



Together into the new day!

ANNUAL REPORT
2013



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PREFACE



***D**istinctive feature of the modern world is the speed that undergoes constant changes. We see people, channels and ways of communications, medicine and education, needs for various specialists change. And behind the growing figures, positive dynamic resulting in the loyalty of our customers and recognition of experts there is daily work of thousands employees of Kazakhtelecom JSC: from servicemen to top-managers to members of the Board of Directors. As the largest info-communications operator of the country Kazakhtelecom JSC pursues its activity in both B2C and B2B sectors implementing at the same time strategic state projects.*

The year 2014 is the year when Kazakhtelecom JSC is going to celebrate its 20th anniversary, summarize the result of its activity, build up plans and set new objectives in order to change itself, surprise and exceed expectations of its customers as it did during two passed decades.

Over the last two decades of its existence, the Company grew to become leader of the telecommunications market of the country by significantly strengthening its positions across major activities and performance indicators and legitimately possessing reputation of being sustainable and stably developing company with high level of technical capability.

Here is what vets of the telecommunications industry tell about the Company's achievement over the last 20 years.



Bazylov Kazyken – veteran of the telecommunications industry, former First deputy Minister of telecommunications of RK, professor:

The 20th anniversary of Kazakhtelecom JSC is a milestone event in the collective's life. Kazakhtelecom JSC has its own centuries long well-established traditions on provision of services to general public, enterprises, public organizations and state management bodies.

The elder generation of telecommunications workers has managed, during the transition period towards market economy, to preserve unity of Kazakhtelecom, Kazpost and Kazteleradio with the state getting hold of controlling block of shares which gave the opportunity to carry out modernization and development of Kazakhtelecom's telecommunications network on a nationwide scale, retrain the personnel within a short period of time to allow it to master new technologies.

Contemporary Kazakhtelecom JSC is a powerful dynamically developing on a nationwide scale company created by new generation of telecommunications workers, with new world-class technologies. Kazakhtelecom's activity makes a direct impact on the development of the economy of independent Kazakhstan, on successful development of business, entrepreneurship, culture, education, science, information, directly assist in developing other telecommunications operators. Having a state-of-the art technology, the Company has entered the global telecommunications market. Due to the work of Kazakhtelecom, the latest information technologies became mode of our life. Kazakhtelecom has glorious past and present, and is facing bright prospects for the future.

As a veteran I am proud of the Company's successes. Without your activity, successful business, entrepreneurship is just meaningless words.

Dear friends, let me congratulate the Company's staff, management, all telecommunications workers with the glorious jubilee! I wish you interesting, creative work, good luck, all the best and happiness for the welfare of our Motherland. Keep up the best traditions of your own team!



Karasaev Userbai – veteran of the telecommunications industry, former vice-president of the National Joint Stock Company Kazakhtelecom

It would be unfair to say that the telecommunications system of Kazakhstan came into existence upon formation of Kazakhtelecom as a company. Telecommunications facilities were up and running before Kazakhstan became independent state, on the basis of the facilities and equipment created by many generations of telecommunications workers. Back then, our country was ranked the fifth among other republics of the USSR on the level of development of telecommunications systems.

Declaration of Kazakhstan as an independent state required radical changes of the communications structure, creation of the National telecommunications company that would be capable of organizing functioning of the industry at the level that is adequate to the current economic conditions and the latest innovative and technological achievements. That was the turning point from which a new era in the history of the telecommunications industry of Kazakhstan had started. The Company's management faced many paramount issues to be addressed with the solutions to those issues being crucially important for creation and efficient operation of new structures that were required to ensure qualitative development of the telecommunications industry. There was a need for accumulating finances, personnel, technological capacity; adopting the integrated national policy in the field of telecommunications and creating independent tools for entering on to the international network. There was also a need for development of strategic objectives and tactical tasks as well as a phased implementation and achievement thereof in a most efficient manner. Today, one can say with a certainty that against all odds the cohesive team of management of Kazakhtelcom JSC has successfully coped with all those difficult issues.

First and foremost, under the conditions of economic disintegration, we managed to preserve integrity and internal unity of the National company. Compared to other industries, Kazakhtelecom did not lose managerial staff in its affiliated branches and other highly qualified specialists.

Having implemented its own model and strategy of development, the Company achieved economic stability and sustainable social and economic growth.

Construction of the National information super backbone (NISB) that enabled to create powerful digital long distance domestic communications networks with the coverage of all oblast centers, a number of large cities and majority of regional settlements is the largest project implemented by the Company at the high technological level within the record period of time.

The Company successfully tackled the issue of upgrading local telephone networks by replacing outdated COs (central telephone stations – Central Offices) with digital ones. Today, the level of digitization of the network is at a 98% level. Restoration of operation of the rural COs and implementation of the State program for telephonization of all rural settlements is a milestone event for the Company.

Kazakhtelecom was among the first on the territory of the former USSR to introduce the electronic voting system.

The past 20 years became striking illustration of the Company's unprecedented successes and high achievements. Kazakhtelecom has truly established itself as one of the leading and successful telecommunications companies not only within CIS, but also in overseas countries.

All this undoubtedly gives rise to legitimate pride and feeling of satisfaction with the Kazakhstani telecommunications workers, including the veterans of the telecommunications industry who did take part in creating and forming Kazakhtelecom JSC.

***The Company's projects
and Calendar of events
is the graphic evidence of what
the veterans – telecommunications
workers have expressed:***

1994

Following the Enactment of the Cabinet of Ministers of RK № 666 as of June 17, 1994, the National joint stock company Kazakhtelecom was founded.

In Kulsary settlement, the center of the new fuel base in the West of the country, the ground station of satellite communications was mounted.

A digital automated intercity telephone station of Alcatel 1000 S-12 type was brought into operations in the city of Shymkent. Mass transition of the intercity communications network to digital data communications systems got under way.

1995

The project on construction of Trans-Asian – European fiber optical communications line (TAE FOCL) entered the practical implementation stage.

Kazakhtelecom proceeded to construct the National sector of the international TAE FOCL in the 52th km off the Almaty city.

1996

The first digital channel on SDH equipment was organized in Almaty.

1997

On February 20, 1997, National joint stock company (NJSC) Kazakhtelecom was transformed into OJSC Kazakhtelecom.

Opening of the first ground station of international satellite communications based on INTELSAT system.

1998

Kazakhtelecom and Siemens signed the framework agreement on the project “The National information super backbone” (NISB).

A satellite communications system based on DAMA technology was launched to provide telephone communications services in remote and difficult to access rural settlements.

1999

Construction of the west branch of the NISB on section Shymkent – Kyzylorda – Aktobe – Atyrau – Russia (2 500 kms) started.

Creation of the unified (single) National data communications network with a trade mark KazakhstanOnline was completed.

The first international switching center (ISC) in Almaty was brought into operation.

2000

Introduction of new service “The Kazakhstani Internet” that gives the opportunity to visit the Kazakhstani websites at low tariffs.

The 1st segment of the west branch of the NISB Shymkent – Kyzylorda was brought into operation.

2001

The first ever on the territory of the Central Asia Internet Data Center (IDC) was opened in the capital of the country for 10 thousand users. IDC made it possible for the first time ever to use video and audio archives through the Internet.

The second ISC in the city of Astana was brought into operation.

2002

The second in the country Internet Data Center set up by Kazakhtelecom was opened in Pavlodar city. On the ceremony of its opening, the Head of state underlined that implementation of this project was regarded as the foundation upon which the further development of the informatization of our country will be carried out.

The National intelligent network was brought into operation. The telephone card “Tarlan” is one of the most attractive services for the population introduced by the national operator on this network.

Kazakhtelecom started constructing the East fiber optical communications line that connected the North and South through the path (route) Petropavlovsk – Kokshetau – Astana – Pavlodar – Semey – Ust-Kamenogorsk.

2003

On May 23, in London Kazakhtelecom was honored by Global Rating company with the international honorary award – International Gold Medal Award for quality and efficient management.

On June 4, the Company completed digitization of the capital of Kazakhstan – the city of Astana.

The Call Center with use of components of CRM-solutions was brought into trial operation in Astana city.

2004

The National telecommunications operator of Kazakhstan for the first time ever entered the international telecommunications market with a complex service “Channel + port access to the Internet”. The first swallow announcing the summer (the Company's entry to the international market) was the agreement signed with the Uzbek company UZPAK on provision of the service at the level of 2 Mbps.

Kazakhtelecom brought into operation the east branch of the NISB on section Petropavlovsk – Kokshetau – Astana – Pavlodar – Semey – Ust-Kamenogorsk.

2005

Kazakhtelecom completed the construction of the main ring of the NISB by bringing into operation the North FOCL (Petropavlovsk – Kostanai – Aktobe) which enabled to unite 14 largest cities of the country and 116 small towns, regional centers and rural settlements into a single digital ring of the super-backbone.

Beginning of introduction of DWDM technology on the backbone FOCL.

Yet another large project of Kazakhtelecom JSC – construction

of the backbone data communications network of new generation on IPMPLS technology and new access networks on “MetroEthernet” technology.

Beginning of provision of the broadband access to the Internet services “Megaline” based on ADSL technology.

2006

Completion of the construction of the last large segment of the NISB of the fiber-optical communications line Almaty – Karaganda – Astana is a milestone event for the Company.

The system of management of telecommunications networks was launched to monitor backbone networks, localize malfunction (defects) and troubleshooting management with the center for monitoring and managing telecommunications networks being in the city of Astana and with the backup center being in the city of Almaty.

2007

A project that allowed Kazakhtelecom JSC to become the first telecommunications operator in CIS to introduce NGN technology on the intercity communications network on a nationwide scale was implemented.

Pursuant of the assignment of the Head of state on furthering development of the national market for Internet-services, the Company opened “The Center for exchange of Internet-traffic (Peering center)” on the Kazakhtelecom’s technological platform.

In all affiliated branches of Kazakhtelecom JSC, the software-hardware complex “The Call center” was launched on the basis of the solution for the system of management of relations with customers CRM (Customer Relationship Management).

Within the framework of the assignment of the Head of state on telephonization of rural settlements with population of over 50 persons, Kazakhtelecom JSC proceeded to implement the project on construction of wireless communications network on CDMA-450 standard.

2008

The Company completed the construction of the NISB. With completion and commissioning of the FOCL Uralsk – Atyrau, the Company completed this nationwide, 10-year long project.

Within the framework of the state program on development of rural territories of RK, Kazakhtelecom JSC telephonised all perspective and power supplied settlements of the country thereby completing telephonization of all rural settlements with population of over 50 persons.

The Company started implementing the scale innovative project – introduction of the latest services of digital interactive television (IPTV). Completion of the construction of the IPTV network in Astana gave the opportunity to provide inhabitants and visitors of the capital, starting from February, with the TV services in new format under the trademark iD TV (Interactive Digital Television) with subsequent introduction of the project in all regions of the country.

2009

Kazakhtelecom JSC implemented jointly with ALTEL JSC the pilot project “Development of telecommunications networks of Local Telecommunications Center Almatytelecom” on EVDO technology.

Two PoP-stations of Kazakhtelecom JSC were launched in Frankfurt and Hong Kong.

2010

The beginning of the implementation of the Commercial strategy of the Group of companies of Kazakhtelecom JSC for 2010–2015 on major prioritized directions of development of the Company: introduction of FTTx technology under the trade mark “iD Net”, packet provision of services via the concept “Double Play”, “Triple Play”, enhancement of subscribers’ loyalty through the introduction of the principles of service-management etc.

Introduction of info-communications services under the umbrella brand iD (iD TV, iD Net, iD Host).

Completion of the project “Centralized billing system Amdocs”.

2011

Beginning of the strategic project on construction of the universal fiber-optical access network FTTH (Fiber to the Home) making part of the State program of forced industrial and innovative development of the Republic of Kazakhstan. Implementation of the program is directed at meeting the growing demand for high speed broadband data communications services and extending telecommunications services provided by Kazakhtelecom JSC. The 1st stage of the project that enabled to get access to high speed data communications services in the cities of Astana, Almaty, and oblast centers was completed.

On the basis of Kazakhtelecom JSC, the unified (single) system integrator and provider of info-communications services for the Group of companies of Samruk-Kazyna JSC was created.

KT Cloud Lab LLP, operator of VAS-services, was registered within the Free Economic Zone PIT (Park of Information Technologies) “Alatau”, design and construction of several large data-centers started.

2012

Within the framework of the national Tele-bridge on presentation of projects “Industrialization maps” Kazakhtelecom presented Data Center, the largest in CIS, developed jointly with Hewlett-Packard, the world leader in construction of data centers. The innovative project of Kazakhtelecom JSC located in Pavlodar – the first Data Center in Central Asia of class Tier III, which means the level of reliability enabling to carry out repair and maintenance (preventive) works without suspension of operations of an entity.

In December 2012, mobile network LTE (4G) was brought into commercial operation in the cities of Astana and Almaty.

Successfully completed the deal (transaction) on sale of 49% interest (share of participation) in “GSM Kazakhstan OJSC Kazakhtelecom” LLP.

As a single system integrator of the National Welfare Fund Samruk-Kazyna, Kazakhtelecom JSC introduced information system of electronic procurements (e-procurement) with a single portal for the Group of companies of the Fund, and also introduced and provided support of SAP-systems, carried out technical support of corporate information system in subsidiary and dependent organizations (SDO) of Samruk-Kazyna JSC.



Address of Chairman of the Board of Directors

Dear shareholders, colleagues, clients and partners!

Summing up the Kazakhtelecom's activity in 2013, I do want to make special mention of a fruitful work of the Company's staff who ensured progressive growth of many key indicators of the Company.

By taking leading position in the corporate governing rating of Samruk-Kazyna JSC, Kazakhtelecom JSC has once again become a model for successful introduction of advanced standards of corporate governance. Constructive work between the Board of Directors and management of the Company which has been realized in efficient and expedient implementation of the specified ambitious tasks served as the foundation for such a success.

Following traditionally high pace of development of the telecommunications industry, the Company has been implementing a number of scaled projects that are intended to bring the telecommunications industry of the Republic of Kazakhstan to a new development level.

Kazakhtelecom continues implementing strategic projects on construction of 4G/LTE and FTTH (Fiber To The Home) networks. In 2013, the LTE network was launched into commercial operation in 6 oblast centers – Aktobe, Karaganda, Aktau, Atyrau, Shymkent, Ust-Kamenogorsk.

The Company makes significant contribution to the development of transit potential of Kazakhstan by organizing new international telecommunications joints, constructing optical transit network DWDM and forming the infrastructure of “e-government”, which tends to lay down the foundations of “digital state” and information society.

The Board of directors pays a particular attention to optimization of the Company's business structure, which will in the nearest future enable to strengthen its leading positions in the telecommunications market.

