the package «**FAMILY SOLUTION**» (fixed and mobile services package), which enables monitoring family spending on mobile communication, unlimited communication among family members, and controlling children's access to the Internet (Parental control). The package also includes unlimited calls outgoing from a mobile to fixed number, as well as to ALTEL numbers, and provides extra benefits.

FINALLY, IN 2015, THE PACKAGE «YOUR KAZAKHSTAN» WAS INTRODUCED FOR LEGAL PERSONS, THEREBY IMPROVING THE CUSTOMER LOYALTY AND INCREASING AVAILABILITY OF OUR SERVICES.

## ■ SPONSORSHIP AND CHARITY

The 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, dated 10 June 2011, Protocol No. 6. Pursuant to the Policy principles, the Company annually allocates 1% of its consolidated net profit for sponsorship and charity.

The main sponsorship areas include support of nationwide events, social projects, particular sports, international conferences and forums, participation in competitions, contests, exhibitions, parades, development of creative, research, scientific, technological, inventive activities, and improvement of education and sports mastery level.

The charity assistance is focused on supporting statutory activities of non-profit organizations carrying out activity in social sphere, social support of veterans, disabled persons, orphanages and children centers, 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 2015, the Company rendered the following sponsorship assistance:**

- to non-profit Almaty University of Energy and Communication JSC for purposes of educating students by transferring obsolete equipment PCM-30 in the amount of 2 pieces at the residual value of KZT 42 505.45 (forty-two thousand five hundred and five);
- to College of Radio Engineering and Communications CSE of the Department of Education of the East Kazakhstan regional administration (Semei) by transferring the decommissioned ATSC station with 50 rooms to the Museum of the technical College of Radio Engineering and Communications as an exhibit.

The Company also sponsored the VI International Investment Forum «Astana Invest 2015» in the amount of KZT 5 million hosted by Astana Public Fund «Social Innovation».

## ■ SOCIAL SUPPORT OF EMPLOYEES AND 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 cooperates 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 concludes 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.

In addition, in the framework of corporate social responsibility and implementation of the provisions of the Collective Agreement with regard to healthcare, the Company provides voluntary medical insurance to its employees.

Another area of the Company's internal corporate social responsibility is 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 safety at work are significant components of the Company's corporate social program. On a regular basis, the Company undertakes a number of measures aimed at health protection and safety of the personnel, including providing employees with protective clothing, footwear and personal protective equipment, annual trainings of manual workers; as well as scheduled replacement of obsolete equipment with modern and safe one. Alongside with that, with a view to improving working conditions, as well as activation and involvement of employees and public inspectors of occupational health and safety into the process of eliminating the causes of occupational injuries, accidents and occupational diseases, the Company ensures annual examination of occupational health, and working and living conditions among the branches of Kazakhtelecom JSC and their structural units.

## ■ THE YOUTH POLICY

The matters of succession planning and timely training are of strategic importance for Kazakhtelecom JSC.

IN 2015, THE PROCESS OF EMPLOYMENT OF YOUNG EMPLOYEES WAS PERFORMED TO THE FULLEST EXTENT. INDUSTRIAL INTERNSHIPS WERE ARRANGED FOR 857 STUDENTS, INCLUDING 20 STUDENTS BENEFITED FROM THE DUAL TRAINING SYSTEM.

The Company holds regular working meetings of the Company's management with the members of the Youth Council «Zhastelekom». To date, the number of members of Zhastelekom, having served for 4 years so far, amounts to 1 650 people. Each branch of Kazakhtelecom JSC established regional organization groups. Under the approved work plan of Zhastelekom for 2015, a number of activities with the direct participation of members of the youth organization, educational activities were carried out.

## ■ ENVIRONMENT PROTECTION

Environmental activities, preservation of favorable environment, and resource conservation are also known to be the Company's priorities.

ON INTRODUCING NEW TECHNOLOGY TO REPLACE THE OBSOLETE ONE, THE COMPANY OPTS FOR RESOURCE-SAVING AND ENVIRONMENTALLY FRIENDLY TECHNOLOGIES.

Kazakhtelecom JSC considers improving energy efficiency and energy conservation to be strategic and integral part of the activities being carried out intended to reduce costs and improve the efficiency of the Company's activities. The Company is implementing energy conservation programs implying institutional, scientific, industrial measures aimed at efficient use of energy and commercializing renewable energy. Every year, in accordance with the plan of environmental protection Kazakhtelecom JSC takes measures on reducing water consumption and its rational use.

So do the Company's branches, ensuring rational 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.

**B2B** – Business to Business.

**B2C** – Business to Consumer.

**B2G** – Business to Government.

**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 mutiservice and mobile networks, provides sharp increase of the network bandwidth capacity, and implements wide range of absolutely new communications services.

**EVDO** – Evolution Data Optimized, high speed data communication technology used in cellular networks of CDMA standard.

**FinTech** – Financial Technology.

**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.

**Hosting** – service of installing customer's equipment on provider's premises for connecting to high bandwidth communication channels (colocation).

**IoT** – Internet of Things.

**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 Mbit/s 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.

**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.

**SDP** (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.

**VoIP** (Voice over Internet Protocol) or IP telephony is a technology involved in the delivery of voice communications in the packet-switched networks over Internet Protocol, such as the Internet and other IP networks (for example, leased digital channels).

**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](mailto:telecom@telecom.kz)  
<http://www.telecom.kz>

### CONTACT TELEPHONE NUMBERS:

**Corporate Secretary of Kazakhtelecom JSC**

Tel.: +7 (7172) 580 651

**Corporate Management Service**

Tel.: +7 (7172) 591 414

Tel.: +7 (727) 2587 264

**Public Relations Service**

Tel.: +7 (7172) 591 504

Tel.: +7 (727) 2587 511

Fax: +7 (727) 2587 512

### 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.

**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.

### Mailing address:

77/7, Al-Farabi Ave.,  
Almaty, 050060,  
Republic of Kazakhstan

Tel.: +7 (727) 2585 960

Fax: +7 (727) 2585 961

E-mail: [almaty@kz.ey.com](mailto:almaty@kz.ey.com)

<http://www.ey.com/kz>

### 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.

Since December 20, 2012, the Integrated Securities Registrar JSC is the Kazakhtelecom JSC's register.

### Mailing address:

30A/3, Satpayev Street,  
Almaty, 050040,  
Republic of Kazakhstan

Tel.: +7 (727) 2724 760

Fax: +7 (727) 2724 760, ext. 230

E-mail: [info@tisir.kz](mailto:info@tisir.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 (<http://tisir.kz>).



«The way you collect, organize and use information determines whether you are going to win or lose»

*Bill Gates*



**FINANCIAL STATEMENTS**  
**IFRS**  
(ADDENDUM)





**KAZAKHTELECOM**

**Kazakhtelecom JSC**

Consolidated financial statements

*For the year ended 31 December 2015,  
with independent auditors' report*

## CONTENTS

Independent auditors' report

### **Consolidated financial statements**

Consolidated statement of financial position	1-2
Consolidated statement of comprehensive income	3-4
Consolidated statement of changes in equity	5
Consolidated statement of cash flows	6-7
Notes to the consolidated financial statements	8-57

# 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 2015, 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 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Ernst & Young LLP*

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*[Handwritten Signature]*

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**Evgeny Zhemaletdinov**  
Auditor/General Director  
Ernst and Young LLP

State Audit License for audit activities on the territory of the Republic of Kazakhstan:  
series МФЮ-2 No. 0000003 issued by  
the Ministry of Finance of the Republic of Kazakhstan on  
15 July 2005

Auditor Qualification Certificate No. 0000553  
dated 24 December 2003

25 February 2016

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

<i>In thousands of tenge</i>	Notes	2015	2014
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	7	285,555,708	308,471,725
Intangible assets	8	19,558,165	24,531,269
Advances paid for non-current assets	10	79,256	207,263
Deferred tax asset	36	204,814	1,679,830
Other non-current financial assets	12	10,557,028	11,884,667
Other non-current assets	13	2,514,632	4,916,543
		<b>318,469,603</b>	351,691,297
<b>Current assets</b>			
Inventories	14	3,760,673	5,934,046
Trade accounts receivable	15	16,385,102	20,764,872
Prepayments	16	507,630	992,346
Income tax prepaid		64,629	1,054,311
Other financial assets	17	33,949,795	21,362,797
Other current assets	18	3,602,421	6,213,467
Cash and cash equivalents	19	11,276,891	8,729,297
		<b>69,547,141</b>	65,051,136
Assets classified as held for sale	37	48,477,200	951,019
<b>Total assets</b>		<b>436,493,944</b>	417,693,452
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Charter capital	20	12,136,529	12,136,529
Treasury shares	20	(6,464,488)	(6,398,619)
Currency translation reserve	20	47,662	(69,350)
Other capital reserve	20	1,820,479	1,820,479
Retained earnings		285,884,903	263,644,674
		<b>293,425,085</b>	271,133,713
<b>Non-controlling interests</b>		<b>(1,003,643)</b>	(824,365)
<b>Total equity</b>		<b>292,421,442</b>	270,309,348

The accompanying accounting policy and notes on pages 8 to 57 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(continued)

<i>In thousands of tenge</i>	Notes	2015	2014
<b>Non-current liabilities</b>			
Borrowings	21	27,299,921	56,426,152
Finance lease liabilities	22	4,435,721	10,629,340
Deferred tax liability	36	18,167,340	16,466,369
Employee benefit liability	23	7,274,355	5,055,066
Debt component of preferred shares	20	874,156	876,845
Other non-current liabilities	24	2,976,133	7,650,255
		<b>61,027,626</b>	97,104,027
<b>Current liabilities</b>			
Borrowings	21	4,138,393	5,762,823
Current portion of finance lease liabilities	22	4,707,462	7,519,979
Current portion of employee benefit liability	23	511,689	742,288
Trade accounts payable	25	11,893,469	21,401,773
Advances received		2,529,209	3,733,540
Income tax payable		146,920	110,742
Other current liabilities	26	10,630,418	11,008,932
		<b>34,557,560</b>	50,280,077
Liabilities directly associated with assets classified as held for sale	37	48,487,316	-
<b>TOTAL LIABILITIES</b>		<b>144,072,502</b>	147,384,104
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>436,493,944</b>	417,693,452

Chairman of the Management Board

Yessekeyev K.B.

Chief Financial Director

Nurkeyeva A.N.

Chief Accountant

Zhumanova M.A.