In 2014, the Board of Directors will continue pursuing activity aimed at increasing capitalization, competitiveness, social responsibility, information openness and financial transparency.

On behalf of the Board of Directors of Kazakhtelecom JSC, I do want to express my gratitude to all shareholders and partners for providing support to our aspiration for development and growth, to the management for conscientiousness in accomplishing the set objectives, to the Company's staff for invaluable contribution to stable work of the Company, to the clients for the constructive dialogue creating incentives for our further perfection.

Dynamic alliance of professionalism and high technologies in Kazakhtelecom JSC is a guarantee for sustainable development and prosperity of our clients and shareholders.

Baidauletov N.

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





Address of Chairman of the Management Board of Kazakhtelecom JSC

Dear shareholders, customers and partners!

Assessing the results of our activity in 2013, I want to point out that despite the growing competition in the telecommunications market of the country, Kazakhtelecom JSC preserved its leading positions.

Following the results of the diagnostics of corporate governance conducted in five subsidiary organizations of Samruk-Kazyna JSC, Kazakhtelecom JSC was recognized as being leader on the level of corporate governance management among subsidiary companies of the Fund in 2013.

In the past year, transit potential of the backbone network was in the focus of the Company's efforts for development: total capacity of international joints with neighboring countries increased up to 740 Gbps, throughput capacity of the backbone DWDM network was extended, as many as 120 kms of backbone FOCL (fiber-optical communications lines) networks were constructed. On the top of that, the joint of Kazakhtelecom JSC's and Turkmentelecom state company's networks was organized. Due to joint efforts of Kazakhtelecom JSC and Megaphone OJSC, the international project on organization of high-speed data communications between Europe and South-East Asia, called DREAM, was launched.

Within the framework of execution of the assignment of the Head of state Nazarbaev N., on development of social and economic zone called "The Park of Information Technologies" (PIT), and with a view to implementing the program "Information Kazakhstan 2020", Kazakhtelecom JSC implemented the project on creation of "The Info-communications data center" in the Free Economic Zone (FEZ) PIT "Alatau". To date, the network of data centers of Kazakhtelecom JSC covers all the country and numbers 16 objects. There are around 10 000 customers being served by the Kazakhtelecom JSC' data centers – legal entities and natural persons, with market share of the data centers services making up around 52%.

Kazakhtelecom JSC continued implementing strategic projects on construction of 4G/LTE and FTTH networks. In 2013, the 4G/LTE network was deployed in Aktau, Aktobe, Atyrau, Karaganda, Ust-Kamenogorsk, Shymkent, Zhezkazgan, Temirtau, and extended in the cities of Almaty, Astana and their suburbs. In other oblast centers the Company organized the pilot zones. There are around 110 000 registered subscribers.

As a result of completion of the 3rd stage of the strategic project "Construction of FTTH (Fiber to the Home) network" of Kazakhtelecom JSC, which was included into the "Industrialization map" of the RK, as many as 15.5 thousand blocks of flats and over 7 300 cottage buildings are now covered by the fiber-optical networks. Last year, the Company carried out the work on development of IP TV service deployed on Astana and Almaty, and in all oblast centers: the network capacity made up 246 thousand points of connection as of the end of the year.

The level of digitization as of the end of 2013 made up 98.2%. As many as 1 750 kms of zone fiber-optical communications lines were constructed in Akmolinskaya, East-Kazakhstan, West-Kazakhstan, Kostanaiskaya, Karagandinskaya, Pavlodarskaya, North-Kazakhstan, and South-Kazakhstan oblasts. The further upgrade and development of rural communications CDMA/EVDO enabled to cover with the Internet access as many as more than 3 700 rural settlements.

Dear shareholders, customers and partners!

The 2014 is the Jubilee year for our Company that celebrates its 20th anniversary. Over this period, Kazakhtelecom has gone through difficult times of transformation and formation under the new market conditions. All these years, the Company, while upgrading and developing info-communication infrastructure of the country, has been contributing to the formation of Kazakhstan as a full-fledged participant of the international telecommunications community. The Company's current level of technical development and stable increase of market capitalization is indicative of Kazakhtelecom JSC's strong reputation of being reliable, highly efficient, and progressive company.

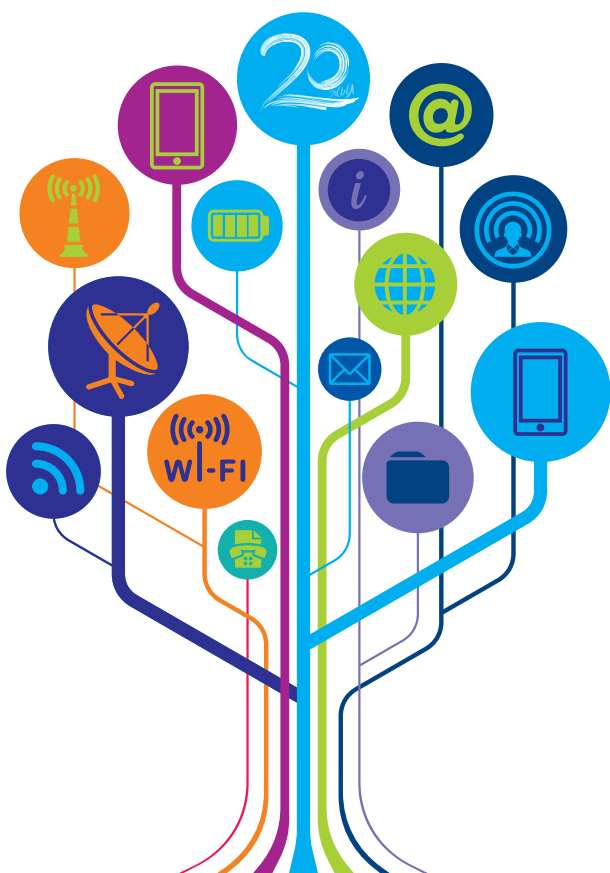
It has to be said that the objectives we set for ourselves would be impossible to achieve without a strong and united team of professionals, without support of shareholders, without trust of our customers. I am confident that our common efforts will make contribution to the Kazakhtelecom JSC's successful activity and further promote development of the info-communications industry of Kazakhstan as a whole.

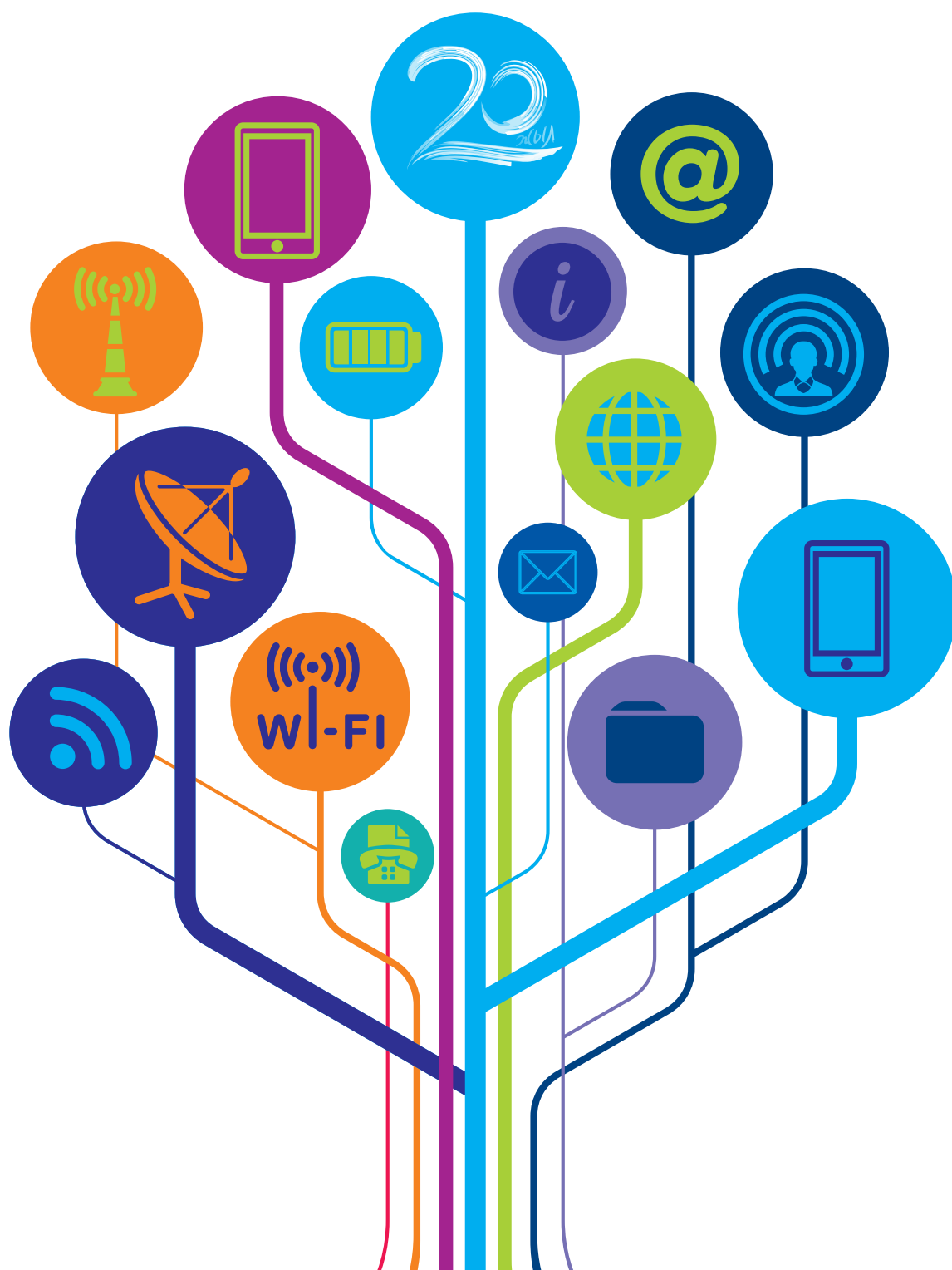
Regards,

Yessekeyev K.

**Chairman of the Management Board
Kazakhtelecom JSC**







PROFILE OF THE COMPANY

PROFILE OF THE COMPANY

INFORMATION ABOUT THE COMPANY

Official full name:
Joint stock company Kazakhtelecom

Registered address:
12, Sauran street, Essil district,
Astana, 010000,
Republic of Kazakhstan

DATA ON STATE REGISTRATION

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.

In March 1996, the primary emission of shares equaling to the charter fund of KZT 12.1 bln was registered. The initial state registration at the Department of Justice of the Republic of Kazakhstan was made on December 1, 1994.

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 Administration of the Department of Justice of Saryarka district of Astana city, a new certificate of registration of a legal entity №570-1901-01-AO was issued to the Company.

GENERAL INFORMATION

Joint Stock Company Kazakhtelecom (hereinafter referred to as "The Company") is the largest telecommunication operator of the Republic of Kazakhstan providing a wide range of infocommunication services across the whole territory of the country.

Samruk-Kazyna JSC is a major shareholder of Kazakhtelecom JSC with a 100% percent state participation in the authorized capital, and with the state holding 51 percent of the Company's ordinary shares.

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

The Company's central office is located in the city of Astana, the capital of Kazakhstan. There are about 30 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.

ORGANIZATIONAL STRUCTURE OF KAZAKHTELECOM JSC

GENERAL SHAREHOLDERS' MEETING	
BOARD OF DIRECTORS	
MANAGEMENT BOARD	
CENTRAL ADMINISTRATION OFFICE	
AFFILIATED BRANCHES	
LOCAL TELECOMMUNICATIONS CENTER "ASTANATELECOM"	ASSOCIATION "LONG DISTANCE COMMUNICATIONS"
LOCAL TELECOMMUNICATIONS CENTER "ALMATYTELECOM"	TELECOMMUNICATIONS STRUCTURES AND INFRASTRUCTURE CONSTRUCTION ADMINISTRATION
CORPORATE SALES ADMINISTRATION	ADMINISTRATION "INFOCOMMUNICATIONS TECHNOLOGIES ACADEMY"
ADMINISTRATION FOR INFORMATION SYSTEMS	THE MAIN TELECOMMUNICATIONS NETWORK MANAGEMENT CENTER
"TELECOM-KOMPLEKT" ADMINISTRATION	
REGIONAL TELECOMMUNICATIONS ADMINISTRATIONS	
REGIONAL TELECOMMUNICATIONS ADMINISTRATION OF AKMOLINSKAYA OBLAST	REGIONAL TELECOMMUNICATIONS ADMINISTRATION OF KARAGANDINSKAYA OBLAST
REGIONAL TELECOMMUNICATIONS ADMINISTRATION OF ALMATYNSKAYA OBLAST	REGIONAL TELECOMMUNICATIONS ADMINISTRATION OF KOSTANAISKAYA OBLAST
REGIONAL TELECOMMUNICATIONS ADMINISTRATION OF AKTYUBINSKAYA OBLAST	REGIONAL TELECOMMUNICATIONS ADMINISTRATION OF KYZYLDORDINSKAYA OBLAST
REGIONAL TELECOMMUNICATIONS ADMINISTRATION OF ATYRAUSKAYA OBLAST	REGIONAL TELECOMMUNICATIONS ADMINISTRATION OF MANGUISTAUSKAYA OBLAST
REGIONAL TELECOMMUNICATIONS ADMINISTRATION OF EAST-KAZAKHSTAN OBLAST	REGIONAL TELECOMMUNICATIONS ADMINISTRATION OF PAVLODARSKAYA OBLAST
REGIONAL TELECOMMUNICATIONS ADMINISTRATION OF WEST-KAZAKHSTAN OBLAST	REGIONAL TELECOMMUNICATIONS ADMINISTRATION OF NORTH-KAZAKHSTAN OBLAST
REGIONAL TELECOMMUNICATIONS ADMINISTRATION OF ZHAMBYLSKAYA OBLAST	REGIONAL TELECOMMUNICATIONS ADMINISTRATION OF SOUTH-KAZAKHSTAN OBLAST
REPRESENTATION OF KAZAKHTELECOM JSC IN RUSSIAN FEDERATION (MOSCOW)	
REPRESENTATION OF KAZAKHTELECOM JSC IN THE PEOPLE'S REPUBLIC OF CHINA	
SUBSIDIARY AND DEPENDENT ORGANIZATIONS ALTEL JSC, NURSAT JSC, VOSTOKTELECOM LLP, KT Cloud Lab LLP, Radio Tell LLP, Signum LLC, Online kg LLC , DIGITAL TV LLP, MaxCom LLP	

The Company is acting upon the General License №11000766 as of 06.05.2011, issued by the Communication and Informatization Committee of the Ministry of Communication and Information of the Republic of Kazakhstan.

Kazakhtelecom JSC has a powerful modern communications network on a national scale and covers all major target markets of consumers of ICT services.

The Company is the largest telecommunications operator of fixed telephony in Kazakhstan, the recognized leader in providing telecommunications services, including in rural area, and one of the largest operators of the National data communications network.

*Today, Kazakhtelecom JSC provided over **4 million subscribers** by fixed telephone services and about one and half million subscribers by broadband access to the Internet in all cities and towns of the country.*

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

The Company's stable position is confirmed by credit ratings.

On May 8, 2013, the international rating agency Standard&Poors confirmed the Company's long term credit rating at "BB" level with "Stable" outlook.

On January 10, 2014, the international rating agency Fitch Ratings improved the outlook for the Kazakhtelecom JSC's long term Issuer Default Rating ("IDR") from "Negative" to "Stable" and confirmed IDR at "BB" level. Improvement of the outlook is attributed to the significant decrease of the Company's debt load following debt repayment at the expense of own funds, and decrease and revision of the Company's Capex plan. In addition, Fitch Ratings pointed out strong position of Kazakhtelecom JSC in the market for fixed communications as well as its leadership in the broadband data communications segment, including due to fast deployment of optical infrastructure in key regions.

STOCK CAPITAL STRUCTURE AND SECURITIES

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

The Company's ordinary and preferred shares were included onto the official list of category "A" of the Kazakhstani Stock Exchange (KASE) as of October 16, 1997, and from September 1, 2008, they were transferred to the first category of the official list of KASE.

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

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

To date, the Fund is the Company's largest shareholder.

Since October 30, 2009, the Kazakhtelecom JSC's stocks (NIN – National Identification Number KZ2C0Y10D612) were included on the official list of a stock exchange on the category "Debt securities with a rating value" (45 500 000 stocks with a nominal price of KZT 1 000 per stock). On September 24, 2013, the Company redeemed ahead of schedule a part (30 148 000 units) of personalized coupon bonds without Kazakhtelecom JSC's guarantee, which enabled to optimize debt load and reduce expenses on servicing the Company's debt.

Structure of shareholders

*As of December 31, 2013, SWF Samruk-Kazyna JSC held **5 570 668** ordinary shares or 51% out of the total number of ordinary shares, with 16.87% of shares being held by BODAM B.V., 9.61% by Deran Services B.V., 9.86% being in nominal holding of Bank of New York Mellon, with 12.66% being the share of other voting shareholders.*

OWNERS OF THE KAZAKHTELECOM JSC'S ORDINARY SHARES AS OF 01.01.2014

Shareholders	Number of shares	Fraction or share (%)
Samruk-Kazyna JSC	5 570 668	51.0
BODAM B.V.	1 842 725	16.87
Deran Services B.V.	1 049 725	9.61
BNY Mellon (nominal holder)	1 077 205	9.86
Other shareholders with a fraction (share) of less than 5%	1 382 553	12.66
Total ordinary shares announced	10 922 876	100

As of 01.01.2014, members of the Company's Management Board and Board of Directors do not own ordinary shares of Kazakhtelecom JSC, there is no cross-shareholding.

THE STRUCTURE OF OTHER HOLDERS OF ORDINARY SHARES WITH THE FRACTION (SHARE) OF LESS THAN 5% AS OF 01.01.2014

Across various types of entities	Number of shares	Share (fraction) %
1 Legal entities, including:	1 020 990	73.85
1.1. Banks	422 220	30.54
1.2. Insurance companies	47 576	3.44
1.3. Mutual funds	35 841	2.59
1.4. Investment companies	86 511	6.26
1.5. Pension funds	347 742	25.15
1.6. Other legal entities	81 100	5.87
2 Shares purchased by issuer	203 955	14.75
3 Individuals	151 042	10.92
4 Central Securities Depository (CSD) (the owners, of whom no information has been disclosed)	6 566	0.48
Total	1 382 553	100

MISSION, VISION, STRATEGIC TASKS

The telecommunication sector is a growing and connecting segment of the Kazakhstani economy. A nation-wide introduction of info-communication technologies is a necessary condition for increasing labor productivity and creating the basis for progressive development of national enterprises and their integration into the world economy.

In today's world, the telecommunications market structure is undergoing radical changes due to new technologies and products, new ideas and innovative solutions coming into service. The Kazakhtelecom JSC's ability to quickly adapt to changing market conditions makes for its sustainability and possibility of further development.

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
OF ITS CUSTOMERS!**

KEY NOTIONS OF THE MISSION:

TO BECOME

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

INDISPENSABLE

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

HABITUAL

– convenience, affordability (availability), stability;

PART OF EVERYONE'S LIFE

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

EVERYONE'S (LIFE)

– all segments, differentiated approach;

CHANGING ITSELF

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

SURPRISING

– achievement of a unique client experience;

SURPASSING EXPECTATIONS

– formatting and meeting demand, dominance in innovations.

VISION OF THE GROUP OF COMPANIES OF KAZAKHTELECOM JSC

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

- strengthening and forming leading positions in all key segments of the info-communications market of the Republic of Kazakhstan;

- becoming "supermarket of services for a whole family": choice №1 for communications, information, entertainment;
- construction of information foundation of the Kazakhstani business;
- building integrated operator;
- modernization of a business-model.

STRATEGIC INITIATIVES AND OBJECTIVES

The strategy of the Group of companies of Kazakhtelecom JSC is directed at preserving leading positions in fixed communications business, developing mobile business while gradually transforming the Company into an integrated operator, using synergy

with major business for point development in adjacent industries, with the task being set to preserve operational efficiency of the business at the “above the average” level for “companies-analogs” and to enhance efficiency of capital investments.

MISSION, VISION, STRATEGIC TASKS

Mission

To become indispensable and habitual part of everyone's life changing itself and surprising and surpassing expectations of its customers!

Vision

Leading integrated Kazakhstani operator in the info communications market

Strategic initiatives

“Supermarket of services for the whole family”: choice №1 for communication, information and entertainment

Integrated operator

Kazakhstani 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 at the expense of the work to be carried out across the following strategic initiatives that shape up the Group's vision:

► The group of initiatives “Supermarket of services for the whole family” includes:

- promotion to a household of such bundled telecommunications and other services that fully meet the demand of all members of a household for communication, information, and entertainment;
- enhancement of user experience and customer loyalty.

► The group of initiatives “Information foundation of Kazakhstani business” includes:

- extension of the product line and provision of integrated solutions that meet the demand of different types of corporate customers for ICT services;
- transition from a product approach to the corporate segment to the customer- and segment-oriented approach;
- development of the wholesale business.

► The group of initiatives “Establishment of the integrated operator” includes:

- development of the mobile business to the scale that allows significant contribution to the Group's financial results;

- obtaining a synergistic effect due to the gradual integration of fixed and mobile business segments.

► “Improvement of the business model” is a prerequisite for achieving the Group's strategic goals both in terms of direct impact on financial performance and in terms of ensuring prerequisites for implementation of key strategic initiatives mentioned above. Improvement of the business model involves a range of initiatives aimed at enhancing organizational effectiveness and workforce productivity and improving processes and corporate culture of the Group.





MAJOR ACHIEVEMENTS OF THE COMPANY IN 2013

MAJOR ACHIEVEMENTS OF THE COMPANY IN 2013

In 2013, Kazakhtelecom JSC continued implementing a number of important infrastructure and innovative projects directed at further developing and upgrading the country's info-communications infrastructure.

As the largest telecommunications operator of the country, the Company devotes much attention to transit potential of the backbone network. With a view to utilizing its transit potential the Company constantly carries out the works on upgrade of existing and construction of new joints. On May 11, 2013, the joint between telecommunications networks of Kazakhtelecom JSC and Turkmentelecom state company was officially opened with participation of heads of states of Kazakhstan and Turkmenistan. Organization of the joint between the telecommunications networks on section Bekdash (Turkmenistan) – Temirbaba (Kazakhstan) allowed Kazakhstan to finally form itself as the Central Asian hub. Moreover, in 2013, the total capacity of the international joints with neighboring countries increased up to 740 Gbps, as many as 120 kms of backbone FOCL networks constructed, extension of the national information super backbone based on DWDM technology continued. Jointly with Megaphone OJSC, the Company launched the international project on organization of high speed data communications between Europe and South-East Asia.

Over the reported period as many as 5 telecommunications operators connected to the Kazakhtelecom's telecommunications network in 10 points of connection. In order to extend the operators networks that were connected earlier, additional 43 E1 ports were allocated by the Company. Despite intensified competition and construction by telecommunications operators of their own FOCLs, the total throughput capacity of the transport network that is being leased to telecommunications operators and departmental lessees increased by 76%. The total throughput capacity of the Internet channels provided to ISP-providers also increased by 51%.

In 2013, Kazakhtelecom implemented the investment project on creation of Info-communications data center, the foundation upon which the services created on the basis of the cloud computation conception are provided: cloud server platform, cloud data storage system, virtual backup data center, SW for businesses,

interactive communications system and exchange of information, and cloud video-conferencing. Besides SDP-services delivery platform installed within the data center will allow businesses to use all Kazakhtelecom's infrastructure to create and promote new ICT services. In addition, in October 2013, the Data center in Akkol (town) was launched.

The last year, the active introduction and construction of the telecommunications networks of 4G LTE standard – mobile broadband access with high qualitative characteristics continued. The networks were deployed in the territory of cities of Aktau, Aktobe, Atyrau, Karaganda, Zheskazgan, Temirtau, Ust-Kamenogorsk, Shymkent, extension of the networks in the cities of Astana, Almaty and their suburbs was carried out.

In 2013, the III stage of the large strategic project “On construction of Kazakhtelecom JSC’s FTTH networks” was completed. Over the period 2011-2013, networks of access were constructed, apart from oblast centers and cities of Astana and Almaty, in cities of Temirtau, Zheskazgan, Zhanaozen, Semey, Aksu, Ekibastuz, Kapshagai, Talgar, Kaskelen with the coverage of 15.5 thousand blocks of flats and over 7 300 cottage buildings. The total capacity on the project as of the end of the year made up 486 512 ports.

All the projects of Kazakhtelecom JSC are implemented by highly qualified specialists for whom the professional growth is regarded as an integral part of labor process.

*The last year, Kazakhtelecom JSC became leader of the rating of the **top 50 companies** with the best reputation according to the version of Exclusive.kz magazine. High assessment of the expert community and positive feedback from our customers is the best award for the service Company.*





BUSINESS REVIEW

BUSINESS REVIEW

REVIEW OF THE MARKET FOR TELECOMMUNICATIONS SERVICES

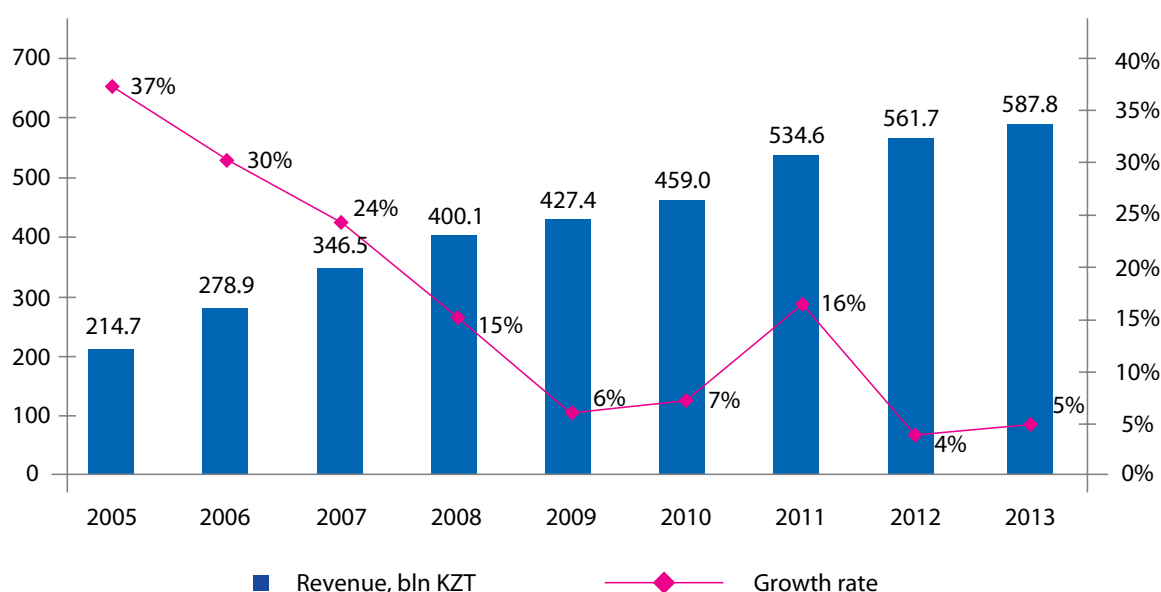
(based on the data collected by iKS-Consulting following the marketing research made at the request of Kazakhtelecom JSC)

The index of actual volume of the GDP of Kazakhstan for January–December 2013 compared to the corresponding

period of the previous year made up 106.0%. In the structure of GDP, the share of commodities produced holds 40.0%, services – 52.6%. Across the services, the highest growth in 2013 was registered in the field of information and communications (14.0%).

In 2013, the volume of the telecommunications market of the Republic of Kazakhstan made up KZT 587.84 bln, which is 4.9% higher than the indicator of 2012.

VOLUME AND GROWTH RATE OF THE TELECOMMUNICATIONS MARKET OF RK IN 2005–2013



Source: data provided by iKS-Consulting

Preservation of moderate growth rate of the market in 2013 is attributed to intensification of influence of those tendencies that are typical for mature market specifically:

- **Deceleration of the growth of revenues in the mobile communications segment.** In 2013, the revenue growth rate from this type of services made up 4.1%, which is the lowest indicator over the whole history of cell market development of RK.

- **Stagnation of the market for fixed telephony.** In 2013, the revenues from long distance domestic / international communications continued significantly declining (on average by 17% compared to 2012).

- **Intensive growth of the market for data communications.** The market for the access to the Internet and data communications services continues demonstrating the highest growth rate (18% in 2013). This is the market for the Internet access and data communications services that is currently compensating decline in revenues from voice services.