The accompanying accounting policy and notes on pages 8 to 57 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

<i>In thousands of tenge</i>	Notes	2015	2014
<b>Continuing operations</b>			
Revenue	27	<b>182,743,603</b>	185,026,554
Compensation for universal services provision in rural areas	28	<b>7,010,726</b>	6,276,853
		<b>189,754,329</b>	191,303,407
Cost of revenue	29	<b>(127,254,556)</b>	(133,700,305)
<b>Gross profit</b>		<b>62,499,773</b>	57,603,102
General and administrative expenses	30	<b>(22,894,843)</b>	(23,486,084)
Selling expenses	31	<b>(3,149,381)</b>	(4,032,837)
<b>Operating profit</b>		<b>36,455,549</b>	30,084,181
Finance costs	33	<b>(6,653,136)</b>	(6,646,461)
Finance income	33	<b>2,679,338</b>	2,571,855
Foreign exchange gain/(loss), net	34	<b>189,482</b>	(6,936,051)
Loss from disposal of property and equipment		<b>(353,932)</b>	(547,059)
Other income	35	<b>3,979,735</b>	3,759,775
Other expenses	35	<b>(1,325,098)</b>	(782,320)
<b>Profit before tax for the year from continuing operations</b>		<b>34,971,938</b>	21,503,920
Income tax expense	36	<b>(8,614,784)</b>	(7,969,690)
<b>Profit for the year from continuing operations</b>		<b>26,357,154</b>	13,534,230
<b>Discontinued operations</b>			
Loss after tax for the year from discontinued operations	37	<b>(2,148,068)</b>	(6,809,880)
<b>Profit for the year</b>		<b>24,209,086</b>	6,724,350
<b>Attributable to:</b>			
Owners of the parent		<b>24,388,364</b>	7,483,619
Non-controlling interests		<b>(179,278)</b>	(759,269)

The accompanying accounting policy and notes on pages 8 to 57 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(continued)

<i>In thousands of tenge</i>	Notes	2015	2014
<b>Other comprehensive loss</b>			
<i>Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods (net of tax):</i>			
Exchange differences on translation of foreign operations		117,012	(57,142)
<b>Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods</b>		<b>117,012</b>	<b>(57,142)</b>
<i>Other comprehensive loss not to be reclassified to profit or loss in subsequent periods (net of tax):</i>			
Actuarial losses on defined benefit plan		(2,025,345)	(1,035,850)
<b>Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods</b>		<b>(2,025,345)</b>	<b>(1,035,850)</b>
<b>Other comprehensive loss for the year, net of tax</b>		<b>(1,908,333)</b>	<b>(1,092,992)</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>22,300,753</b>	<b>5,631,358</b>
<b>Attributable to:</b>			
Owners of the parent		22,480,031	6,390,627
Non-controlling interests		(179,278)	(759,269)
		<b>22,300,753</b>	<b>5,631,358</b>
<b>Earnings per share</b>			
Basic and diluted, profit for the year attributable to owners of the parent, tenge	20	2,219.75	686.52
<b>Earnings per share for continuing operations</b>			
Basic and diluted, profit for the year from continuing operations attributable to owners of the parent, tenge	20	2,414.50	1,303.27

Chairman of the Management Board

Yessekeyev K.B.

Chief Financial Director

Nurkeyeva A.N.

Chief Accountant

Zhumanova M.A.

The accompanying accounting policy and notes on pages 8 to 57 are an integral part of these consolidated financial statements.



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

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	20	20	20	20				
<b>At 1 January 2014</b>	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 period	-	-	-	-	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)
<b>Total comprehensive (loss)/income</b>	-	-	(57,142)	-	6,447,769	6,390,627	(759,269)	5,631,358
Treasury shares repurchased (Note 20)	-	(108,475)	-	-	-	(108,475)	-	(108,475)
Financial guarantee issued for Parent (Note 24)	-	-	-	-	(663,900)	(663,900)	-	(663,900)
Acquisition of non-controlling interest in subsidiary (Note 5)	-	-	-	-	(42,932)	(42,932)	(10,038)	(52,970)
<b>At 31 December 2014</b>	12,136,529	(6,398,619)	(69,350)	1,820,479	263,644,674	271,133,713	(824,365)	270,309,348
Profit/(loss) for the period	-	-	-	-	<b>24,388,364</b>	<b>24,388,364</b>	<b>(179,278)</b>	<b>24,209,086</b>
Other comprehensive income/(loss)	-	-	<b>117,012</b>	-	<b>(2,025,345)</b>	<b>(1,908,333)</b>	-	<b>(1,908,333)</b>
<b>Total comprehensive income/(loss)</b>	-	-	<b>117,012</b>	-	<b>22,363,019</b>	<b>22,480,031</b>	<b>(179,278)</b>	<b>22,300,753</b>
Treasury shares repurchased (Note 20)	-	<b>(65,869)</b>	-	-	-	<b>(65,869)</b>	-	<b>(65,869)</b>
Derecognition of financial guarantee issued for Parent (Note 24)	-	-	-	-	<b>964,149</b>	<b>964,149</b>	-	<b>964,149</b>
Dividends (Note 20)	-	-	-	-	<b>(1,086,939)</b>	<b>(1,086,939)</b>	-	<b>(1,086,939)</b>
<b>At 31 December 2015</b>	<b>12,136,529</b>	<b>(6,464,488)</b>	<b>47,662</b>	<b>1,820,479</b>	<b>285,884,903</b>	<b>293,425,085</b>	<b>(1,003,643)</b>	<b>292,421,442</b>

Chairman of the Management Board

Yessekeyev K.B.

Chief Financial Director

Nurkeyeva A.N.

Chief Accountant

Zhumanova M.A.

The accompanying accounting policy and notes on pages 8 to 57 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

<i>In thousands of tenge</i>	Notes	2015	2014
<b>Operating activities</b>			
Profit before tax from continuing operations		34,971,938	21,503,920
Loss before tax from discontinued operations		(2,138,852)	(8,261,574)
<b>Profit before tax</b>		<b>32,833,086</b>	13,242,346
<b>Adjustments for:</b>			
Depreciation of property and equipment		31,304,158	34,722,379
Amortization of intangible assets		3,869,427	3,609,437
Change in deferred revenues		127,115	115,247
Change in employee benefit liability		(542,991)	(460,917)
Unrealized foreign exchange loss		7,651,418	7,328,189
Provision for doubtful debts		1,001,432	601,992
NRV write down		810,006	1,562,830
Finance costs	33, 37	8,095,412	7,315,110
Finance revenue	33, 37	(2,905,698)	(2,598,605)
Impairment of P&E and intangible assets	30	–	2,442,170
Loss from disposal of P&E and intangible assets		496,577	574,218
<b>Working capital adjustments</b>			
Change in trade accounts receivable		803,274	(5,157,181)
Change in inventories		(1,085,763)	(2,939,829)
Change in other current and non-current assets		(1,634,829)	1,699,742
Change in prepayments		146,273	67,410
Change in trade accounts payable		1,079,205	2,352,384
Change in advances received		236,018	(505,031)
Change in other current liabilities		(628,286)	2,568,589
<b>Cash generated from operations</b>		<b>81,655,834</b>	66,540,480
Dividends paid on ordinary and preferred shares	20	(1,170,843)	(28,229,629)
Income taxes paid		(5,319,944)	(4,661,625)
Interest paid		(6,468,646)	(5,174,788)
Interest received		796,716	227,510
<b>Net cash flows from operating activities</b>		<b>69,493,117</b>	28,701,948
<b>Investing activities</b>			
Purchase of property and equipment		(38,656,330)	(49,865,160)
Purchase of intangible assets		(1,040,563)	(2,118,941)
Proceeds from sale of property and equipment		219,319	204,688
Deposits placed		(22,277,090)	(19,481,507)
Refund on deposits		20,064,175	6,761,204
Long-term loans to employees		(2,097,004)	(2,834,680)
Loans repaid by employees		255,727	276,105
Restricted cash placed		(208,600)	(193,160)
Restricted cash returned		193,160	4,056,059
Financial aid returned		4,500	27,500
<b>Net cash flows used in investing activities</b>		<b>(43,542,706)</b>	(63,167,892)

The accompanying accounting policy and notes on pages 8 to 57 are an integral part of these consolidated financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

(continued)

<i>In thousands of tenge</i>	Notes	2015	2014
<b>Financing activities</b>			
Proceeds from borrowings		16,414,597	26,238,065
Repayment of borrowings		(31,570,145)	(18,292,099)
Repurchase of treasury shares		(70,000)	(110,040)
Repayment of finance lease liabilities		(8,723,116)	(7,160,743)
Acquisition of non-controlling interests in a subsidiary		-	(52,970)
Financial aid provided		-	(41,943)
<b>Net cash flows (used in) / from financing activities</b>		<b>(23,948,664)</b>	580,270
Effects of exchange rate changes on cash and cash equivalents		9,233,998	262,148
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>2,001,747</b>	(33,885,674)
Cash and cash equivalents at 1 January		8,729,297	42,352,823
<b>Cash and cash equivalents at 31 December</b>	19	<b>19,965,042</b>	8,729,297

Non-cash transactions are disclosed in Note 38.

Chairman of the Management Board

Yessekeyev K.B.

Chief Financial Director

Nurkeyeva A.N.

Chief Accountant

Zhumanova M.A.

The accompanying accounting policy and notes on pages 8 to 57 are an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## ▶ 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 Sauranstreet, 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 2015:

	<b>31 December 2015</b>	31 December 2014
Samruk-Kazyna	<b>51.0%</b>	51.0%
Bodam B.V.	<b>16.9%</b>	16.9%
ADR (The Bank of New York is a depositor)	<b>9.8%</b>	9.8%
Deran Services Limited	<b>7.6%</b>	7.6%
State Fund on Pension Assets JSC	<b>3.4%</b>	3.2%
Kazkommertsbank JSC	<b>3.1%</b>	3.1%
Deran Investments B.V.	<b>2.0%</b>	2.0%
Other	<b>6.2%</b>	6.4%
	<b>100%</b>	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 5* (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 2016 by the Chairman of the Management Board on behalf of 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.

## ▶ 2. BASIS OF PREPARATION (continued)

### **Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2015. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

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

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies 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 new and revised standards and amendments to IFRS effective as at 1 January 2015:

- Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions*.
- Annual Improvements 2010-2012 Cycle.
- Annual Improvements 2011-2013 Cycle.

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2015. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below.

#### *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. This amendment is not 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**

With the exception of the improvement relating to IFRS 2 *Share-based Payment* applied to share-based payment transactions with a grant date on or after 1 July 2014, all other improvements are effective for accounting periods beginning on or after 1 July 2014. The Group has applied these improvements for the first time in these consolidated financial statements. 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. The clarifications are consistent with how the Group has identified any performance and service conditions which are vesting conditions in previous periods. In addition, the Group had not granted any awards during the second half of 2014. Thus, these amendments did not impact the Group's consolidated financial statements or accounting policies.

#### *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 IAS 39. This is consistent with the Group's current accounting policy and, thus, this amendment did not impact the Group's accounting policy.

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

#### **New and amended standards and interpretations** (continued)

##### **Annual Improvements 2010-2012 Cycle** (continued)

###### *IFRS 8 Operating Segments*

The amendments are applied retrospectively and clarify that:

- an entity must disclose the judgements 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.

The Group has not applied the aggregation criteria in IFRS 8.12 since the Group represents single operating segment (Note 6).

###### *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 by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. This amendment did not have any impact to the revaluation adjustments recorded by the Group during the current period.

###### *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. This amendment is not relevant for the Group as it does not receive any management services from other entities.

##### **Annual Improvements 2011-2013 Cycle**

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these consolidated financial statements. 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 consolidated financial statements of the joint arrangement itself.

The Group Kazakhtelecom JSC is not a joint arrangement, and thus this amendment is not relevant for the Group and its subsidiaries.

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

#### **New and amended standards and interpretations (continued)**

##### ***Annual Improvements 2011-2013 Cycle (continued)***

##### *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 IAS 39. The Group does not apply the portfolio exception in IFRS 13.

##### *IAS 40 Investment Property*

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property 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 a business combination. In previous periods, the Group has relied on IFRS 3, not IAS 40, in determining whether an acquisition is of an asset or is a business acquisition. Thus, this amendment did not impact the accounting policy of the Group.

#### **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* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: 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. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date. During 2015, the Group has performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. Overall, the Group expects no significant impact on its balance sheet and equity except for the effect of applying the impairment requirements of IFRS 9.

##### *(a) Classification and measurement*

The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. The Group expects to continue measuring at fair value all financial assets currently held at fair value.

Loans, other financial assets as well as trade accounts receivable are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Group expects that these will continue to be measured at amortised cost under IFRS 9.

However, the Group will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9.

##### *(b) Impairment*

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses on all trade receivables.



### ► 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 disclosure of 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.

##### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 and establishes a five-step model to account for 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 new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalises their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method. During 2015, the Group performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Furthermore, the Group is considering the clarifications issued by the IASB in an exposure draft in July 2015 and will monitor any further developments.

##### *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 reassessed 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 on 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.

##### *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 on the Group's consolidated financial statements as the Group does not have any bearer plants.

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

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

##### *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.

##### *Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group's consolidated financial statements.

#### **Annual Improvements 2012-2014 Cycle**

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

##### *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

##### *IFRS 7 Financial Instruments: Disclosures*

###### *(I) Servicing contracts*

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

###### *(II) Applicability of the amendments to IFRS 7 to condensed interim financial statements*

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

##### *IAS 19 Employee Benefits*

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

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

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

##### **Annual Improvements 2012-2014 Cycle** (continued)

###### *IAS 34 Interim Financial Reporting*

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim consolidated financial report must be available to users on the same terms as the interim consolidated financial statements and at the same time. This amendment must be applied retrospectively.

These amendments are not expected to have any impact on the Group's consolidated financial statements.

###### *Amendments to IAS 1 Disclosure Initiative*

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1.
- Those specific line items in the consolidated statement of comprehensive income and the consolidated statement of financial position may be disaggregated.
- Those entities have flexibility as to the order in which they present the notes to consolidated financial statements.
- That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the consolidated statement of financial position and the consolidated statement comprehensive income. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group's consolidated financial statements.

###### *Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception*

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to 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.

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

#### Foreign currency translation (continued)

##### 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 2015	31 December 2014
US dollar	340.01	182.35
Euro	371.46	221.97
Russian rouble	4.61	3.17

The functional currency of the foreign operations Signum LLC (Russia) and Online.kg LLC (Kyrgyzstan) is the Russian rouble 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.

#### 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.

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 other comprehensive income.

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.

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

#### **Current versus non-current classification of assets and liabilities**

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 be 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.

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 40*.

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

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

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

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

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

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

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

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

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

#### **Fair value measurement (continued)**

For assets and liabilities that are recognised in the consolidated financial statements 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 appraisers are involved for valuation of significant assets, such as properties and AFS financial assets, and significant liabilities, such as contingent consideration. Involvement of external appraisers 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 reanalyse 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.

On an interim basis, the Executive Committee and the Group's external appraisers present the valuation results to the Audit Committee which 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 rather than through continuing use. Such 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 or to sale. 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 expected within one year from the date of the classification.

Property and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the consolidated statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the consolidated statement of comprehensive income.

Additional disclosures are provided in Note 37. All other notes to the consolidated financial statements include amounts for continuing operations, unless otherwise mentioned.

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

#### 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. Further information on the recognised decommissioning provision is presented in “Other non-current liabilities” (Note 24).

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 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 consolidated statement of comprehensive income when the asset is derecognised.

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

#### *Construction-in-progress*

Construction-in-progress represents property and equipment under construction and machinery and equipment awaiting installation and is 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.

#### 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.

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

#### 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 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 consolidated statement of comprehensive income 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 cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's cash-generating unit 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 are recognised in the consolidated statement of comprehensive income in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to other comprehensive income. For such properties, the impairment is recognised in other comprehensive income up to the amount of any previous revaluation.



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

#### **Impairment of non-financial assets** (continued)

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 cash-generating unit'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 unless the asset is carried at a revalued amount. In this case, the reversal is treated as a revaluation increase.

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 cash generating unit (or group of cash generating units) 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. 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.

##### ***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 consolidated statement of comprehensive income. The losses arising from impairment are recognised in the consolidated statement of comprehensive income in finance costs for loans and in general and administrative expenses for receivables.

This category generally applies to other non-current financial assets, trade accounts receivable and other financial assets. For more information, refer to *Note 12, 15 and 17*, 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 2015 and 2014, except for deposits placed in banks.

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

#### **Financial assets** (continued)

##### **Subsequent measurement** (continued)

###### *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.

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

###### **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 restructuring. 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.

###### *Financial assets carried at amortised cost*

For financial assets carried at amortized cost, the Group at 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.

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

#### **Financial liabilities**

##### ***Initial recognition and measurement***

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings 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 21*.

##### ***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.

##### ***Debt component of preferred shares***

The component of the preferred shares that exhibits characteristics of a liability is recognised as a liability in the consolidated 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.

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

#### **Financial liabilities** (continued)

##### ***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 consolidated 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.

##### *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 consolidated statement of 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.

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

#### 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 that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognised in the consolidated statement of comprehensive income 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.

##### *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 profit or loss in subsequent periods.

Past service costs are recognised in profit or loss 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 consolidated statement of comprehensive income.

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

#### **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.

#### **Cash dividend and non-cash distributions to equity holders of the parent**

The Company recognises a liability to make cash or non-cash distributions to equity holders of the parent when the distribution is duly authorised and the distribution is no longer at the discretion of the Company. As per legislation, a distribution is taken as duly 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 consolidated statement of 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 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.

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.

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

#### **Revenue recognition** (continued)

##### *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 consolidated statement of comprehensive income in equal amounts over the expected useful life of the related asset.

Compensation related to income is presented separately in the consolidated statement of 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 consolidated statement of comprehensive income.

##### *Dividends*

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

#### **Expense recognition**

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

#### **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.

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

#### Income tax (continued)

##### *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;
- with respect to 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;
- with respect to 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.

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 judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

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

- financial instruments risk management and policies – *Note 40*;
- sensitivity analyses disclosures – *Notes 9 and 23*.

### Estimates and assumptions

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

### 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 profit and loss. In January of 2015, 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 3 years on average. The change in the remaining useful lives resulted in a total decrease of depreciation expense for the year ended 31 December 2015 of 1,491,769 thousand tenge (2014: 622,349 thousand tenge). The Group expects that the respective decrease of depreciation expense in future periods will be equal to the decrease of depreciation expense in 2015.

### 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 9*.

### 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 2015, Group's allowances for doubtful accounts have been created amounted to 2,131,645 thousand tenge (as at 31 December 2014: 1,877,453 thousand tenge) (*Notes 13, 15, 16 and 18*).

## ▶ 4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

### 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 2015, average customer relationship period is assessed as 13 years for fixed telephony customers and 5 years for internet 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 demographic assumptions related to active and retired employees who receive determined benefit payments (mortality rate among active and retired employees, turnover of employees, etc.) as well as financial assumptions (discount rate, future increases of minimum annual salary). Due to the long-term nature of these liabilities, there is a high level of uncertainty.

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 23*.

### Discontinued operations

As at 3 November 2015, the Company declared its decision to conclude the agreement with Tele2 Group on the creation of the joint venture on the basis of ALTEL JSC (ALTEL 4G brand) and Mobile Telecom-Service LLP (Tele2 brand). Accordingly, operations of ALTEL JSC are classified as discontinued operations. The management concluded that the subsidiary complies with the criteria to be classified as assets held for sale considering the following reasons:

- As at 3 November 2015, the agreement was signed by shareholders with TELE2 SVERIGE AB and Khan Tengri Holding B.V. on the creation of the joint venture in the segment of cellular communications on the basis of ALTEL JSC (ALTEL 4G brand) and Mobile Telecom-Service LLP (Tele2 brand).
- Activities related to the creation of the joint venture were started and it is expected that the creation will be completed during the first quarter of 2016.
- Alongside with the creation of the joint venture the Group will lose the control over ALTEL JSC.

Further information on discontinued operations is presented in *Note 37*.

### 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 2015, the Group has 2,081,767 thousand tenge (as at 31 December 2014: 2,483,476 thousand tenge) of tax losses carried forward. These losses relate to subsidiaries that have a history of losses, expire after 10 years which start to expire in 2019 and may be used to offset taxable income only in that subsidiary of the Group in which such loss occurred.

The carrying value of recognized deferred tax assets as at 31 December 2015, is 1,505,221 thousand tenge (2014: 1,679,830 thousand tenge). As at 31 December 2015, the carrying amount of unrecognized deferred tax assets was 276,694 thousand tenge (31 December 2014: 420,468 thousand tenge). Further details on taxes are disclosed in *Note 36*.

## ▶ 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. Further information is presented in *Note 40*.

## ▶ 5. CONSOLIDATION

The following significant subsidiaries have been included in these consolidated financial statements:

	Country of residence	Percentage ownership	
		31 December 2015	31 December 2014
ALTEL JSC	Kazakhstan	100.00%	100.00%
NURSAT JSC	Kazakhstan	80.00%	80.00%
Kazakhtelecom Industrial Enterprises Services LLP	Kazakhstan	100.00%	100.00%
Signum LLC	Russia	100.00%	100.00%
KT CloudLab 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%
Info-Net Wireless LLP	Kazakhstan	100.00%	100.00%

On 31 July 2014, the Group bought 2.92% common shares of NURSAT JSC from the minority shareholder Telecom 21 LLC for the amount of 52,970 thousand tenge.

## ▶ 6. SEGMENT INFORMATION

As the requirements of IFRS 8 *Operating Segments* do not refer to the discontinued operations, the Group does not include discontinued operations in the disclosure segments.

After the adoption of the decision to sell the LTE and GSM mobile services segment assets, in 2015 Management of the Company has identified only one reportable segment of the Group, which provides local and long distance fixed line telephony.