Apart from the internal factors making impact on the

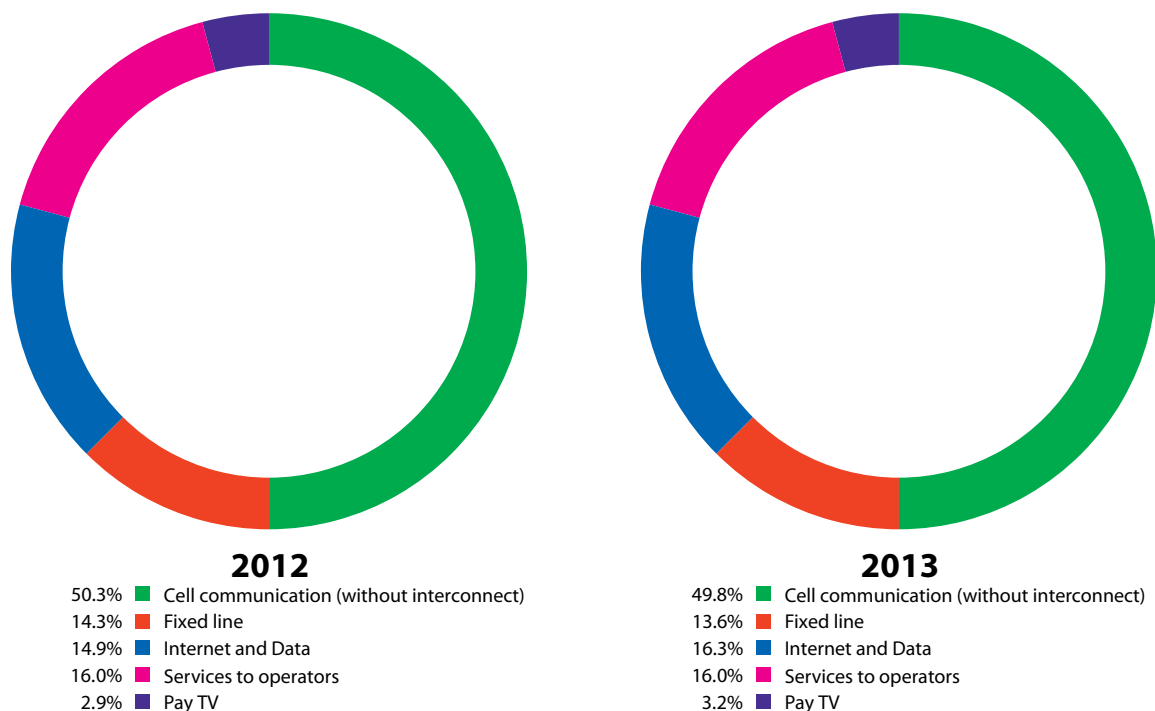
market development that are reflected in the increase of the growth rate by 4.9% such as intensive growth of the market for data communications, the development of the telecommunications market is affected following macroeconomic factors:

1. Increase of the GDP growth rate in RK for January–December 2013 compared to the corresponding period of the previous year. Despite the weak growth of world economy in the last year, the growth of GDP of Kazakhstan in 2013 made up 6% in real terms;

2. Increase of the level of growth of cash income in real terms by 2.6% in November 2013 compared to the same period of 2012.

In the structure of revenues across various types of services, the most noticeable changes touched upon the segment of the Internet access and data communications services only, the share of which grew in 2013 to 16.3% from 14.9% – in 2012. The shares of other segments changed within 1 percentage point. Therefore, if compared to the previous year, the structure of the market might be described as stable.

DYNAMIC OF THE STRUCTURE OF REVENUES OF THE TELECOMMUNICATIONS INDUSTRY OF THE REPUBLIC OF KAZAKHSTAN ACROSS VARIOUS SERVICES, 2012–2013



Source: data provided by iKS-Consulting

MAJOR TENDENCIES OF THE MARKET FOR TELECOMMUNICATIONS SERVICES

Impetuous development of the data communications services does make a key impact on development of the Kazakhstani telecommunications market as a whole shaping up a new model and structure of the market. Among all other tendencies we may single out the following ones:

1. Enhancing the data communications technologies

With the market being matured, operators do count on packet offers and convergent services. To provide those services the operators have to have the networks that ensure high speed of data communications and reliable connections. The FTTx networks in the fixed segment and LTE in mobile segment are currently regarded as being the innovative solutions. Due to high capital intensity of deploying such networks on the nationwide scale they are being constructed by the largest players of the market.

2. Growth of the mobile data communications segment

Data communication in mobile networks is coming out of the framework of an additional service and becoming a full-fledged segment of the market. Growth of the smart-phone park, reduction of tariffs for Internet access, as well as increasing opportunities for data

communications in mobile networks leads to impetuous growth of the mobile data traffic consumption. In light of such tendency, the battlefield of competitiveness between the key market players will be shifting to the field of complex FMC-offers.

3. Development of OTT-technologies and services

With extensive spread of high rate Internet access in both fixed and mobile networks, with development of free Wi-Fi networks, and with growing penetration of highly technological terminals and subscriber devices (specifically, smart phones and smart television sets), the Kazakhstani market is likely to be significantly affected in the near future by OTT-technology (Over the Top, i.e., over the access network of telecommunications operator). It includes VoIP-telephony, Web-TV, instant SMS exchange services. Providers of those services will act as global developers of services and applications such as Google, Apple and Microsoft, who will try to provide its services directly to users through the existing data communications infrastructure.

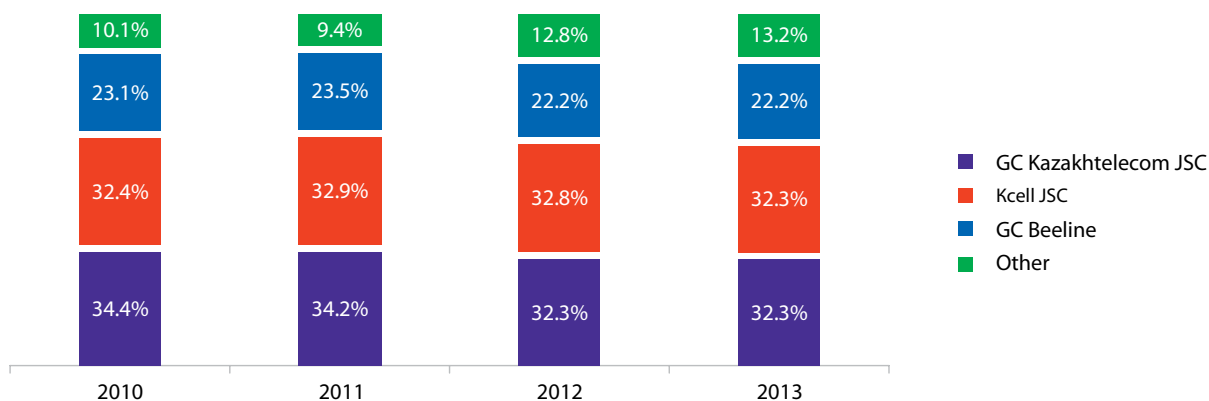
THE COMPANY'S POSITION IN THE INDUSTRY

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.

Currently, there are three key players in the telecommunications market of Kazakhstan: State Company Kazakhtelecom JSC with the market share of 32.3%, Kcell JSC – 32.3%, Group of companies Beeline – 22.2%. Share of other operators at the end of 2013 made up 13.2%.

STRUCTURE OF THE TELECOMMUNICATIONS MARKET OF RK ACROSS MAJOR OPERATORS, 2010-2013



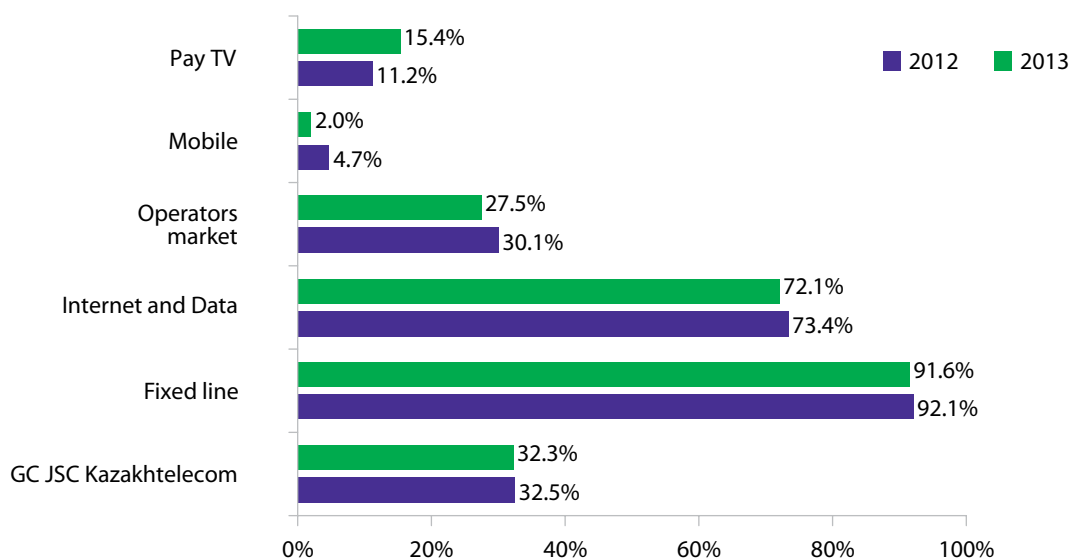
Source: data provided by iKS-Consulting

In 2013, the market shares of Kcell JSC and the Group of companies of Kazakhtelecom JSC became equal making up 32.3%.

The share of the Group of companies Beeline remained at the 2012 level – 22.2%. The share of other operators grew from 12.6% in 2012 to 13.2% in 2013. The continued increase of the share of other companies, and consequently, decrease of the share of the market leaders is mainly attributed to the intensive growth of

revenues of the mobile communications operator Tele2. It is noteworthy that the increase of the share of Tele2 is taking place in the face of the decrease, although insignificant, of the market share of Kcell JSC. Stability of the market share of the group of companies Beeline is attributed to the increase of revenues of the group from the Internet access and data communications in the fixed communications networks services (by 43% compared to 2012).

DYNAMIC OF THE COMPANY'S MARKET SHARE ACROSS THE VARIOUS MARKETS FOR TELECOMMUNICATIONS SERVICES, 2012-2013



Source: data provided by iKS-Consulting

As the diagram shows, Kazakhtelecom JSC remains a leader in the fixed communications segment and in the market for access to the Internet and data communications.

The Company holds the position of an unconditional leader of the market for telecommunications services for the bodies of state governance of all levels, state enterprises and organizations.

THE MARKET SHARE OF KAZAKHTELECOM JSC IN REVENUES FROM TELECOMMUNICATIONS SERVICES, 2013

Type of services	Fixed communications networks	The market as a whole (fixed and mobile networks)
Long distance domestic / international communications and calls to mobile communications networks	90.3%	22.1%
Access to the Internet and data communications	72.1%	47.0%
Services to telecommunications operators	70.5%	27.5%

THE SHARE OF KAZAKHTELECOM JSC IN THE MAIN MARKET SEGMENTS, 2013

Segments of the market	Share of Kazakhtelecom JSC
Fixed telephony	93.1%
Cell communications	5.0% ¹
Internet and data communications, of which:	83.3%
Broadband data communications	83.6%
Data communications	63.4%
Pay TV	13.0%

Source: data provided by iKS-Consulting

SITUATION IN THE MARKET ACROSS VARIOUS SEGMENTS OF THE MARKET

FIXED TELEPHONY

In 2013, aggregate income from fixed telephony services made up KZT 79.25 bln², which is 0.19% higher compared to 2012. In the structure of the total volume of the telecommunications market of RK, the share of revenues from the fixed telephony services made up 13.6% (14.1% in 2012).

As in all previous years, there has been a positive dynamic in the local telecommunications segment. Revenues from the long distance domestic \ international communications services continued to decline. It is noteworthy that in 2013 there was a reduction of revenues from the long distance domestic \ international communications services in mobile networks. This means that the market reached its limit in absolute values and thus further reduction of tariffs is not going to stimulate consumption growth since the demand from subscribers for communications in these particular directions is practically met.

At the end of 2013, the telephony density made up 25.57 lines per 100 inhabitants and 72.87 lines per 100 households. The average number of telephone lines per one enterprise made up 6.98.

MOBILE COMMUNICATIONS

In 2013, total revenue from the mobile communications services (including the revenues from interconnection) made up KZT 348.72 bln, which is 4.1% higher compared to 2012.

In the structure of revenues across major types of services, in 2013 there were some shifts compared to 2012. The share of revenues from basic (voice) services decreased from 64% in 2012 down to 60% in 2013, such reduction being attributed to slowdown of the growth rate of the market for mobile communications as a whole. And yet, the share of other segments – VAS, mobile Internet, interconnection – increased. In absolute terms, the revenues from cell communications across various types of services in 2013 made up:

At the end of 2013, the telephony density made up 25.57 lines per 100 inhabitants and 72.87 lines per 100 households. The average number of telephone lines per one enterprise made up 6.98.

¹ The market share of Altel JSC, subsidiary company of Kazakhtelecom JSC

² Taking account of revenues from VAS services in the fixed telephony networks – KZT 3.02 bln

REVENUES FROM CELL COMMUNICATIONS ACROSS VARIOUS TYPES OF SERVICES, 2012–2013, KZT BLN

Type of service	2013	2012	2013/2012
Basic services	209.66	214.44	2.2% ▼
VAS	36.61	35.97	1.2% ▲
Mobile Internet	47.43	32.5	45.9% ▲
Interconnect	55.01	52.16	5.4% ▲
Total	348.72	335.07	4.1% ▲

Source: data provided by iKS-Consulting

In value terms, the market for cell communications continued to grow in 2013. The number of registered subscribers made up 28 022 thousand, which is 8.2% higher compared to 2012. The number of active users made up 24 372 thousand, that is 14.8% higher than the figure in previous year. The level of penetration of mobile communications in 2013 made up in nominal terms 163%, in real terms – 142%.

The market for cell communications will be developing in the forthcoming years at the expense of the growth of volume of consumption of mobile data communications services. At the same time there will be reduction of cost of voice and data-traffic due to intensified competition and spread of limitless offers which will, in its turn, hold back the revenue growth rate.

DATA COMMUNICATIONS AND ACCESS TO THE INTERNET

At the end of 2013, the total volume of the market for data communications and access to the Internet in fixed networks made up KZT 98.39 bln making an increase of 18% compared to 2012. The revenue from the broadband data communications services the share of which in the total revenues from the Internet access and data communications made up 77% in 2013, remains to be the major driver of the market. The revenues from the broadband data communications services made up KZT 72.69 bln, which is 18% higher than that of the previous year.

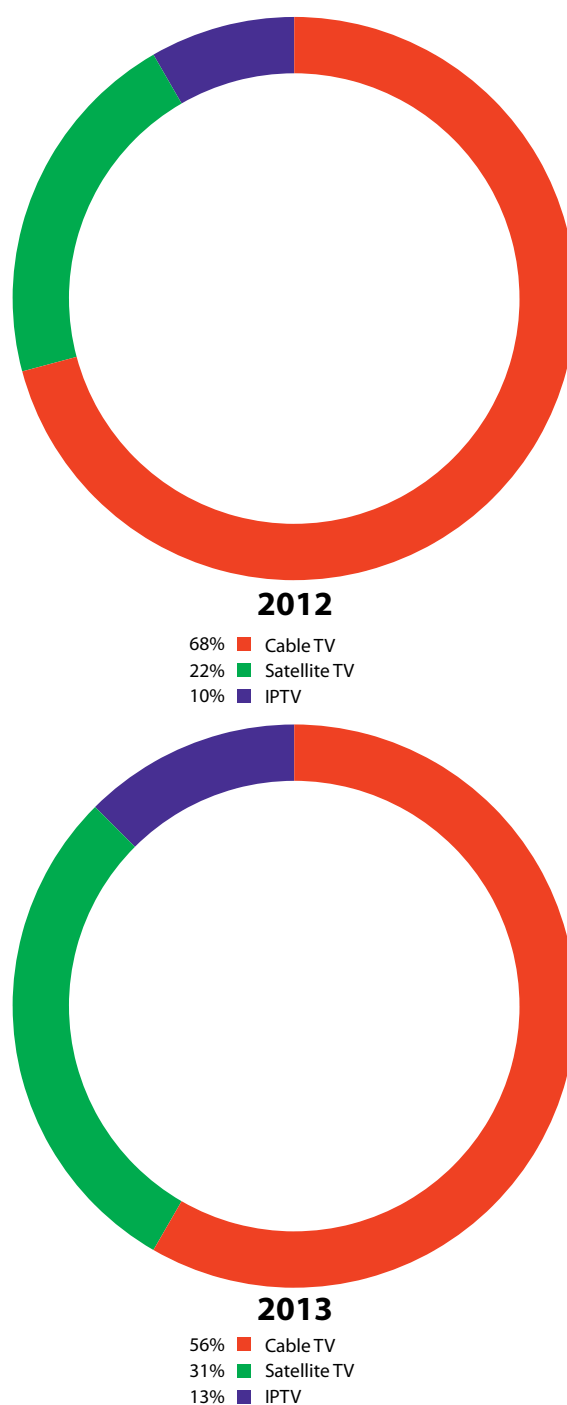
As in the previous years, the leading positions in this particular segment are held by the GC of Kazakhtelecom JSC. In the total subscriber base, the share of Kazakhtelecom JSC in 2013 made up 84% of all subscribers of the broadband data communications (Internet). Penetration of the broadband data communications at the end of 2013 made up 31.5% in the households segment and 77.4% in the enterprises segment.

PAY TV

The volume of pay TV in 2013 made up KZT 18.51 bln, which is 13.8% higher than in 2012.

With development of the Kazakhtelecom JSC's "iD TV" (IPTV) service and project of Kaztelradio JSC "OTAU-TV" (satellite TV) logical change of the subscriber base on technologies of access is taking place. In 2013, the share of connections on IPTV technologies increased to 13% from 10% in 2012, and the share of satellite TV grew from 22% in 2012 to 31% in 2013. Accordingly, the share of the classical cable TV declined from 68% down to 56%.

STRUCTURE OF SUBSCRIBER BASE ACROSS TECHNOLOGIES, 2012–2013



Source: data provided by iKS-Consulting

The total number of pay TV subscribers made up 1 865 thousand, which is 24.7% higher than in 2012. Such intensive growth resulted from the more than double increase of the number of Kazteleradio JSC's TV-subscribers with the project OTAU-TV (up to 470 thousand subscribers in 2013 from 215 thousand subscribers in 2012) and the increase by 63% of Kazakhtelecom JSC's pay TV subscribers with the service "iD TV" (from 149 thousand subscribers in 2012 to 243 thousand subscribers in 2013). The increase of subscriber base of other operators was at 3–5%.

Penetration of the pay TV service made up 38% per 100 households.

The Kazakhtelecom JSC's share in the pay TV market at the end of 2013 made up 13% on the number of subscribers, and 15.4% – on revenues.

THE OPERATORS MARKET FOR TELECOMMUNICATIONS SERVICES

In 2013, the volume of the market for services to operators (considering interconnect) made up KZT 95.26 bln, making an increase of 4.5% compared to the year 2012.

Increase of revenues from the **interconnect** services is facilitated by the increase of intensity in consumption by cell communications subscribers of the internetwork services, the tariffs for which are constantly reduced by operators. Demand for the **channel lease** services remains moderately stable. Subscriber churn in this segment is unlikely as the lease channels are used by operators for provision of their services to end users. Increase of the segment of **operators' access to the Internet** in the face of the increase of the retail market for Internet-access is logical. To ensure adequate quality of services to operators, the carriers should ensure constant extension of their backbone capacities. As a result, the demand for the Internet access services in the operators' segment is rising.

The aggregate share of key players of this market – Kcell JSC, Kazakhtelecom JSC, and Group of companies Beeline in 2013, totaled 85% of all revenues. The share of Kazakhtelecom JSC made up 27%.

In a whole, in light of increased penetration of basic telecommunications services leading to decline in profitability of these services, the extension of the range of additional services capable of creating a new source of revenues for telecommunications operators takes on special significance. Complexity of an offer, not only within the framework of one infrastructure, but at the expense of convergence of services in fixed and mobile networks becomes one of the major tools of competitive struggle.

LEGISLATIVE ENVIRONMENT AND ITS CHANGES

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

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

Besides, the Company falls under the regulation of a number of subordinate regulatory acts.

The legislature regulates the issues of providing telecommunications services, setting up tariffs, establishing rights and obligations of operator, consumer and state, and regulates other issues in the field of communications.

In a whole, in the past year, there were no significant changes in the legislative environment. There were some point changes that both simplified the regulatory load and complicated it.

Specifically, in 2013, the correction to the Regulations for assignment of frequencies, radio-frequencies (radio-frequency channels), registration and operation of radio-electronic means and high-frequency devices, and calculation of electro-magnetic compatibility of radio-electronic means of civil purposes called off the registration of radio-electronic means and high-frequency devices. Besides, the service of pass by connecting operators of local telephone traffic from telecommunications networks of connected operators was removed from the sphere of natural monopoly.

These changes weakened state regulation. At the same time, in April 2013, the Government of the Republic of Kazakhstan approved the Rules for approval of investment program (project) of subject of natural monopoly and correction thereof that became yet another tool for state regulation. Thus, in legislative terms the telecommunications market did not undergo any significant changes that would significantly enhance the positions of Kazakhtelecom in the market.

REGULATION IN THE TELECOMMUNICATIONS INDUSTRY

Kazakhtelecom is a member of the Republican State registrar of natural monopolies, member of the State registrar of those market objects that take up dominant

or monopolistic position in the regulated markets, and also an operator of “universal services”, and its activity is subject to state regulation.

The Company's activity is regulated by the state represented by the Ministry of Transport and Communications of the Republic of Kazakhstan (hereinafter referred to as “MTC RK”). MTC RK is also the authorized body in the sphere of natural monopolies in the field of telecommunications performing control over and regulation of the Company's activity given that the Company is considered subject of natural monopolies.

In addition to that, the Company's activity is subject to control and regulation by the Agency of the Republic of Kazakhstan on Protection of Competition (Antimonopoly agency).

Currently, the Kazakhtelecom JSC' activity is subject to state regulation in the following directions:

SERVICES IN THE SPHERE OF NATURAL MONOPOLIES

Pursuant to the State registrar of subject of natural monopolies, the following activities are attributed to the sphere of natural monopolies in the field of telecommunications:

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

Pursuant to the Law of RK “On natural monopolies and regulated markets”, tariffs for services of natural monopoly are subject to state regulation and approval by an authorized body.

SERVICES INCLUDED IN THE REGISTRAR OF SUBJECTS OF MARKET OCCUPYING DOMINANT OR MONOPOLISTIC POSITIONS

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

1. Services on connecting subscribers of local telephone communications with subscribers of cell communications;
2. Local telephone communications services;
3. Access to the Internet services for end users;
4. Services on provision of long distance domestic (intrazone) telephone communications through local telephone communications;
5. Services on provision of long distance international telephone communications through local telephone communications;
6. Services on leasing direct line (lines);
7. Services on connecting telecommunications networks of operators at intercity and international level;
8. Services on passing through of incoming telephone traffic from cell communications operators' networks;
9. Services on passing through of incoming trunk (intercity), international telephone traffic from fixed telecommunications operators connected at local, intercity (trunk) and international levels;
10. Services on passing through of intercity, international and cell telephone traffic through Kazakhtelecom JSC's telecommunications networks from\to telecommunications networks of operators connected at local and\or international levels (transit);
11. Services of primary access to the Internet (for telecommunications operators);

12. Services of operational and technical maintenance of reporting facilities (warning system);

13. Services of telegraph communications.

Tariffs on these types of telecommunications services are regulated by the authorized body through tariff (price) thresholds setting in accordance with the Rules for pricing in regulated markets approved by the Enactment of the Government of the Republic of Kazakhstan as of March 3, 2009, № 238.

UNIVERSAL TELECOMMUNICATIONS SERVICES

Pursuant to the Law of RK “On communications”, tariffs for universal telecommunications services are subject to mandatory state regulation and approval by an authorized body.

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 (hereinafter referred to as “The Rules”), approved by the RK government enactment as of April 14, 2009 № 514, the Authorized body is charged with a duty to regulate the following types of services:

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

Pursuant to the Rules, prices (tariffs) on the aforementioned types of services are to be approved by an Authorized body.

SUBSIDIES AND GUARANTEES OF THE STATE IN THE FIELD OF TELECOMMUNICATIONS

To date, the legislature of the Republic of Kazakhstan currently in force provides for a mechanism of subsidizing unprofitable universal telecommunications services. Pursuant to the law of RK “On communications”, “the universal telecommunications services – minimum range of telecommunications services to be developed by an authorized body and to be approved by the government of the Republic of Kazakhstan, the provision of which to any user of telecommunications services in any settlement within a given period of time and of adequate quality and level of prices that ensure affordability of these services is a mandatory obligation for the operators of universal service”.

Annually, the Ministry of Transport and Communications of RK determines (designates) an operator of universal service on a competitive basis. Given that the development of telecommunications services in rural area is regarded as being not economically attractive and other telecommunications operators do not participate in the public contest on electing operator of universal service, the Company has been entrusted with these obligations as the dominating telecommunications operator. Within the mechanism of subsidizing the unprofitable universal telecommunications services currently in force, the Company annually receives subsidies from the funds provided for these purposes in the Republican budget of RK. The amount of KZT 5.028 bln provided for these purposes in the Republican budget for 2013 was fully implemented by the Company.

BUSINESS PORTFOLIO

Business portfolio of the Group of companies of Kazakhtelecom JSC includes the full range of services that is presented practically in all regions of the country and beyond its borders for various categories of users.

Our services are used by millions customers across the country, state bodies and entities, small and medium businesses.

NEW SERVICES

Kazakhtelecom JSC introduces and develops new types of services for various consumer segments that allow the Company to extend the range of telecommunications services being provided, increase the value of the packet solutions being offered and minimize the risks of losing revenues from fixed telephony services and broadband data communications that are getting “matured” and “saturated”.

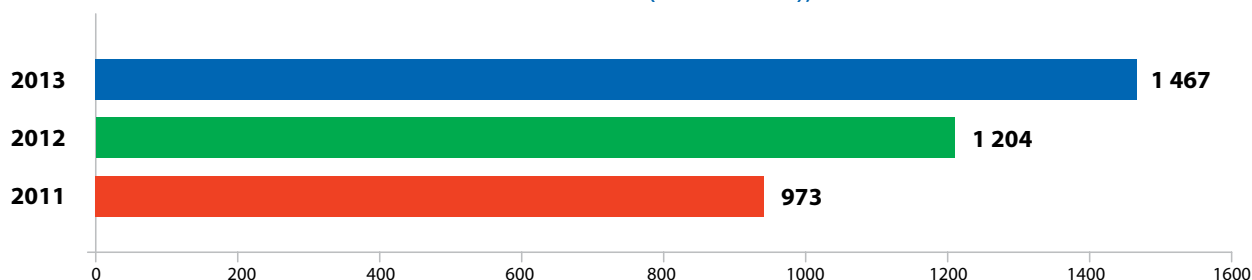
MAJOR SERVICES OF THE COMPANY

Access to the Internet and data communications services

The services of broadband access to the Internet “iD Net” and “Megaline”. In 2005, for the first time, Kazakhtelecom JSC introduced to the mass market for natural persons the service of broadband access to the Internet under the brand name “Megaline”. By 2010, the service of access to the Internet by using new high speed technology FTTx under the brand name “iD Net” was launched in all oblast centers and large cities of Kazakhstan. The services is used by natural persons and legal entities.

In 8 years, the customer base of the broadband data communications service grew to 1 467.5 thousand subscribers. To date, the service of access to the Internet under the brand name “iD Net” is provided in oblast centers and large cities of the country. The “Megaline” service is available to subscribers of Kazakhtelecom JSC not only in urban area (in cities), but also in rural settlements of Kazakhstan.

FIXED BROADBAND SUBSCRIBERS (2011-2013), THOUSAND PORTS



Kazakhtelecom JSC offers to its customers the **Internet access service based on such wireless solutions as WLL CDMA EVDO and Megaline Wi-Fi**. The broadband WLL CDMA/EVDO-based service under Megaline EVDO brand was brought to the market with the aim of bridging digital divide and providing rural citizens with the access to Internet resources.

IP VPN-based corporate networking service. This service is designed for large companies with an extensive network (branches). The Company offers to large companies bundled telecom services, including digital and voice communications, multimedia communications (video broadcasting and video conferencing), as well as support of all data network protocols used in the market. At year-end 2013, more than 18 thousand sites were interconnected into the corporate network in Kazakhstan and abroad based on IP VPN service of Kazakhtelecom JSC.

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

Continuing the work on diversification of its business, Kazakhtelecom Group actively implements **ICT services**. Today, the Data Center Network of Kazakhtelecom Group covers the whole country and includes 16 sites on the basis of which the Company offers such services as Shared Hosting, VPS, Colocation, Dedicated, and a range of such innovative services as cloud data storage system and cloud video conferencing, and cloud solutions such as Microsoft Hosted Exchange, SharePoint and Microsoft Hosted Lync.

One of the areas of the telecommunications market development is the **segment of Pay TV services**. In 2013, with the aim of further development of the digital TV service “iD TV”, Kazakhtelecom JSC brought to the market a new bundled service “HD TV channels”. HD broadcasting is a service of digital broadcasting of TV content with high-definition quality and option of choice of TV channels within HD packages. The structure of HD packages allows users to select standard or premium set of channels depending on their personal preferences and needs.