## 7. PROPERTY AND EQUIPMENT

The movements in property and equipment for 2015 and 2014, were as follows:

<i>In thousands of tenge</i>	Land	Buildings and constructions	Equipment	Other	Construction in progress	Total
<b>Cost</b>						
<b>At 1 January 2014</b>	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 37)	–	(2,238)	(1,029,022)	(1,225)	–	(1,032,485)
Transfers to intangible assets (Note 8)	–	–	–	–	(809,284)	(809,284)
<b>At 31 December 2014</b>	680,890	48,598,027	503,526,220	13,803,173	21,717,478	588,325,788
Additions	1,792	4,942,598	22,112,438	318,366	9,406,583	36,781,777
Internal transfers	–	1,723,280	15,659,989	124,213	(17,507,482)	–
Disposals	(1,428)	(192,637)	(16,229,062)	(563,731)	–	(16,986,858)
Transfers to intangible assets (Note 8)	–	–	–	–	(679,714)	(679,714)
Discontinued operations (Note 37)	(123,166)	(7,178,950)	(32,511,942)	(615,682)	(179,518)	(40,609,258)
<b>At 31 December 2015</b>	<b>558,088</b>	<b>47,892,318</b>	<b>492,557,643</b>	<b>13,066,339</b>	<b>12,757,347</b>	<b>566,831,735</b>
<b>Accumulated depreciation and impairment</b>						
<b>At 1 January 2014</b>	–	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 37)	–	–	(81,250)	(216)	–	(81,466)
<b>At 31 December 2014</b>	–	13,276,824	255,148,778	10,154,638	1,273,823	279,854,063
Depreciation expense	–	2,192,805	28,149,789	867,462	–	31,210,056
Disposals	–	(108,792)	(15,460,077)	(542,805)	–	(16,111,674)
Discontinued operations (Note 37)	–	(514,427)	(12,760,367)	(401,624)	–	(13,676,418)
<b>At 31 December 2015</b>	–	<b>14,846,410</b>	<b>255,078,123</b>	<b>10,077,671</b>	<b>1,273,823</b>	<b>281,276,027</b>
<b>Net book value</b>						
<b>At 31 December 2013</b>	674,698	31,808,127	221,627,492	3,830,053	31,290,069	289,230,439
<b>At 31 December 2014</b>	680,890	35,321,203	248,377,442	3,648,535	20,443,655	308,471,725
<b>At 31 December 2015</b>	<b>558,088</b>	<b>33,045,908</b>	<b>237,479,520</b>	<b>2,988,668</b>	<b>11,483,524</b>	<b>285,555,708</b>

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 segment of wireline 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 2015, the Group had no fixed assets pledged as collateral for the Group's borrowings (31 December 2014: 2,480,212 thousand tenge) (Note 21).

Borrowing costs amounted to 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%.

At 31 December 2015, the carrying value of equipment held under finance leases and included in property and equipment amounted to 28,038,190 thousand tenge (at 31 December 2014: 32,800,554 thousand tenge). Additions during the year include 186,964 thousand tenge (as at 31 December 2014: 7,545,272 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 2015, property and equipment with cost of 122,930,240 thousand tenge, were fully amortized (as at 31 December 2014: 125,577,873 thousand tenge).

## ▶ 8. INTANGIBLE ASSETS

The movements of intangible assets for 2015 and 2014, were as follows:

<i>In thousands of tenge</i>	<b>Licenses and trademarks</b>	<b>Software</b>	<b>Goodwill</b>	<b>Other</b>	<b>Total</b>
<b>Cost</b>					
<b>At 1 January 2014</b>	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 7)	–	809,284	–	–	809,284
<b>At 31 December 2014</b>	26,245,279	21,343,021	2,706,335	5,112,821	55,407,456
Additions	<b>869,140</b>	<b>1,140,325</b>	–	<b>190</b>	<b>2,009,655</b>
Transfers	<b>172,440</b>	<b>(172,440)</b>	–	–	–
Disposals	<b>(385,933)</b>	<b>(209,074)</b>	–	<b>(1,166)</b>	<b>(596,173)</b>
Transfers from CIP (Note 7)	<b>277,951</b>	<b>401,763</b>	–	–	<b>679,714</b>
Discontinued operations (Note 37)	<b>(10,902,230)</b>	<b>(1,034,226)</b>	–	<b>(1,037,301)</b>	<b>(12,973,757)</b>
<b>At 31 December 2015</b>	<b>16,276,647</b>	<b>21,469,369</b>	<b>2,706,335</b>	<b>4,074,544</b>	<b>44,526,895</b>
<b>Accumulated amortization</b>					
<b>At 1 January 2014</b>	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)
<b>At 31 December 2014</b>	14,397,122	14,256,207	–	2,222,858	30,876,187
Amortization expense	<b>1,195,328</b>	<b>1,800,926</b>	–	<b>602,184</b>	<b>3,598,438</b>
Disposals	<b>(207,560)</b>	<b>(208,487)</b>	–	<b>(1,166)</b>	<b>(417,213)</b>
Discontinued operations (Note 37)	<b>(7,376,739)</b>	<b>(708,230)</b>	–	<b>(1,003,713)</b>	<b>(9,088,682)</b>
<b>At 31 December 2015</b>	<b>8,008,151</b>	<b>15,140,416</b>	–	<b>1,820,163</b>	<b>24,968,730</b>
<b>Net book value</b>					
<b>At 31 December 2013</b>	13,089,449	7,084,673	2,706,335	3,357,295	26,237,752
<b>At 31 December 2014</b>	11,848,157	7,086,814	2,706,335	2,889,963	24,531,269
<b>At 31 December 2015</b>	<b>8,268,496</b>	<b>6,328,953</b>	<b>2,706,335</b>	<b>2,254,381</b>	<b>19,558,165</b>

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 2015 intangible assets (mainly software) with cost amounting to 8,768,527 thousand tenge were fully amortized (as at 31 December 2014: 6,066,237 thousand tenge).

## 9. IMPAIRMENT TESTING OF GOODWILL

Goodwill acquired through business combination has been allocated to the IP TV cash generating unit ("CGU"). This CGU is part of wireline telecommunications segment.

Carrying amount of goodwill allocated to IP TV CGU:

	IP TV	
	2015	2014
<b>Goodwill</b>	<b>2,706,335</b>	2,706,335

The Group performed its annual impairment test as at 31 December 2015 and 2014.

The recoverable amount of the IP TV 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 20.15% (2014: 12.85%) and cash flows beyond the five year period are extrapolated using a 0% growth rate (2014: 0%).

As a result of this analysis, as at 31 December 2015 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 36.86% (2014: 37.20%) would result in accrual of expenses from impairment in the IP TV CGU.

#### *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 7.9% (2014: 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 25.44% (2014: 29.18%) would result in impairment in the IP TV CGU.

## ▶ 10. ADVANCES PAID FOR NON-CURRENT ASSETS

As at 31 December 2015 and 2014, advances paid for non-current assets comprised advances to contractors for the construction and supply of property and equipment (mainly telecommunication equipment).

## ▶ 11. INVESTMENT PROPERTY

The movement in investment property was as follows in 2015 and 2014:

<i>In thousands of tenge</i>	2015	2014
<b>Cost</b>		
At 1 January	1,264,668	1,264,668
<b>At 31 December</b>	<b>1,264,668</b>	1,264,668
<b>Accumulated depreciation and impairment</b>		
At 1 January	(1,264,668)	(1,264,668)
<b>At the end of the year</b>	<b>(1,264,668)</b>	(1,264,668)
<b>Carrying amount</b>		
At 1 January	-	-
<b>At 31 December</b>	<b>-</b>	-

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 2015 and 2014, 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 4,480,642 thousand tenge as at 31 December 2015 (as at 31 December 2014: 3,523,069 thousand tenge).

## ▶ 12. OTHER NON-CURRENT FINANCIAL ASSETS

As at 31 December 2015 and 2014, other non-current financial assets comprised the following:

<i>In thousands of tenge</i>	2015	2014
Long-term trade receivables	7,662,171	6,935,892
Long-term loans to employees	2,791,134	2,875,800
Long-term deposits	50	2,005,900
Other	103,673	67,075
	<b>10,557,028</b>	11,884,667

Long-term trade receivables as at 31 December 2015, 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 from 12.2% per annum to 22% (2014: from 12.2 to 22% per annum). 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.

In 2015, average interest rate for long-term deposits was 4% per annum (2014: 4% per annum).

As at 31 December 2015 and 2014, other non-current financial assets were denominated in following currencies:

<i>In thousands of tenge</i>	2015	2014
Tenge	10,557,028	9,878,817
US dollars	-	2,005,850
	<b>10,557,028</b>	11,884,667

## ▶ 13. OTHER NON-CURRENT ASSETS

As at 31 December 2015 and 2014, other non-current assets comprised the following:

<i>In thousands of tenge</i>	2015	2014
Deferred expenses	<b>1,865,825</b>	2,275,585
Long-term VAT recoverable	<b>457,912</b>	2,442,411
Other	<b>190,895</b>	198,547
	<b>2,514,632</b>	4,916,543
Less: impairment allowance	-	-
	<b>2,514,632</b>	4,916,543

As at 31 December 2015 and 2014, 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>	2015	2014
<b>Impairment allowance at the beginning of the year</b>	-	(3,250)
Recovery for the year	-	3,250
<b>Impairment allowance at the end of the year</b>	-	-

## ▶ 14. INVENTORIES

As at 31 December 2015 and 2014, inventories comprised the following:

<i>In thousands of tenge</i>	2015	2014
Cable materials at cost	<b>1,743,796</b>	1,677,575
Spare parts at cost	<b>640,210</b>	1,583,950
Other materials and supplies at cost	<b>621,623</b>	930,781
Fuel at cost	<b>480,496</b>	519,065
Goods for resale at net realizable value	<b>274,548</b>	1,222,675
	<b>3,760,673</b>	5,934,046

## ▶ 15. TRADE ACCOUNTS RECEIVABLE

As at 31 December 2015 and 2014, trade accounts receivable comprised the following:

<i>In thousands of tenge</i>	2015	2014
Trade accounts receivable	<b>18,299,271</b>	22,276,939
	<b>18,299,271</b>	22,276,939
Less: allowance for doubtful debts	<b>(1,914,169)</b>	(1,512,067)
	<b>16,385,102</b>	20,764,872

The movements in the allowance for doubtful debts were as follows for the years ended 31 December:

<i>In thousands of tenge</i>	2015	2014
<b>Allowance for doubtful debts at the beginning of the year</b>	<b>(1,512,067)</b>	(1,885,077)
Charge for the year	<b>(850,337)</b>	(580,922)
Write-offs for the year	<b>318,630</b>	942,925
Discontinued operations	<b>129,605</b>	11,007
<b>Allowance for doubtful debts at the end of the year</b>	<b>(1,914,169)</b>	(1,512,067)



## ▶ 15. TRADE ACCOUNTS RECEIVABLE (continued)

As at 31 December 2015 and 2014, 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
<b>31 December 2015</b>	<b>16,385,102</b>	<b>13,732,077</b>	<b>1,245,011</b>	<b>715,981</b>	<b>177,278</b>	<b>397,688</b>	<b>117,067</b>
31 December 2014	20,764,872	18,395,559	1,335,072	694,315	146,414	193,512	–

As at 31 December 2015 and 2014, the Group's trade accounts receivable were denominated in various currencies as follows:

<i>In thousands of tenge</i>	2015	2014
Tenge	<b>14,913,472</b>	19,609,368
US dollars	<b>1,414,681</b>	1,129,924
Other	<b>56,949</b>	25,580
	<b>16,385,102</b>	20,764,872

## ▶ 16. PREPAYMENTS

As at 31 December 2015 and 2014, prepayments comprised the following:

<i>In thousands of tenge</i>	2015	2014
Prepayments	<b>538,346</b>	1,023,566
	<b>538,346</b>	1,023,566
Less: impairment allowance	<b>(30,716)</b>	(31,220)
	<b>507,630</b>	992,346

The movements in the impairment allowance were as follows for the years ended 31 December:

<i>In thousands of tenge</i>	2015	2014
<b>Impairment allowance at the beginning of the year</b>	<b>(31,220)</b>	(33,508)
Charge for the year	<b>(2,090)</b>	(2,767)
Write-offs for the year	–	6,400
Discontinued operations	<b>2,594</b>	(1,345)
<b>Impairment allowance at the end of the year</b>	<b>(30,716)</b>	(31,220)

## ▶ 17. OTHER FINANCIAL ASSETS

As at 31 December 2015 and 2014, other financial assets comprised the following:

<i>In thousands of tenge</i>	2015	2014
Bank deposits	<b>29,278,450</b>	16,464,382
Other receivable	<b>2,376,729</b>	2,177,259
Due from employees	<b>1,851,394</b>	2,064,200
Interest receivable	<b>228,817</b>	454,486
Restricted cash on current bank account	<b>208,600</b>	193,160
Other	<b>5,805</b>	9,310
	<b>33,949,795</b>	21,362,797

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 2.3% to 10% per annum (2014: from 1.45% 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.

## ▶ 17. OTHER FINANCIAL ASSETS (continued)

As at 31 December 2015 and 2014, the Group's other financial assets were denominated in various currencies as follows:

<i>In thousands of tenge</i>	2015	2014
US dollars	29,253,502	16,736,982
Tenge	4,690,488	4,616,505
Other	5,805	9,310
	<b>33,949,795</b>	21,362,797

## ▶ 18. OTHER CURRENT ASSETS

As at 31 December 2015 and 2014, other current assets comprised the following:

<i>In thousands of tenge</i>	2015	2014
VAT recoverable	1,430,856	1,428,137
Deferred expenses	1,063,665	2,578,354
Prepaid taxes other than income tax	177,102	171,609
Due from employees	96,470	102,217
Other	1,021,088	2,267,316
	<b>3,789,181</b>	6,547,633
Less: impairment allowance	(186,760)	(334,166)
	<b>3,602,421</b>	6,213,467

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>	2015	2014
<b>Allowance for doubtful debts at the beginning of the year</b>	<b>(334,166)</b>	(385,904)
Charge for the year	(91,038)	(17,383)
Write-offs for the year	105,493	68,355
Discontinued operations	132,951	766
<b>Allowance for doubtful debts at the end of the year</b>	<b>(186,760)</b>	(334,166)

As at 31 December 2015 and 2014, other current assets were primarily denominated in tenge.

## ▶ 19. CASH AND CASH EQUIVALENTS

As at 31 December 2015 and 2014, cash and cash equivalents comprised the following:

<i>In thousands of tenge</i>	2015	2014
Cash on current bank accounts	8,179,504	7,349,198
Deposits with maturity less than 90 days from origination date	3,079,666	1,348,888
Cash on hand	17,721	31,211
	<b>11,276,891</b>	8,729,297

Cash on current bank accounts earn interest at the rates ranging from 0.01% to 7.55% per annum (2014: from 0.09% to 5.76% 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 0.1% to 32.0% per annum (2014: from 0.01% to 10.0% per annum).

## ▶ 19. CASH AND CASH EQUIVALENTS (continued)

As at 31 December 2015 and 2014, cash and cash equivalents were denominated in various currencies as follows:

<i>In thousands of tenge</i>	2015	2014
Tenge	5,743,047	6,676,058
US dollars	5,264,926	1,918,333
Russian roubles	258,593	126,479
Euro	7,166	6,030
Other	3,159	2,397
	<b>11,276,891</b>	<b>8,729,297</b>

For the purpose of the consolidated cash flow statement, cash and cash equivalents at 31 December 2015 and 2014 were as follows:

<i>In thousands of tenge</i>	2015	2014
Cash on current bank accounts	8,179,504	7,349,198
Deposits with maturity less than 90 days from origination date	3,079,666	1,348,888
Cash on hand	17,721	31,211
Cash on hands, current bank accounts and short-term deposits attributable to discontinued operations	8,688,151	–
<b>Cash and cash equivalents</b>	<b>19,965,042</b>	<b>8,729,297</b>

## ▶ 20. EQUITY

### Authorised and issued shares

	<i>Number of shares</i>		<i>Thousands of tenge</i>		<i>Total issued capital</i>
	Ordinary shares	Preferred non-voting shares	Ordinary shares	Preferred non-voting shares	
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
<b>As at 31 December 2015</b>	<b>10,922,876</b>	<b>1,213,653</b>	<b>10,922,876</b>	<b>1,213,653</b>	<b>12,136,529</b>

### Treasury shares

	<i>Number of shares</i>		<i>Thousands of tenge</i>		<i>Total</i>
	Ordinary shares	Preferred non-voting shares	Ordinary shares	Preferred non-voting shares	
<b>As at 31 December 2013</b>	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)
<b>As at 31 December 2014</b>	210,180	892,143	2,909,449	3,489,170	6,398,619
Treasury shares purchased	<b>33,737</b>	<b>12,067</b>	<b>331,654</b>	<b>87,603</b>	<b>419,257</b>
Treasury shares sold	<b>(28,364)</b>	<b>(11,081)</b>	<b>(274,853)</b>	<b>(78,535)</b>	<b>(353,388)</b>
<b>As at 31 December 2015</b>	<b>215,553</b>	<b>893,129</b>	<b>2,966,250</b>	<b>3,498,238</b>	<b>6,464,488</b>

### Issued shares net of treasury shares

As at 31 December 2015, outstanding issued ordinary and preferred shares net of treasury shares were 10,707,323 and 320,524 shares respectively (as at 31 December 2014: 10,712,696 and 321,510 shares respectively).

## ▶ 20. EQUITY (continued)

### Preferred shares

Preferred stockholders are entitled to priority rights for participation in an 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 2015 amounts to 874,156 thousand tenge (as at 31 December 2014: 876,845 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 95,432 thousand tenge were accrued during the year ended 31 December 2015 (as at 31 December 2014: 96,542 thousand tenge) and are treated as finance costs in the consolidated statement of comprehensive income (Note 33). Present value of non-discounted future cash flows represents the debt component in other non-current liabilities.

On the basis of the decision taken at the extraordinary general meeting of shareholders of Kazakhtelecom JSC on 22 April 2015, the Company announced at the end of 2014 the dividends on ordinary shares in the amount of 1,089,559 thousand tenge or 101.73 tenge per share (2014: nil tenge). Accrued dividends on ordinary shares were paid during 2015.

The movements in the dividends payable were as follows for the years ended 31 December:

<i>In thousands of tenge</i>	2015	2014
<b>Dividends payable at the beginning of the year</b>	<b>1,588,474</b>	30,268,498
Dividends declared on ordinary shares	<b>1,089,559</b>	–
Dividends declared on preferred shares in excess of the obligatory amount	–	–
Interest on debt component of preferred shares (Note 33)	<b>95,432</b>	96,542
Change in dividends payable of prior period	<b>(2,620)</b>	–
Withholding tax accrued	<b>(17,751)</b>	(546,937)
Dividends paid on ordinary and preferred shares	<b>(1,170,843)</b>	(28,229,629)
<b>Dividends payable at the end of the year (Note 26)</b>	<b>1,582,251</b>	1,588,474

### 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 2015 and 2014 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.

## ▶ 20. 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>	2015	2014
Net profit from continuing operations attributable to ordinary shares owners of the parent	<b>26,536,432</b>	14,293,499
Net loss from discontinued operations attributable to ordinary shares owners of the parent	<b>(2,148,068)</b>	(6,809,880)
<b>Net profit attributable to ordinary shares owners of the parent for basic earnings</b>	<b>24,388,364</b>	7,483,619
Interest on debt component of preferred shares	<b>95,432</b>	96,542
<b>Net profit attributable to ordinary and preferred owners of the parent for basic and diluted earnings</b>	<b>24,483,796</b>	7,580,161
Weighted average number of ordinary and preferred shares outstanding for basic and diluted earnings per share	<b>11,029,991</b>	11,041,472
Basic and diluted earnings per share, tenge	<b>2,219.75</b>	686.52

There have been no other transactions involving ordinary shares between the reporting 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 2015, that measure was 25,454 tenge (as at 31 December 2014: 22,913 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 2015, that measure was 8,662 tenge (as at 31 December 2014: 8,668 tenge).

## ▶ 21. BORROWINGS

As at 31 December 2015 and 31 December 2014, borrowings comprised the following:

<i>In thousands of tenge</i>	Weighted average interest rate	2015	Weighted average interest rate	2014
Fixed interest rate borrowings with range between 7.5% and 12.5% p.a.	<b>9.45%</b>	<b>31,438,314</b>	6.45%	31,049,735
Variable interest rate borrowings with range between 2.49% and 9.33% p.a	–	–	6.87%	31,139,240
		<b>31,438,314</b>		62,188,975

As at 31 December 2015 and 31 December 2014 were denominated in various currencies as follows:

<i>In thousands of tenge</i>	2015	2014
Tenge, payments indexed to exchange rate tenge/US dollar	<b>28,425,355</b>	19,263,249
Tenge	<b>3,012,959</b>	22,973,450
US dollar	–	18,371,112
Won	–	1,581,164
	<b>31,438,314</b>	62,188,975

## ▸ 21. BORROWINGS (continued)

Borrowings are repayable as follows:

<i>In thousands of tenge</i>	2015	2014
<b>Current portion</b>	<b>4,138,393</b>	5,762,823
Maturity between 1 and 2 years	–	7,414,892
Maturity between 2 and 5 years	<b>27,299,921</b>	33,973,070
Maturity over 5 years	–	15,038,190
<b>Total long-term portion</b>	<b>27,299,921</b>	56,426,152
<b>Total borrowings</b>	<b>31,438,314</b>	62,188,975

As at 31 December 2015, the Group had not any property and equipment which were pledged as security the Group's borrowings (as at 31 December 2014: 2,480,212 thousand tenge) (Note 7).