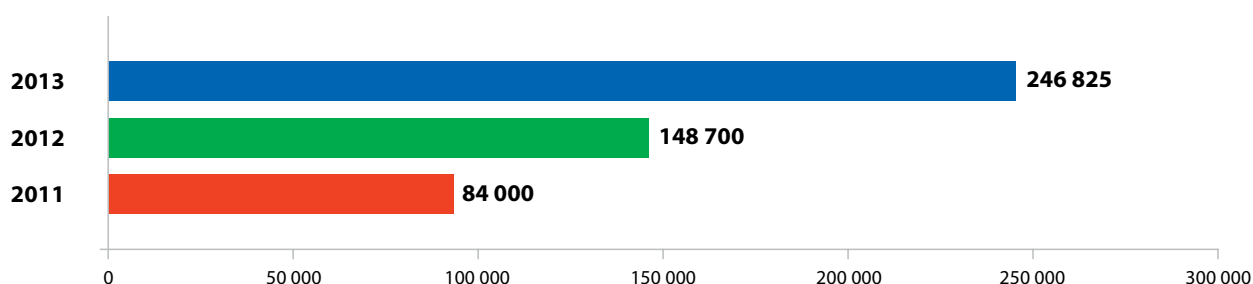
“iD TV Online” is a value added service of “iD TV” service, which allows a user to watch TV channels and video content on various multimedia devices (PC,

tablet, smartphone, media box, smart TV) connected to the broadband data network of Kazakhtelecom JSC, including devices connected to Wi-Fi without using Set Top Box equipment.

Moreover, in 2013, as a result of acquisition of assets of DIGITAL TV LLP by Kazakhtelecom JSC, the Company opened the opportunity to provide analogue TV services in 12 cities of Kazakhstan.

In 2013, with a view to promoting analog TV services the Company implemented a pilot project on joint trial sales of bundled services, which include local telephony service of Kazakhtelecom JSC and analog TV service of Aziacell LLP in Aktau.

ID TV POINTS OF CONNECTION FOR 2011-2013



BUNDLED SOLUTIONS

Kazakhtelecom Group JSC focuses on the development of bundled solutions. Thus, the Company is bringing to the market bundled solutions of fixed and mobile Internet. During 2013 the Company was working under launching such new bundled solutions as:

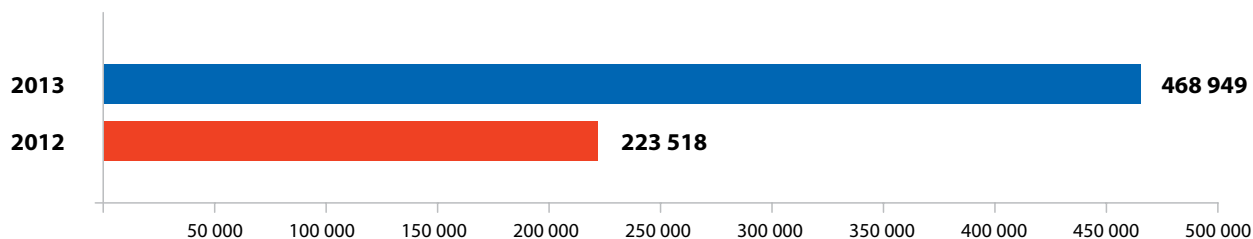
1. **iD Net/Megaline + LTE**, a converged solution with a single account for a subscriber;
2. **iD Net Wireless**, use of LTE technology in the areas where TV services cannot be provided by fixed broadband network.

Our Company also continues to promote actively the concept of bundled Double and Triple Play services.

Bundled Double Play Offer includes broadband and telephony services or broadband and Pay TV services. These bundled services are brought to the market under “Megaline” and “iD Net” brands. Bundled Triple Play Offer includes broadband, Pay TV and telephony services under “iD Home” brand. At year-end 2013, the customer base of subscribers connected to the bundled services increased twofold and amounted to approximately 468 949 subscribers.

Bundled services allow the utmost satisfaction of the needs of our customers in telecommunications services.

DYNAMICS OF THE NUMBER OF SUBSCRIBERS CONNECTED TO BUNDLED SERVICES FOR 2012-2013



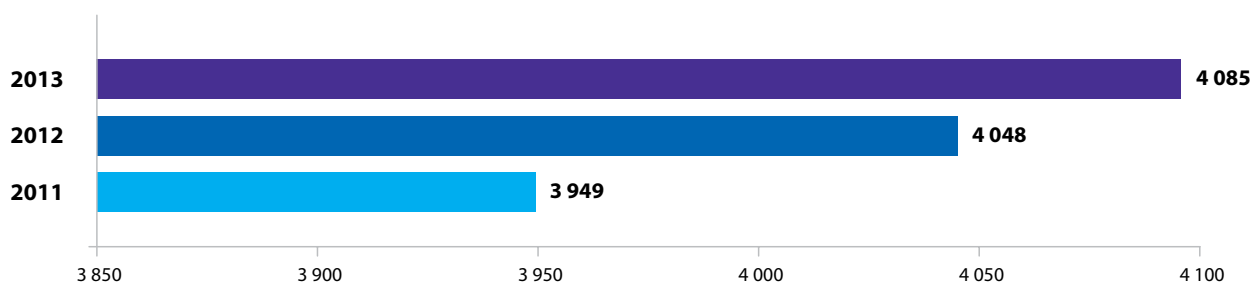
TRADITIONAL SERVICES

Fixed voice services are the traditional services of Kazakhtelecom JSC and constitute a significant share of the Company's business. In the reporting year the Company successfully retained the position of an absolute leader in the traditional markets of local and long distance communications.

Local telephony

Kazakhtelecom JSC provides local telephony services throughout the country. Starting from 2009, the Company has been providing the services of virtual office telephony under "iD Phone" brand. In remote regions of the country the Company provides telephony services based on CDMA technology.

FIXED TELEPHONY SUBSCRIBERS, THOUSAND



Long-distance domestic and international telephony

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

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

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

Operator segment

The Company is committed to maintenance and development of its competitive advantages, such as availability of the required amount of network resources for network interconnection and transmission of all types of traffic, extensive telecommunications network based on the latest digital equipment with high capacity, which ensures provision of high-quality and reliable services to operators and their subscribers.

Services provided to telecom operators of the Republic of Kazakhstan

Kazakhtelecom JSC provides services to telecom operators in strict compliance with the applicable laws and principles of mutually beneficial partnership.

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

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

Over the last years Kazakhtelecom Group has been continuously taking steps aimed at ensuring competitive edge of the Internet access services for Kazakhstan ISPs and leasing backbone communications channels by reducing tariffs and improving reliability and quality.

International cooperation with operators

The main direction of Kazakhtelecom's international activity is the provision of international telephony services, direct non-switched transit through the territory of the Republic of Kazakhstan, as well as the Internet transit.

Today Kazakhtelecom JSC has direct joints with telecom networks of all bordering states. In 2013, as a part of implementation of transit potential, the Company was actively involved in construction of new joints and upgrade of existing joints with international telecom operators.

IN 2013, THE MAIN ACHIEVEMENTS OF THE COMPANY IN THE INTERNATIONAL FIELD WERE AS FOLLOWS:

- ▶ 1. Organization of the joint between the networks of Kazakhtelecom JSC and Turkmentelecom. This joint opens up fresh opportunity for organization of connections through Kazakhtelecom's network to the networks of Turkmenistan, Afghanistan and Iran, and also opens up the opportunity for Turkmenistan to transit traffic using the transit potential of Kazakhstan, which is located in the heart of the Eurasian continent, to such directions as Russia, Europe and South-East Asia.
- ▶ 2. Launching of DREAM project jointly with Megafon. The first high-speed channel of 10 Gbps in the direction Europe-China was sold.
- ▶ 3. Joints with Rostelecom and TransTeleCom were expanded.



DEVELOPMENT OF MOBILE SEGMENT

Strengthening its positions in the market for mobile communications is considered one of the major strategic directions in the Group's development. Development of the mobile segment of the Group is carried out on the basis of ALTEL JSC, operator of mobile communications.

Currently, Kazakhtelecom JSC is engaged, jointly with ALTEL JSC, in implementing the project on providing coverage on the territory of the Republic of Kazakhstan with the mobile communications network of forth generation of LTE (Long Term Evolution) standard. The network of forth generation that allows to create for subscribers the most comfortable, clear, easy-to-use, simple and profitable conditions for using high rate mobile access to the Internet for business, entertainment, communications, learning and full range of opportunities of the world web, was launched in December 2012 under the trade mark "ALTEL 4G" in cities of Astana and Almaty.

*During 2013, the mobile Internet 4G became available to citizens of the cities of **Aktau, Aktobe, Atyrau, Karaganda, Ust-Kamenogorsk and Shymkent**. The service "ALTEL 4G" was launched in satellite cities (towns) of Almaty – Kapchagai, Kaskelen, Esik and Talgar. In February 2013, Altel announced on launch of the unlimited tariff "Unlim LTE" for subscribers of "ALTEL 4G".*

In April 2013, with a view to getting the general public acquainted with advantages of 4G from ALTEL, the Company organized a press-tour in cities of Astana and Almaty with participation of leading bloggers of the Kazakhstani Internet and journalists of specialized mass media.



ALTEL 4G

Мобильді Интернет

4G LTE from ALTEL is a unique technology associated with innovative notions such as speed, quality of communications, comfortable communication – the technology that is being used by tens of thousands of the country's citizens.

The network of forth generation LTE enables to ensure the maximum rate of data communications up to 100 Mbps, which makes it possible to introduce new services that cannot be made available in the networks of previous generations. For businesses, this is, first of all, qualitative video-conferencing on big office screens, with the participants being located in different cities or moving in a vehicle. For private users, this new technology makes accessible to multiuser online games, enables to download photos, audio and video content in large volume in matter of seconds, viewing movies on demand in HD resolution and many other things.

In autumn 2013, “ALTEL” company announced a subscriber migration action. No operator of Kazakhstan or in CIS has ever conducted an action of such scale. Migration (shift) of subscribers from “Jet” to “ALTEL 4G” network was announced in Astana and Almaty and continued for the Company's clients from Aktau, Aktobe, Atyrau, Karagandy, Ust-Kamenogorsk and Shymkent. One of the advantages of subscriber migration was not only the shift to the network of forth generation at the rate that is tens time higher than that offered by rivals, but also promotional change of the equipment.

LTE is a new stage in developing wireless communications and the fastest mobile Internet of 4G generation. The LTE technology allows to communicate data at a rate that is tens time higher than the rate of previous technologies, enables to develop accessibility and penetration of the Internet network's services, including the ones that are socially important for population, such as electronic government, electronic commerce, information resources etc., and, thereby to enhance the quality of life and reduce telecommunications inequality. Development of mobile and data communications facilities enables to introduce social projects in the Internet. Such projects enable to significantly simplify many spheres of public life, for example, payment for public services (utilities), participation in forming state programs that enable to significantly ease interaction between the population and state bodies.



Targets

Business

Job

KPI



KEY PERFORMANCE INDICATORS

KEY PERFORMANCE INDICATORS

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

As of the end of 2013, Kazakhtelecom JSC successfully implemented the tasks on achieving major strategic objectives and strengthening its positions on provision of telecommunications services in the market of Kazakhstan.

As a result of the work performed on laying down telephone lines, the number of fixed lines totaled 4 085 811 lines, or 101% to the last year's figure; the level of digitization of local telecommunications networks made up 98.2%; as many as 1 467 520 ports of fixed broadband data communications, which is 22% higher compared to the previous year's figure due to the active promotion of services on the segment for natural persons on tariff plans "Megaline Drive", "Turbo", "Hit", "iD Net"; share of ports of broadband data communications in rural area in 2013 grew up to 17% with an increase of 1%.

Total increase of ports in rural area made up 30%.

Density of Kazakhtelecom JSC's ports considering cities and rural settlements made up 8.6 per 100 inhabitants with an increase of 21%.

Within the framework of enhancement of quality of services provided, Kazakhtelecom JSC managed to reduce the number of unsatisfied requests (applications) for connecting to services: waiting time for connection to services reduced by three times, as did the number of complaints.

As of the end of the reported period, Kazakhtelecom JSC saw major financial indicators grow, with the major drivers of this positive dynamic being the extension of the subscriber base, sustainable demand for voice services, increase of popularity of data communications services and additional services.

Consolidated revenues from sale of services made up KZT 190 867 mln, or 109% to the last year's figure. Consolidated net profit made up KZT 19 614 mln.

The volume of Capex across the Group of companies of Kazakhtelecom JSC made up KZT 61 503 mln, or 97% to the last year's figure. Over the last years, the Company invested in development at a stably high level.

In September 2013, the Company redeemed earlier the registered unsecured coupon bonds of Kazakhtelecom JSC and therefore optimized debt burden and reduced debt service expenses of the Company.

Following successful implementation of the chosen strategy aimed at preserving its ratings, the Company did manage to stabilize credit ratings:

- Fitch Ratings improved forecast on credit ratings ("BB") from "Negative" to "Stable";
- Standard&Poors credit rating of the Company is confirmed at the same level ("BB", "Stable").