As at 31 December 2015, the Group had not any borrowings which were guaranteed by the Government of the Republic of Kazakhstan (as at 31 December 2014: 1,581,164 thousand tenge) (Note 39).

As at 31 December 2015, the Group classified the borrowings of the subsidiary ALTEL JSC as related to discontinued operations in the amount of 33,836,564 thousand tenge (Note 37).

## ▸ 22. 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>	2015		2014	
	Minimal lease payments	Present value of minimum lease payments	Minimal lease payments	Present value of minimum lease payments
Within one year	<b>5,579,589</b>	<b>4,707,462</b>	9,397,558	7,519,979
After one year but not more than five years	<b>4,847,737</b>	<b>4,435,721</b>	12,192,561	10,629,340
Less: amounts representing interest charges	<b>(1,284,143)</b>	–	(3,440,800)	–
<b>Present value of minimum lease payments</b>	<b>9,143,183</b>	<b>9,143,183</b>	18,149,319	18,149,319
Less: amounts due for settlement within 12 months		<b>(4,707,462)</b>		(7,519,979)
<b>Amounts due for settlement after 12 months</b>		<b>4,435,721</b>		10,629,340

The amounts representing interest are based on effective interest rates ranging from 12.5% to 14% 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 41.

## ▸ 23. 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.

## ▶ 23. EMPLOYEE BENEFIT LIABILITY (continued)

### 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 2015 and 31 December 2014, the total liability for the Company's defined benefit plan comprised the following:

<i>In thousands of tenge</i>	2015	2014
Present value of defined benefit liability	<b>7,786,044</b>	5,797,354

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>	2015	2014
<b>Total liability at the beginning of the year</b>	<b>5,797,354</b>	4,963,458
Current service cost	<b>116,272</b>	312,579
Interest cost	<b>540,313</b>	449,515
Benefits paid during the period	<b>(1,440,320)</b>	(1,223,011)
Actuarial losses recognized during the period in other comprehensive income	<b>2,531,681</b>	1,294,813
Actuarial losses recognized during the period in profit and loss	<b>240,744</b>	–
<b>Total liability at the end of the year</b>	<b>7,786,044</b>	5,797,354
Liability payable within one year	<b>511,689</b>	742,288
<b>Liability payable after one year</b>	<b>7,274,355</b>	5,055,066

Actuarial loss recognised for the year ended 31 December 2015 results primarily from changes in the assumptions relating to the discount rate and expected rate of future annual minimum salary increases.

Current service cost, interest cost and actuarial losses related to other long-term employee benefits in the aggregate amount of 897,329 thousand tenge were recorded in the cost of revenue and general and administrative expenses within personnel costs (2014: 762,094 thousand tenge) (Note 32).

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:

	2015	2014
Discount rate	<b>9.50%</b>	9.32%
The expected rate of future annual minimum salary increase	<b>7.00%</b>	7.00%

The quantitative analysis of sensitivity as at 31 December 2015 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	(224,112)	337,018	570,387	(505,416)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analyses are based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

## ▶ 24. OTHER NON-CURRENT LIABILITIES

As at 31 December 2015 and 31 December 2014, other non-current liabilities comprised the following:

<i>In thousands of tenge</i>	2015	2014
Deferred connection revenue	2,205,014	2,890,794
Asset retirement obligations	66,614	1,944,996
Long-term accounts payables	–	1,020,730
Guarantees issued	–	709,303
Other	704,505	1,084,432
	<b>2,976,133</b>	7,650,255

### 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:

<i>In thousands of tenge</i>	2015	2014
<b>Provision for asset retirement obligations at 1 January</b>	<b>1,944,996</b>	1,065,771
Change in provision	(363)	661,586
Amortisation of discount from continuing operations (Note 33)	6,970	13,129
Discontinued operations	(1,884,989)	204,510
<b>Provision for asset retirement obligations at 31 December</b>	<b>66,614</b>	1,944,996

### 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. As at 31 December 2014 current and non-current parts of the debt amounted to 631,365 thousand tenge and 1,020,730 thousand tenge respectively.

As at 31 December 2015, current and non-current parts of debt amounted to 562,450 thousand tenge and 375,274 thousand tenge, respectively, and were included in liabilities directly associated with assets classified as held for sale.

### 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 Plc 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 accounted for the guarantee provided in the consolidated statement of changes in equity. Amortisation of the guarantee amounted to 69,395 thousand tenge in 2015 (2014: 78,811 thousand tenge) (Note 33).

In 2015 the Parent Company made early payment of obligations to the CDB and the Group derecognized the guarantee issued in the amount of 964,149 thousand tenge through equity.

### Other

In 2014 there was a modification of the agreement on the supply and installation of LTE equipment between Huawei Almaty LLP and the Group, under which the reimbursement of finance costs for the supply and installation of LTE equipment will be performed during three years. Finance costs related to that loan meet the capitalization criteria and increase the cost of property and equipment in line with their entry into service.

As at 31 December 2015, other current assets and other non-current liabilities related to this agreement in the amount of 565,737 thousand tenge and 1,076,359 thousand tenge were presented within assets classified as held for sale and liabilities directly associated with assets classified as held for sale, respectively.



## ▶ 25. TRADE ACCOUNTS PAYABLE

As at 31 December 2015 and 2014, trade accounts payable comprised the following:

<i>In thousands of tenge</i>	2015	2014
Trade accounts payable for services	<b>6,364,079</b>	6,957,368
Trade accounts payable for property and equipment	<b>5,331,902</b>	10,090,634
Trade accounts payable for inventory	<b>197,488</b>	4,353,771
	<b>11,893,469</b>	21,401,773

As at 31 December 2015 and 2014, trade accounts payable were not interest bearing.

As at 31 December 2015 and 2014, trade accounts payable were denominated in various currencies as follows:

<i>In thousands of tenge</i>	2015	2014
Tenge	<b>7,088,852</b>	18,417,792
US dollars	<b>4,704,858</b>	2,907,277
Euro	<b>1,909</b>	4,535
Other	<b>97,850</b>	72,169
	<b>11,893,469</b>	21,401,773

## ▶ 26. OTHER CURRENT LIABILITIES

As at 31 December 2015 and 2014, other current liabilities comprised the following:

<i>In thousands of tenge</i>	2015	2014
Due to employees	<b>3,734,606</b>	3,956,719
Taxes payable other than income tax	<b>2,428,493</b>	1,643,273
Dividends payable (Note 20)	<b>1,582,251</b>	1,588,474
Deferred revenue	<b>811,719</b>	2,115,340
Payable to pension funds	<b>746,694</b>	740,301
Other	<b>1,326,655</b>	964,825
	<b>10,630,418</b>	11,008,932

As at 31 December 2015 and 2014, other current liabilities were not interest bearing and were primarily denominated in tenge.

## ▶ 27. REVENUE

Revenue for the years ended 31 December comprised the following:

<i>In thousands of tenge</i>	2015	2014
Data transfer services	<b>96,635,654</b>	91,858,111
Rendering of wireline and wireless phone services	<b>56,054,526</b>	60,617,311
Interconnect	<b>15,847,010</b>	13,987,444
Rent of lines	<b>6,933,796</b>	6,773,512
Sale of equipment and mobile devices	–	5,553,065
Other	<b>7,272,617</b>	6,237,111
	<b>182,743,603</b>	185,026,554

## ▸ 28. 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 2015 totalled 7,010,726 thousand tenge (2014: 6,276,853 thousand tenge).

## ▸ 29. COST OF REVENUE

Cost of revenue for the years ended 31 December, comprised the following:

<i>In thousands of tenge</i>	2015	2014
Personnel costs (Note 32)	<b>48,553,105</b>	49,185,499
Depreciation and amortisation	<b>30,007,843</b>	32,948,111
Interconnect	<b>8,555,181</b>	8,173,033
Rent of channels	<b>8,212,875</b>	8,057,469
Repair and maintenance	<b>7,343,005</b>	7,286,831
Materials	<b>6,159,307</b>	6,212,704
TV Content	<b>3,773,756</b>	2,869,111
Electricity	<b>2,748,050</b>	2,500,132
Fees for the right to provide telecom services	<b>2,519,955</b>	1,838,363
Security and safety	<b>2,406,021</b>	2,477,649
Fees for use of frequency range	<b>981,380</b>	896,180
Rental of equipment	<b>886,844</b>	901,437
Equipment and mobile devices	–	4,172,411
Other	<b>5,107,234</b>	6,181,375
	<b>127,254,556</b>	133,700,305

## ▸ 30. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended 31 December, comprised the following:

<i>In thousands of tenge</i>	2015	2014
Personnel costs (Note 32)	<b>11,136,714</b>	10,783,335
Consulting services	<b>3,819,904</b>	1,080,813
Taxes other than income tax	<b>3,321,472</b>	2,783,811
Insurance	<b>554,940</b>	429,095
Social activities	<b>519,419</b>	620,160
Bank fees	<b>305,178</b>	623,039
Depreciation and amortisation	<b>281,273</b>	331,665
Business trips	<b>280,127</b>	354,386
Materials	<b>231,734</b>	263,585
Repair and maintenance	<b>219,218</b>	223,145
Trainings	<b>110,233</b>	239,764
Security and safety	<b>84,933</b>	88,854
Rental of equipment	<b>73,136</b>	130,878
Sponsorship	<b>11,130</b>	694,455
Charge for bad debt expense (Note 13, 15, 16 and 18)	<b>942,103</b>	597,822
Impairment of property and equipment and intangible assets (Note 7 and 8)	–	2,442,170
Other	<b>1,003,329</b>	1,799,107
	<b>22,894,843</b>	23,486,084

### ▶ 31. SELLING EXPENSES

Selling expenses for the years ended 31 December comprised the following:

<i>In thousands of tenge</i>	2015	2014
Marketing and advertising	<b>1,469,181</b>	1,888,276
Dealer commissions	<b>1,338,712</b>	1,672,728
Other	<b>341,488</b>	471,833
	<b>3,149,381</b>	4,032,837

### ▶ 32. PERSONNEL COSTS

Personnel costs for the years ended 31 December comprised the following:

<i>In thousands of tenge</i>	2015	2014
Payroll	<b>53,535,415</b>	53,978,523
Payroll related taxes	<b>5,257,075</b>	5,228,217
Employee benefits expense (Note 23)	<b>897,329</b>	762,094
	<b>59,689,819</b>	59,968,834

The split of personnel costs for the years ended 31 December comprised the following:

<i>In thousands of tenge</i>	2015	2014
Cost of revenue (Note 29)	<b>48,553,105</b>	49,185,499
General and administrative expenses (Note 30)	<b>11,136,714</b>	10,783,335
	<b>59,689,819</b>	59,968,834

### ▶ 33. FINANCE (COSTS)/INCOME

Finance costs and income for the years ended 31 December comprised the following:

<i>In thousands of tenge</i>	2015	2014
<b>Finance costs</b>		
Interest on borrowings	<b>(3,704,016)</b>	(3,070,233)
Interest payable under finance leases	<b>(1,957,577)</b>	(2,223,737)
Discounting of long-term loans to employees	<b>(777,829)</b>	(1,064,878)
Discounting of other non-current financial assets	<b>(111,312)</b>	(177,942)
Interest on debt component of preferred shares (Note 20)	<b>(95,432)</b>	(96,542)
Amortization of discount reserve (ARO) (Note 24)	<b>(6,970)</b>	(13,129)
	<b>(6,653,136)</b>	(6,646,461)
<b>Finance income</b>		
Amortization of discount on long-term loans to employees	<b>1,069,658</b>	1,063,936
Amortization of discount on long-term trade receivables	<b>1,016,966</b>	1,017,516
Interest income on bank deposits	<b>501,992</b>	365,236
Interest income on guarantees issued (Note 24)	<b>69,395</b>	78,811
Interest income on current accounts	<b>21,327</b>	46,356
	<b>2,679,338</b>	2,571,855

### ▶ 34. FOREIGN EXCHANGE GAIN/(LOSS)

On 11 February 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 6,936,051 thousand tenge for the year ended 31 December 2014.