KEY PERFORMANCE INDICATORS

Finance indicators (consolidated)*	Unit	2013	2012	2011	2010
Revenues from sale of services	mln KZT	190 867	175 669	173 344	152 732
Net profit	mln KZT	19 614	222 130**	50 167	34 220
EBITDA	mln KZT	65 829	69 068	66 015	53 897
EBITDA margin	%	34	39	38	35
CAPEX	mln KZT	61 503	63 270	43 641	34 078
Efficiency indicator	Unit	2013	2012	2011	2010
ROACE	%	8.2	62.5**	16.6	13.5
Average revenue per user (ARPU)	KZT /month	3 086	2 823	2 856	2 661
ARPU per mobile subscriber	thousand KZT / month	0.67	0.72	0.79	0.90
Number of employees	persons	29 847	29 237	29 510	29 855
Total revenues per employee	thousand KZT	6 394.9	6 008.4	5 874.1	5 115.8
Number of fixed lines per employee	lines/emp.	146.4	143.7	138.3	131.1
Information about assets	Unit	2013	2012	2011	2010
Total assets	mln KZT	416 135	419 259	421 696	370 562
Long term loans	mln KZT	36 029	63 786	59 680	57 971
Own capital	mln KZT	265 503	276 748	282 902	238 592
Technical indicators	Unit	2013	2012	2011	2010
Number of fixed lines	lines	4 085 811	4 047 566	3 948 625	3 802 916
Level of digitization of local network	%	98.2	97.2	96	92.84
Number of fixed broadband Internet access subscribers	subscribers	1 467 520	1 204 957	969 461	770 860
Number of mobile subscribers	subscribers	628 521	1 125 991	1 383 653	1 229 772
Number of mobile broadband Internet access subscribers (EVDO, LTE, UMTS)	subscribers	112 373	75 966	80 083	24 767
Number of Pay TV subscribers	subscribers	246 825	148 700	84 000	33 078
Macroeconomic indicators	Unit	2013	2012	2011	2010
Population of Kazakhstan, total	thousand people	17 165.2	16 911.91	16 674.96	16 433.79
GDP, growth rate	%	106.0	105.0	107.5	107.0
Consumer Price Index	%	104.8	106.0	107.4	107.8
KZT/USD exchange rate, average per year	KZT	152.13	149.11	146.62	147.35

* The Company's finance indicators pursuant to IFRS

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

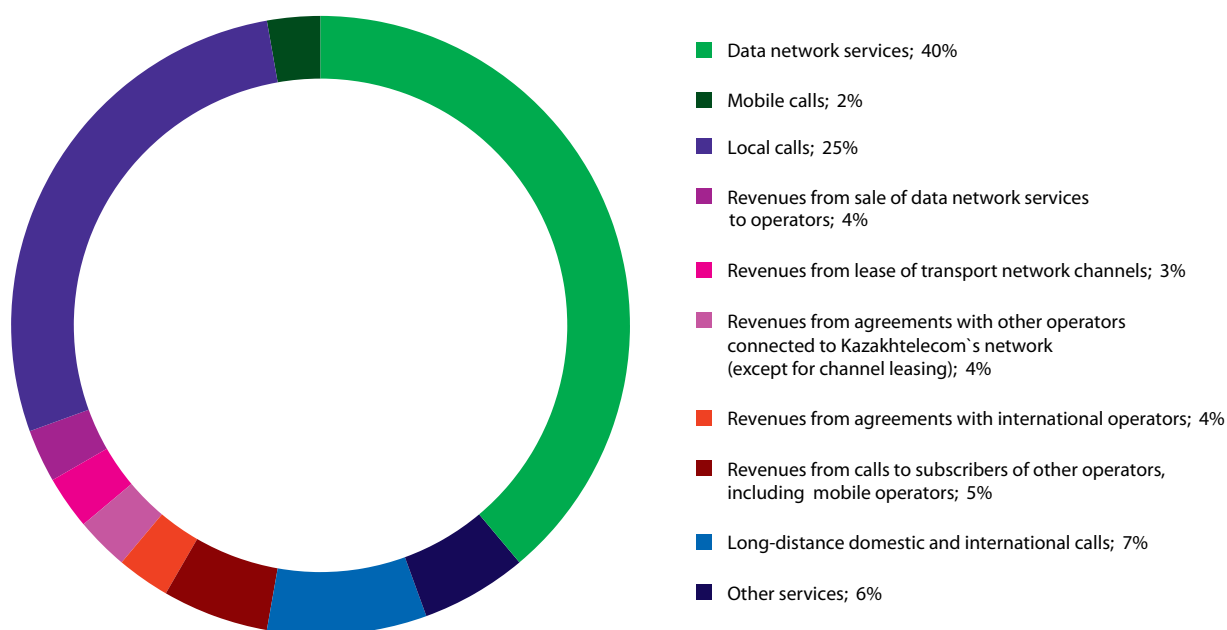
FINANCIAL REVIEW

In 2013, revenues from sale of services across Kazakhtelecom Group totaled KZT 190 867.4 mln, which makes up 108.7% compared with 2012.

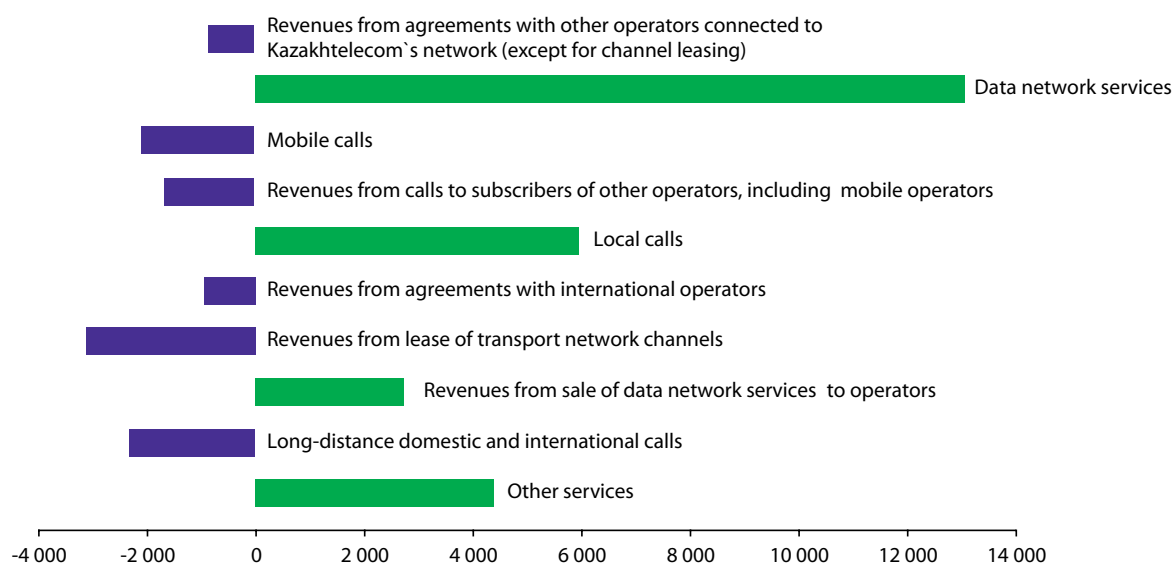
The largest share in the structure of revenues in 2013 is taken by the revenues from:

- ▶ data network services with the share in the general revenues structure of Kazakhtelecom JSC making up **40%**;
- ▶ local telephony services with the share in the general revenues structure making up **25%**;
- ▶ long-distance domestic and international telephony services with the share in the general revenues structure making up **7%**.

STRUCTURE OF REVENUES OF KAZAKHTELECOM GROUP



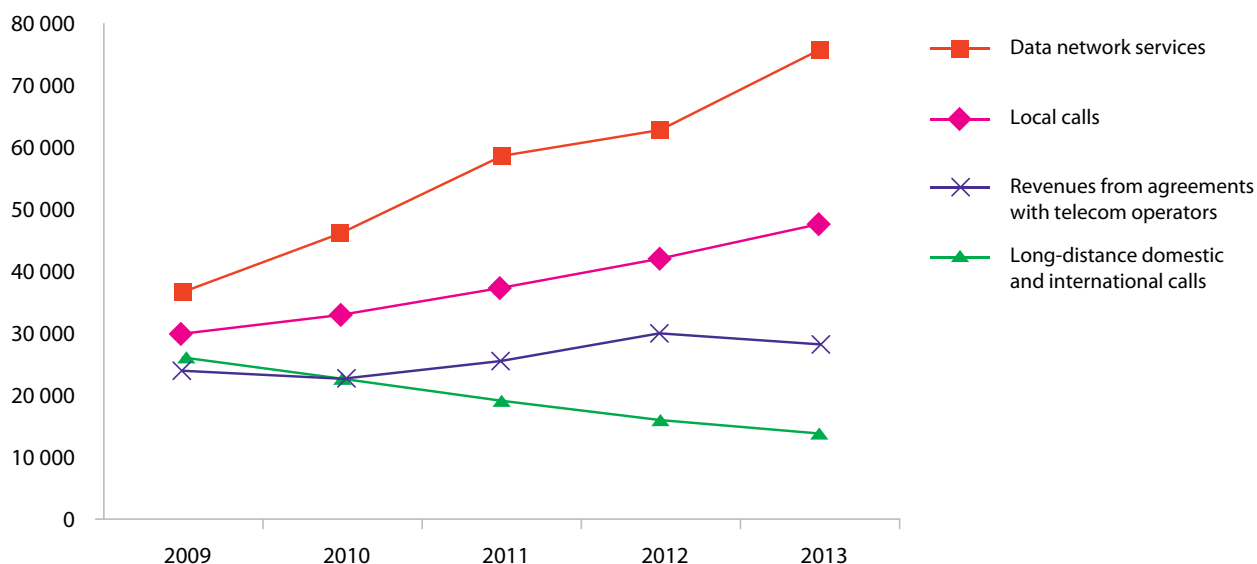
CHANGES IN THE REVENUES STRUCTURE IN 2013 COMPARED WITH 2012, KZT MLN



Significant decrease in revenues from lease of transport network channels arises from completion of construction of own fiber-optic telecommunications line by KarTel and as a consequence the reduction of leased channels. Voice telephony services are climbing down as a result of

their substitution by mobile services and development of alternative types of calls. Due to the same reason the revenues from subscribers of other telecom operators are decreasing. Data network services and local telephony services are the leaders.

DYNAMICS OF THE MOST SIGNIFICANT REVENUE ITEMS OVER 5 YEARS, KZT MLN



Data network is a segment showing the highest rate of growth due to active promotion of services in the individuals segment with special broadband tariff plans. The tendency of decrease in the volume of voice traffic and, therefore, rates of growth of revenues from long-distance domestic and international telephony services in the subscriber segment arises from the high level of mobile penetration, low tariffs of mobile operators, growing popularity of alternative types of calls and substituting services (VoIP, Skype, etc.). Decrease in revenues from the wholesale segment is reasoned by restriction of access to international networks by telecom operators KarTel and Kcell for international traffic

transferred through Kazakhtelecom JSC from March 2013, as well as completion of construction of own fiber-optic telecommunications line by KarTel.

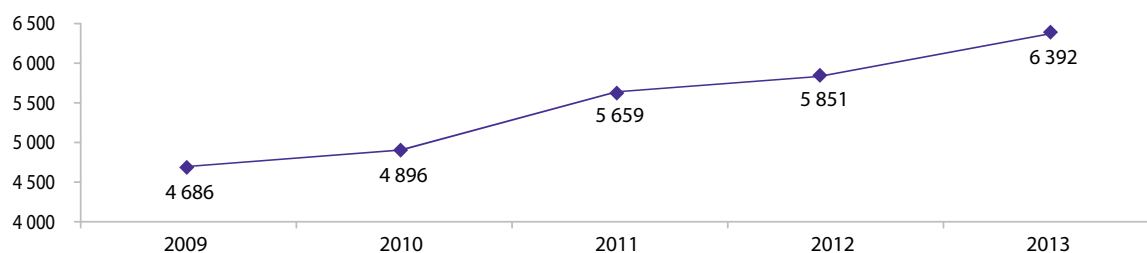
Operating expenses of Kazakhtelecom Group in the reporting period amounted to KZT 173 083.7 mln.

Earnings before interest, taxation, depreciation and amortization (**EBITDA**) amounted to KZT 65 828.8 mln.

Net profit (net income) made up KZT 19 614.1 mln.

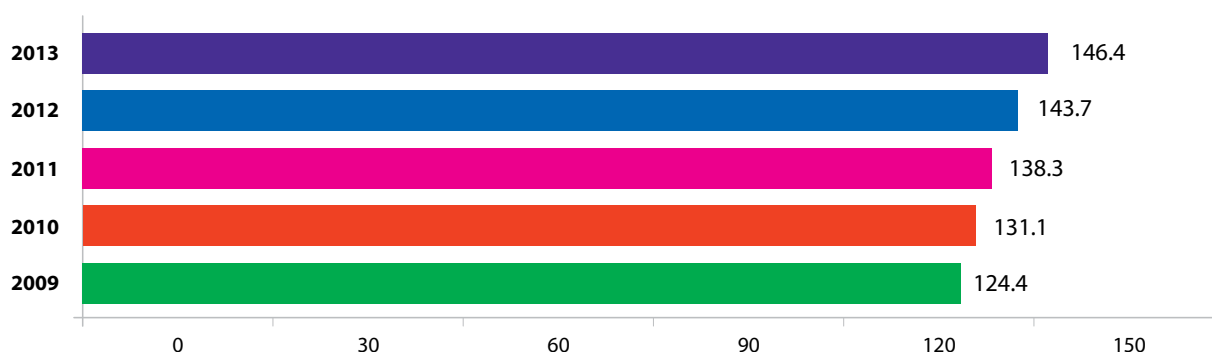
Ratio of net profit to revenues from sale of services made up 10.3%.

TOTAL REVENUES PER EMPLOYEE, KZT THOUSAND



Total revenues per employee steadily demonstrate positive dynamics.

NUMBER OF FIXED LINES PER EMPLOYEE, LINES



As consumer demand for the telephony services and deployment of new technologies is met, the number of fixed lines is steadily growing.

BUSINESS PLAN FOR 2014

In 2014, as a part of its activity aimed at improving business effectiveness, the Company is planning to save positive dynamics and maintain profitability of EBITDA margin at the level of at least 30%. In the medium term, we intend to maintain the trend of strengthening financial stability of the Company.

The Company is going to continue implementation of the Cost Reduction Program of Kazakhtelecom JSC.

With regard to the improvement of the risk management system, in 2014, the Company is planning further implementation and enhancement of the Internal Control System.

DEVELOPMENT OF THE TELECOMMUNICATIONS INFRASTRUCTURE

The scientific and technical revolution at the millennium bridge has led to the change of the role the information technologies play in any society's life. The modern consumer expects to not only get the opportunity to use telephone in any place and at any time – he/she is prepared to receive the complex services that additionally embrace multimedia flow as well as access to the Internet resources and communication of personal information.

At the threshold of the 20th anniversary of Kazakhtelecom JSC, it has to be said that every year the Company's technical capabilities are getting stronger. Today, Kazakhtelecom JSC has the modern telecommunications network that meets the world standards on quality of information communication and range of services provided which allows Kazakhtelecom to retain leading positions in the telecommunications market of Kazakhstan.

Not stopping at what has been accomplished, Kazakhtelecom JSC continues, within the framework of the State program of forced industrial and innovation development of the Republic of Kazakhstan for 2010-2014, implementing investment projects aimed at introducing advanced innovative technologies.

EXTENSION OF THE NATIONAL INFORMATION SUPER BACKBONE ON THE BASIS OF DWDM (DENSE WAVELENGTH DIVISION MULTIPLEXING, DENSE WDM) TECHNOLOGY

In 2013, the Company continued extending the communications systems DWDM/SDH of the National information super backbone for throughput of transit traffic, connection to external ports of the Internet, development of the data communication network of Kazakhtelecom JSC:

- 1) for data communications network, on various sections of the backbone, the channels are extended up to 520 Gbps;
- 2) capacity of external joints are increased from 383 to 740 Gbps;
- 3) total capacity of external Internet channels was increased in 1.57 times;
- 4) the joint with Turkmentelecom, state communications company, was organized.

Given the existing workload of the communications systems of the backbone network, the Company started, in 2013, with a view to further developing transit potential and meeting demand from the subscribers for the data communications services, implementing the project on construction of new fiber optical modern network with the capacity of 4.8 Tbps (48x100G) with organization of channels of no less than 100 Gbps per wavelength.

In 2014, within the framework of the project, the Company will proceed to constructing the backbone

In 2013, the Kazakhtelecom's investments into the projects aimed at extending, modernizing and developing telecommunications networks made up around KZT 35 888.6 mln, which is 58.3% of the Company's total capital expenditure.

FOCL (Fiber Optical Communications Line) on sections "Almaty-Shygabas", "Akkol-Zhuravlevka", and three joints with China.