On 20 August 2015, NBRK and the Government of the Republic of Kazakhstan announced the transition to a free floating exchange tenge rate and cancellation of the currency corridor. As a result, the Kazakh tenge was significantly devalued to the US dollar and other major currencies by approximately 90%. The Group had well balanced currency position in 2015 and as a result, for the year ended 31 December 2015, the Group recognized a net gain on revaluation of foreign currency items in the amount of 189,482 thousand tenge.

### ▶ 35. OTHER INCOME/(EXPENSES)

Other income and expenses for the years ended 31 December comprised the following:

<i>In thousands of tenge</i>	2015	2014
<b>Other income</b>		
Rent income	<b>2,748,393</b>	2,415,430
Non-core operations	<b>482,099</b>	421,657
Other	<b>749,243</b>	922,688
	<b>3,979,735</b>	3,759,775
<b>Other expenses</b>		
Non-core operations	<b>(494,309)</b>	(451,732)
Rent expense	<b>(12,841)</b>	(11,351)
Other	<b>(817,948)</b>	(319,237)
	<b>(1,325,098)</b>	(782,320)

Rent income mainly represents rent of spaces designated for the installation of technological equipment by third parties.

### ▶ 36. INCOME TAX

Corporate income tax expense for the years ended 31 December comprised the following:

<i>In thousands of tenge</i>	2015	2014
Current corporate income tax charge	<b>6,191,443</b>	3,532,023
Correction of prior year corporate income tax	-	902,012
Deferred tax expense	<b>2,423,341</b>	3,535,655
	<b>8,614,784</b>	7,969,690

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 2015 and 2014.

### ▶ 36. INCOME TAX (continued)

A reconciliation of corporate income tax expense applicable to profit before income tax at the statutory income tax rate of 20% (2014: 20%) to current income tax expense was as follows for the years ended 31 December:

<i>In thousands of tenge</i>	2015	2014
Profit before tax from continuing operations	<b>34,971,938</b>	21,503,920
Loss before tax from discontinued operations	<b>(2,138,852)</b>	(8,261,574)
<b>Profit before tax</b>	<b>32,833,086</b>	13,242,346
Income tax, at statutory income tax rate of 20%	<b>6,566,617</b>	2,648,469
Inventory write off	<b>156,216</b>	559,816
Change in unrecognized deferred tax assets	<b>(143,774)</b>	338,351
Correction of prior year corporate income tax	–	902,012
Impairment of CIP	–	254,380
Sponsorship	<b>2,226</b>	138,891
Non-deductible expenses	<b>2,042,715</b>	1,676,077
<b>Total income tax expense</b>	<b>8,624,000</b>	6,517,996
Income tax expense reported in the consolidated statement of comprehensive income	<b>8,614,784</b>	7,969,690
Income tax attributable to discontinued operations ( <i>Note 37</i> )	<b>9,216</b>	(1,451,694)
<b>Total income tax expense</b>	<b>8,624,000</b>	6,517,996

As at 31 December 2015, 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:

<i>In thousands of tenge</i>	Consolidated statement of financial position		Consolidated statement of comprehensive income		In other comprehensive income	
	31 December 2015	31 December 2014	2015	2014	2015	2014
<b>Deferred tax assets</b>						
Tax losses carry-forward	<b>2,081,767</b>	2,483,476	<b>(401,709)</b>	1,100,077	–	–
Employee benefits obligations	<b>1,557,209</b>	1,159,471	<b>(108,599)</b>	(92,184)	<b>506,337</b>	258,963
Discount on non-current assets	<b>1,163,564</b>	1,367,668	<b>(204,104)</b>	(179,510)	–	–
Accrued expenses	<b>1,105,482</b>	224,588	<b>880,894</b>	63,748	–	–
Unused vacation reserve	<b>392,890</b>	328,301	<b>64,589</b>	(3,434)	–	–
Bad debt allowance	<b>371,821</b>	263,665	<b>108,156</b>	(84,979)	–	–
Interest payable	<b>225,260</b>	198,983	<b>26,277</b>	(13,969)	–	–
Intangible assets	<b>60,072</b>	76,736	<b>(16,664)</b>	(114,092)	–	–
Deferred income	<b>55,862</b>	30,418	<b>25,444</b>	24,227	–	–
Other	<b>881,200</b>	929,851	<b>(48,651)</b>	518,640	–	–
Less: unrecognized tax assets	<b>(276,694)</b>	(420,468)	<b>143,774</b>	(338,351)	–	–
Less: deferred tax assets offset with deferred tax liabilities	<b>(6,113,212)</b>	(4,962,859)	<b>(1,150,353)</b>	188,494	–	–
<b>Deferred tax assets</b>	<b>1,505,221</b>	1,679,830	<b>(680,946)</b>	1,068,667	<b>506,337</b>	258,963
<b>Deferred tax liabilities</b>						
Property and equipment	<b>23,689,223</b>	20,824,271	<b>2,864,952</b>	3,417,312	–	–
Intangible assets	<b>591,329</b>	604,957	<b>(13,628)</b>	(453,178)	–	–
Less: deferred tax assets offset with deferred tax liabilities	<b>(6,113,212)</b>	(4,962,859)	<b>(1,150,353)</b>	188,494	–	–
<b>Deferred tax liabilities</b>	<b>18,167,340</b>	16,466,369	<b>1,700,971</b>	3,152,628	–	–
<b>Deferred tax (expense)/ benefit</b>			<b>(2,381,917)</b>	(2,083,961)	<b>506,337</b>	258,963

### ▶ 36. INCOME TAX (continued)

Reflected in consolidated financial statements as follows:

<i>In thousands of tenge</i>	2015	2014
<b>Deferred tax assets</b>		
- Continuing operations	204,814	1,679,830
- Discontinued operations (Note 37)	1,300,407	–
Deferred tax liability	(18,167,340)	(16,466,369)
<b>Net deferred tax liabilities</b>	<b>(16,662,119)</b>	<b>(14,786,539)</b>
<b>Reconciliation of deferred tax liabilities, net</b>		
<b>Opening balance as at 1 January</b>	<b>14,786,539</b>	12,961,541
Income tax expense for the reporting period –origination and reversal of temporary differences	2,423,341	3,535,655
Net of deferred tax recognized in other comprehensive loss	(506,337)	(258,963)
Discontinued operations	(41,424)	(1,451,694)
<b>Closing balance as at 31 December</b>	<b>(16,662,119)</b>	<b>(14,786,539)</b>

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 2019 year. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### ▶ 37. DISCONTINUED OPERATIONS

As at 3 November 2015, the Group declared its decision of the Board of Directors to conclude an agreement on the creation of a joint venture in the segment of cellular communications on the basis of ALTEL JSC (ALTEL 4G brand) and Mobile Telecom-Service LLP (Tele2 brand). The arrangement will be completed after the fulfillment of precedent conditions, which include the approval of authorized governmental bodies and respective third parties.

As a result of this arrangement in exchange for Group's 100% share in ALTEL JSC and fulfillment of certain conditions, the Group will receive 51% of share capital and 49.48% of voting rights in the joint venture. The completion of the deal is planned for the first quarter of 2016. Accordingly, ALTEL JSC was classified as a disposal group. With ALTEL JSC being classified as discontinued operations, the segment of cellular communications in the CDMA and LTE standards is no longer presented in the segment note.

The results of ALTEL JSC for the year are presented below:

<i>In thousands of tenge</i>	2015	2014
Revenue	37,499,637	16,919,877
Cost of revenue	(31,797,354)	(19,468,629)
<b>Gross profit</b>	<b>5,702,283</b>	<b>(2,548,752)</b>
General and administrative expenses	(3,464,783)	(1,847,839)
Selling expenses	(3,788,680)	(2,439,021)
<b>Operating profit</b>	<b>(1,551,180)</b>	<b>(6,835,612)</b>
Finance costs	(1,442,276)	(668,649)
Finance income	226,360	26,750
Other income/(expenses)	628,244	(784,063)
<b>Loss before tax for the year from discontinued operations</b>	<b>(2,138,852)</b>	<b>(8,261,574)</b>
Income tax (expense)/benefit	(9,216)	1,451,694
<b>Loss for the year from discontinued operations</b>	<b>(2,148,068)</b>	<b>(6,809,880)</b>

### ▶ 37. DISCONTINUED OPERATIONS (continued)

The major classes of assets and liabilities of ALTEL JSC classified as held for sale as at 31 December are, as follows:

<i>In thousands of tenge</i>	2015	2014
<b>Assets</b>		
Property and equipment (Note 7)	26,932,840	–
Intangible assets (Note 8)	3,885,075	–
Deferred tax asset (Note 36)	1,300,407	–
Inventories	2,449,560	–
Trade accounts receivable	2,722,596	–
Cash and cash equivalents	8,688,151	–
Other	2,498,571	–
<b>Assets classified as held for sale</b>	<b>48,477,200</b>	<b>–</b>
<b>Liabilities</b>		
Borrowings	(33,836,564)	–
Trade accounts payable	(8,673,614)	–
Advances received	(1,441,043)	–
Other	(4,536,095)	–
<b>Liabilities directly associated with assets classified as held for sale</b>	<b>(48,487,316)</b>	<b>–</b>
<b>Net liabilities, directly associated with disposal group</b>	<b>(10,116)</b>	<b>–</b>

The net cash flows incurred by ALTEL JSC are, as follows:

<i>In thousands of tenge</i>	2015	2014
Operating	6,332,276	(670,978)
Investing	(8,266,897)	(11,787,222)
Financing	9,006,069	13,178,346
<b>Net cash inflow</b>	<b>7,071,448</b>	<b>720,146</b>

<i>In thousands of tenge</i>	2015	2014
<b>Loss per share</b>		
Basic and diluted, from discontinued operations, tenge	(194.75)	(616.75)

#### The presentation of certain financial data of the Group as if there was no discontinued operations

The tables below present possible figures of the certain financial data of the Group for 2015 as if ALTEL JSC was not classified as discontinued operations.

Certain income and expenses line items as if there was no discontinued operations for 2015:

<i>In thousands of tenge</i>	2015
Revenue	227,253,966
Cost of revenue	(159,051,910)
General and administrative expenses	(26,359,626)
Depreciation and amortization of property and equipment and intangible assets	(35,192,470)
Selling expenses	(6,938,061)
Finance costs	(8,095,412)
Finance income	2,905,698
Income tax expense	(8,624,000)
Profit for the year	24,209,086
Profit attributable to owners	24,388,364
Profit attributable to non-controlling interest	(179,278)

## ▶ 37. DISCONTINUED OPERATIONS (continued)

### The presentation of certain financial data of the Group as if there was no discontinued operations (continued)

Certain balance sheet items as if there was no discontinued operations as at 31 December 2015:

<i>In thousands of tenge</i>	
Current assets	<b>85,124,391</b>
Current liabilities	<b>47,666,413</b>
Current portion of borrowings	<b>6,325,878</b>
Long-term portion of borrowings	<b>58,949,000</b>
Current portion of finance lease liabilities	<b>4,707,462</b>
Long-term portion of finance lease liabilities	<b>4,435,721</b>
Total equity	<b>292,421,442</b>

As at 31 December 2014, 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 accordance to the contract for purchase of telecommunication equipment, works and services with Huawei Almaty LLP, the carrying amount of that assets was offset against accounts payable for new equipment.

## ▶ 38. NON-CASH TRANSACTIONS

These transactions have been excluded from the consolidated statement of cash flows:

In 2015, according to the finance lease agreements the Group received telecommunication equipment in the amount of 186,964 thousand tenge (2014: 7,545,272 thousand tenge).

During 2015 the Group paid 9,849,298 thousand tenge for fixed assets acquired in the previous year (2014: 13,006,996 thousand tenge). Fixed assets in the amount of 9,330,152 thousand tenge were purchased in 2015, but not paid at 31 December 2015 (2014: 11,111,364 thousand tenge).

## ▶ 39. RELATED PARTY TRANSACTIONS

The category "parent-controlled entities" comprises entities controlled by the Parent. Transactions with (purchases from) parent-controlled entities are mainly represented by transactions of the Group with NC Kazakhstan TemirZholy 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 2015 and 2014, 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.



### ▶ 39. RELATED PARTY TRANSACTIONS (continued)

Sales and purchases with related parties during the years ended 31 December 2015 and 2014 and the balances with related parties at 31 December 2015 and 2014, were as follows:

<i>In thousands of tenge</i>	2015	2014
<b>Sales of goods and services</b>		
Parent	646,134	463,492
Parent-controlled entities	2,524,809	3,897,595
Government bodies	27,262,662	29,807,164
<b>Purchases of goods and services</b>		
Parent-controlled entities	2,036,093	2,054,751
Government bodies	14,226,577	2,886,766
<b>Interest earned on financial assets</b>		
Alliance Bank JSC	–	650
Average interest rate on financial assets	–	2.03%
BTA Bank JSC	–	896
Average interest rate on financial assets	–	2.35%
<b>Interest accrued on borrowings</b>		
Entities under government control		
Development Bank of Kazakhstan JSC	3,318,471	1,775,469
Average interest rate on borrowings	8.08%	8.29%
<i>In thousands of tenge</i>	2015	2014
<b>Cash and cash equivalents</b>		
Entities under government control		
Development Bank of Kazakhstan JSC	2,581	8,093
<b>Borrowings</b>		
Entities under government control		
Development Bank of Kazakhstan JSC	55,398,052	34,686,421
<b>Trade and other receivables</b>		
Parent	154,155	99,895
Parent-controlled entities	470,265	586,209
Government bodies	3,204,354	4,419,402
<b>Trade accounts payable</b>		
Parent-controlled entities	192,228	442,926
Government bodies	556,337	468,926
<b>Other non-current assets</b>		
Long-term loans to key management personnel	41,696	40,289

In 2015 and 2014, 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 telecommunication services provision area.

Total compensation to key management personnel in general and administrative expenses in the accompanying consolidated statement of comprehensive income amounted to 1,039,334 thousand tenge and 895,312 thousand tenge for the years ended 31 December 2015 and 31 December 2014, 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 28, 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 21, at 31 December 2014 the Group had borrowings amounted 1,581,164 thousand tenge which were guaranteed by the Government of the Republic of Kazakhstan.

## ▶ 40. FINANCIAL INSTRUMENTS 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 trade 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. As at 31 December 2015, 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.

### 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 trade accounts payable, cash and cash equivalents and accounts receivable denominated in US dollars and Euro, the Group's consolidated statement of financial position can be affected significantly by movement in the US dollar/tenge and Euro/tenge exchange rates.

The following table demonstrates the sensitivity to a reasonably possible changes in the US dollar and Euro 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.

In thousands of tenge	2015		2014	
	Increase/ (decrease) in exchange rate	Effect on profit before tax	Increase/ (decrease) in exchange rate	Effect on profit before tax
US dollar	60%	1,684,581	+17%	(3,253,155)
	-20%	(561,527)	-17%	3,253,155
Euro	60%	5,372	+18%	827
	-20%	(1,791)	-18%	(827)

### 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 12, 15, 16, 17 and 18*. 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.

### 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, approximately 22% of the Group's debt will mature in less than one year at 31 December 2015 (at 31 December 2014: 17%) based on the carrying value of borrowings reflected in the consolidated financial statements.

## ▶ 40. FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Liquidity risk (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2015 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
<b>As at 31 December 2015</b>						
Borrowings	–	1,344,895	4,494,836	35,458,206	–	41,297,937
Finance lease liabilities	–	1,538,431	4,041,158	4,847,737	–	10,427,326
Trade accounts payable	9,067,081	1,177,818	1,648,570	–	–	11,893,469
Employee benefit liability	–	–	511,689	5,761,280	7,201,600	13,474,569
Other financial liabilities	–	6,643,512	–	771,119	–	7,414,631
	9,067,081	10,704,656	10,696,253	46,838,342	7,201,600	84,507,932
<b>As at 31 December 2014</b>						
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
Trade 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

### 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.

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 2015 and 2014.

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, trade 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 2015	31 December 2014
Borrowings	31,438,314	62,188,975
Trade accounts payable	11,893,469	21,401,773
Finance lease liabilities	9,143,183	18,149,319
<b>Net debt</b>	<b>52,474,966</b>	101,740,067
<b>Equity</b>	<b>292,421,442</b>	270,309,348
<b>Debt-to-equity ratio</b>	<b>0.18</b>	0.38

## ▶ 40. FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### 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 2015 was as follows:

In thousands of tenge	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)	
<b>Assets for which fair values are disclosed</b>					
Cash and cash equivalents	31 December 2015	11,276,891	–	–	11,276,891
Other non-current financial assets	31 December 2015	–	–	9,990,795	9,990,795
Other financial assets	31 December 2015	–	–	33,949,795	33,949,795
Trade accounts receivable	31 December 2015	–	–	16,385,102	16,385,102
<b>Liabilities for which fair values are disclosed</b>					
Borrowings	31 December 2015	–	–	32,495,536	32,495,536
Finance lease liabilities	31 December 2015	–	–	9,143,183	9,143,183
Trade accounts payable	31 December 2015	–	–	11,893,469	11,893,469
Employee benefit liability	31 December 2015	–	–	7,786,044	7,786,044

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.

In thousands of tenge	Carrying value 2015	Fair value 2015	Unrecognised gain 2015	Carrying value 2014	Fair value 2014	Unrecognised loss 2014
<b>Financial assets</b>						
Cash and cash equivalents	11,276,891	11,276,891	–	8,729,297	8,729,297	–
Other non-current financial assets	10,557,028	9,990,795	(566,233)	11,884,667	11,884,667	–
Other financial assets	33,949,795	33,949,795	–	21,362,797	21,362,797	–
Trade accounts receivable	16,385,102	16,385,102	–	20,764,872	20,764,872	–
<b>Financial liabilities</b>						
Borrowings	31,438,314	32,495,536	(1,057,222)	62,188,975	57,893,510	4,295,465
Finance lease liabilities	9,143,183	9,143,183	–	18,149,319	18,149,319	–
Trade accounts payable	11,893,469	11,893,469	–	21,401,773	21,401,773	–
Employee benefit liability	7,786,044	7,786,044	–	5,797,354	5,797,354	–
<b>Total unrecognized change in unrealized fair value</b>			<b>(1,623,455)</b>			<b>4,295,465</b>

### Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in these 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.

## ▶ 41. 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 2015, the Group had contractual commitments totalling 9,144,742 thousand tenge (as at 31 December 2014: 46,635,714 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.

Future minimum rentals payable under non-cancellable operating lease are as follows:

<i>In thousands of tenge</i>	2015	2014
Within one year	118,205	2,304,700
After one year but not more than five years	–	360,698
	118,205	2,665,398

### 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 proceeding 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 2015. As at 31 December 2015, 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.

## ▶ 42. SUBSEQUENT EVENTS

Starting from 1 January 2016 amendments to the Law of Kazakhstan "About the introduction of changes into certain legislative acts of the Republic of Kazakhstan on informatization matters" became effective which allow subscribers to independently choose the services of a cellular operator thereby keeping the some phone number. In order to change the operator, subscriber free to sign a contract with a new operator, choose a tariff plan and get a new SIM-card. The receiving operator will notify to the previous operator, and in 5 hours the subscriber's phone number is transferred to another operator's network. For subscribers the MNPservice is free.

In January 2016, the Group purchased 20% share in Nursat JSC for 235,326 thousand tenge.

On 25 February 2016, the Group made an early repayment of the loan received from Bank of China in Kazakhstan JSC in the amount of 3,877,393 thousand tenge.

On 25 February 2016, the Group provided a guarantee in favor of Mobile Telecom-Service LLP under the credit line in Kazkommertsbank JSC with the credit limit of 14,000,000 thousand tenge until 25 February 2023. As at 25 February, 2016 no cash was received by Mobile Telecom-Service LLP under this credit line.

On 25 February 2016, loans of ALTEL JSC received under the credit line from Development Bank in Kazakhstan JSC in the amount of 26,991,220 thousand tenge were transferred to the Company.

On 25 February 2016, the Parent signed a guarantee agreement with Development Bank of Kazakhstan JSC as a guarantor on liabilities of the Company under the credit line in the amount of 26,991,220 thousand tenge.

On 25 February 2016, loans of ALTEL JSC received under the credit line from Sberbank of Russia JSC in the amount of 3,000,000 thousand tenge were transferred to the Company.