DEVELOPMENT OF ZONE TRANSPORTATION NETWORKS

As many as 1 750 kms of zone fiber optical communications lines were constructed in Akmolinskaya, East-Kazakhstan, West-Kazakhstan, Kostanayskaya, Karagandinskaya, Pavlodarskaya, North-Kazakhstan and South-Kazakhstan oblasts. Around 30 spans of digital radio relay communications lines were brought into operation.

DEVELOPMENT OF THE LOCAL TELECOMMUNICATIONS NETWORK

The local telecommunications network of Kazakhtelecom JSC is presented by 5 684 switching

points (hereinafter "SP"), including base stations of Vostoktelecom LLP and ALTEL JSC.

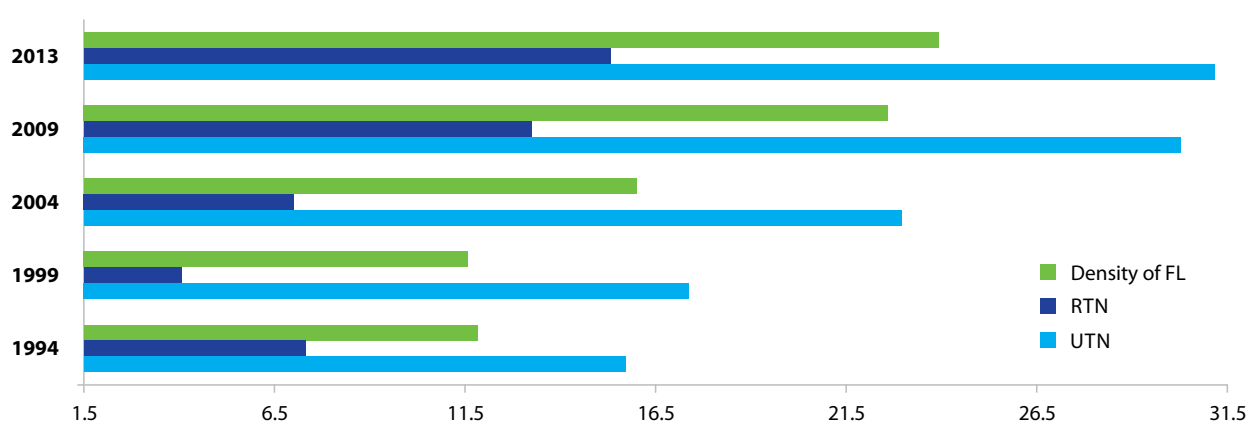
The total installed capacity of the local telecommunications network in 2013 grew by 303 112 numbers and made up 4 894 311 numbers, with the capacity of SPs being increased by 344 484 numbers and made up 4 807 326 numbers.

The level of digitization of the local network made up 98.22% out of the total installed capacity.

The installed capacity of UTN made up 3 639 273 numbers, including digital – 3 573 223 numbers or 98.19%.

The installed capacity of RTN made up 1 255 038 numbers, including digital one – 1 234 103 numbers or 98.33 %.

DENSITY OF FIXED LINES PER 100 INHABITANTS



As of January 1, 2014, out of 7 296 schools, including 5 693 in rural settlements (RS), as many as 7 286 or 99.86% were telephonized, of which in rural area – 5 684 or 99.84%.

There are 7 060 schools that were connected to the Internet or 96.8% (excluding other providers), of which rural schools – 5 497 or 96.6% out of the total number of school in RSs (excluding other providers). Out of the total number of schools, as many as 5 632 schools or 77.2%, and 4 076 or 71.6% rural schools were connected to the Internet with the use of broadband access technology (with the rate of 256 Kbps).

SIP PLATFORM DEVELOPMENT

Multimedia SIP-based telephone network (iD Phone) has been deployed in the cities of Almaty, Astana and all regional centers and large settlements of the Republic of Kazakhstan. The subscribers of SIP-platform are offered the packet of iD Phone services that include the Hosted PBX services, set of additional types of servicing operated via Web portal.

In 2013, the installed capacity of SIP-platform was extended by 91 000 numbers and as of January 1, 2014, exceeded 179 000 numbers.

CONSTRUCTION OF FTTH (FIBER TO THE HOME) NETWORKS

In 2013, the Company completed the 3rd stage of the strategic project "Construction of FTTH networks of Kazakhtelecom JSC". The total capacity on the project as of the end of the year made up 486 512 ports, of which 172 314 were brought into operation in 2013.

UPGRADE AND DEVELOPMENT OF THE RURAL TELECOMMUNICATIONS NETWORKS BY USING WLL CDMA TECHNOLOGY

With a view to developing rural telecommunications network in a prompt and efficient way as well as meeting the country's rural inhabitants' demand for communications services, in 2013, the Company continued implementing the project on the upgrade and development of the rural telecommunications network by using WLL CDMA technology. The project makes provision for installation of 900 base stations.

Over the period 2007-2013, the CDMA-450 network was deployed across the whole territory of the Republic of Kazakhstan. There are 685 base stations (BS) installed on the network, including 58 BS installed in 2013.

DEVELOPMENT OF THE INTERACTIVE iD TV SERVICES

Further development of the interactive television services on the IP TV platform is subject to the development of the FTTH technology, backbone and zone networks of Kazakhtelecom JSC. In 2013, the subscriber base of the interactive iD TV services

was extended by 89 thousand subscribers. As of January 1, 2014, the number of subscribers of the service exceeded 246 thousand. In 2013, the Company undertook some actions (held events) aimed at preparing and introducing the iD TV services in the HD format and the OTT services.

INFORMATION TECHNOLOGIES

From basic tasks to mission-critical business applications

Experts unanimously recognize that information technologies (IT) are the heart of modern business. ITs ensure transition of the Company to a totally new level of business accelerating Company's development and increasing its competitiveness and investment attractiveness.

In 2013, the Company continued to work under implementation of objectives on development of ICT business and system integration.

Data Centers in Akkol (600 sq. m.) and in the Park of Innovative Technologies "Alatau" (800 sq. m.) were put into operation. 10 318 units of equipment were installed in total in all Data Centers (including the Data Center in Pavlodar).

Today, there are 16 Data Centers with a total area 11 310 sq. m. and total capacity of 22 732 units of equipment in the Republic of Kazakhstan.

Total number of Data Centers' customers at year-end 2013 amounted to 10 096 (including 2 170 customers of iD Free and KZ Free services). The growth of the number of customers was 66% compared with 2012.

It should be noted that the number of active users of iDHost.kz portal in 2013 was 17 040.

In the reporting year, as a part of formation of a single system integrator and provider of ICT services for Samruk-Kazyna Group the Company implemented the following:

- such projects as "Portal of Independent Directors" and "Exchange of Ideas Portal" were developed;
- the project "Information System of Electronic Procurements" is being developed;
- the services of maintenance and development of SAP products (BPS, ERP) were provided as a part of IT outsourcing services.

In 2013, the Company continued planned development of key corporate information systems that ensure continuity of Kazakhtelecom's business.

The core of the centralized billing system is transferred to Astana. The system was upgraded to a new version Amdocs 8.1 that allowed increase of system performance in 4 times. The Company launched a project on transition to the platform of online user authorization.

Siebel CRM (Customer Relationship Management System) and Genesys Call Center are used in all branches of the Company, and the total number of users exceeds 1 600. Interaction with customers during provision of telephony services, broadband Internet access services, iD Net, iD TV, iD Phone, ICT and other services is ensured.

WebSense, a system of information protection and security of external resources (websites and portals) and billing databases, was embedded. The Company is also actively working under implementation of the systems of data centers' protection.

The Competence Center of the Group for provision of ICT and VAS services, which was established in 2012 on the basis of KT Cloud Lab LLP, a subsidiary of Kazakhtelecom JSC, achieved its strategic objectives in 2013.

In 2013, the National Call Center of Kazakhtelecom Group was established on the basis of KT Cloud Lab LLP with location in Astana, Almaty and Karaganda. Number of employees was optimized more than in 1.5 times to 402 specialists.

Outsourcing call centers of Electronic Government of the Republic of Kazakhstan "Egov.kz", Integrated Information System of Procurements of Samruk-Kazyna JSC, Customer Support of Kaspi Bank JSC and others were implemented.

The second major project, which was completed in 2013, is the commissioning of ICT Center in Free Economic Zone "Park of Innovative Technologies "Alatau" with 86 racks of TIER II. It was officially opened on October 05, 2013 and provision of services on its basis has been already started.

In 2013, Kazakhtelecom JSC continued to hold a position of an absolute leader in the market of hosting services and the Company is planning to continue development of this business line in 2014.

INNOVATION DEVELOPMENT

Change before you have to! (Jack Welch)

High performance and advanced network of Kazakhtelecom JSC is the foundation that allows the Company to be successful and strengthen positions of the high-tech provider in the market of Kazakhstan, as well as to enter in the international telecommunications market.

With the aim of strengthening and forming leading positions in all key segments of ICT market, Kazakhtelecom JSC continuously introduces the latest technologies and expands the range of innovative products in the area of ICT and business processes as a pledge of continued growth and leadership.

With a view to improving efficiency of innovative development in the long-term perspective, in 2013, the Board of Directors of Kazakhtelecom JSC approved **"The Innovation and Technology Strategy of Kazakhtelecom Group till 2022"**. This Strategy determines mechanisms and tools of management of innovative ideas and projects, arrangements for research and development activities, development of information systems and operational business processes, management of human resources and corporate culture.

MANAGEMENT OF INNOVATIVE IDEAS

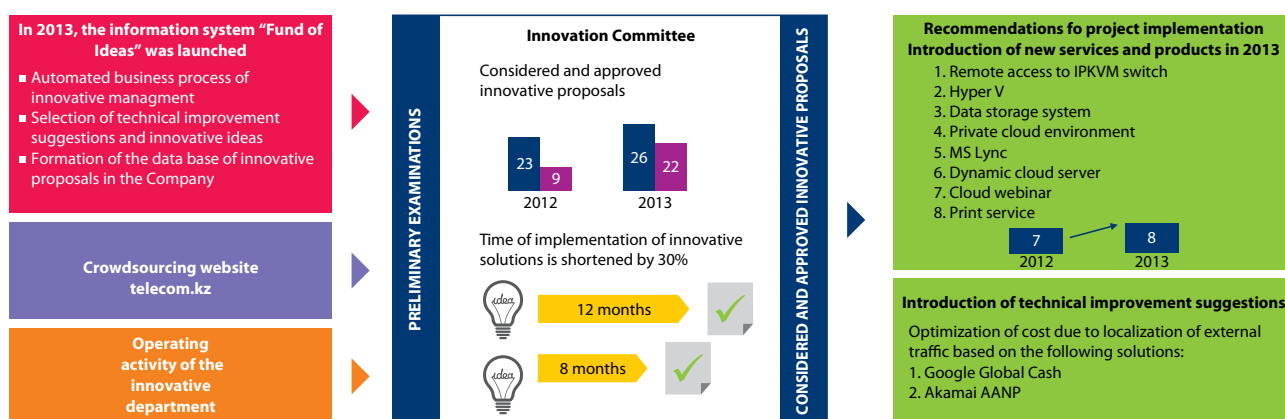
With a view to identifying the most promising innovation proposals and promoting personal and professional potential of Kazakhtelecom's employees in the area of innovative creativity, in 2013, the Company launched an internal information system "Fund of Ideas". Today, the "Fund of Ideas" has the following crowdsourcing tasks within the Company:

- ▶ 1) selection of the most important and promising ideas for the Company based on the assessment of their cost-effectiveness;
- ▶ 2) organization of an open dialogue of Company's management with employees as a part of innovative activities;
- ▶ 3) implementation of the most urgent and technically advanced innovative projects and introduction of developed ideas into the daily activities of the Company.

As a part of the Innovation and Technology Strategy, in 2013, the Innovation Committee considered 31 innovative ideas and technical improvement suggestions (in 2012 – 23 ideas and suggestions), of which 26 ideas and suggestions were approved for implementation (in 2012 – 9 ideas and suggestions).

Due to optimization of business processes the term of development and introduction of new products was shortened from 12 months to 9 months.

DYNAMICS OF DEVELOPMENT OF INNOVATIVE ACTIVITY



As a result of innovative activity, in 2013, the product portfolio of Kazakhtelecom JSC was supplemented by the following new products:

1. Remote access to IPKVM switch
2. Hyper V
3. Data storage system
4. Private cloud environment
5. MS Lync
6. Dynamic Cloud Server
7. Cloud webinar
8. Print service

With regard to technical improvement suggestions the following solutions for localization of external Internet traffic with the world's major traffic suppliers were implemented to reduce operating costs of the Company:

1. Google Global Cash;
2. Akamai AANP.

INNOVATIVE INVESTMENT PROJECTS

Implementation of investment projects is the main tool of organization of the Company's innovative activity.

2013 was a very successful year in terms of implementation of new investment projects on introduction of innovative technologies that allowed enhancement of Kazakhstan telecom market and broadening of the range of telecom services, in particular:

1. IMPLEMENTATION OF LTE/GSM/UMTS NETWORKS IN KAZAKHSTAN IN 2012-2021

Kazakhtelecom JSC, being the first and the only telecom operator in the country that provides LTE 4G-based Internet access services, in 2013, expanded LTE networks in eight oblast centers and cities of oblast subordination, as well as in the suburbs of Almaty and Astana.

2. IMPLEMENTATION AND DEVELOPMENT OF OTT-TV SERVICE

The Company started implementation of the project on launching Over-the-Top website, which allows access to the licensed TV and video content of iD TV from various devices: mobile phones, tablets and computers.

3. INTRODUCTION OF SLA MANAGEMENT SYSTEM TO CUSTOMER'S VPN

With the aim of ensuring conclusion of a service level agreement (SLA) with customers, the Company launched a project on monitoring performance of customer's VPN. This allows regulation of relationships with customers, increase of their loyalty and implementation of control and quality assurance policies.

4. CONSTRUCTION OF DWDM OPTICAL TRANSIT NETWORK

Significant event for the Company is the launch of the 1st stage of the large-scaled project on construction of the optical transport network with low latency and transit potential of 4 Tbps in Kazakhstan.

5. ORGANIZATION OF WI-FI-BASED INTERNET ACCESS SERVICES IN PUBLIC AREAS

With the aim of deploying Wi-Fi networks in public areas of Kazakhstan major cities and developing business models for all market segments and new methods of authentication for Wi-Fi network, the Company launched the project "Organization of Wi-Fi-based Internet access services in public areas".

RESEARCH AND DEVELOPMENT ACTIVITIES

Research and innovative activity of Kazakhtelecom JSC is focused on the development of services, optimization of processes and infrastructure for provision of services, and adaptation of technologies.

Applied researches are held by the Company's structural unit – Administration of ICT Academy – by means of own and external intellectual resources.

In 2013, Kazakhtelecom JSC implemented the following R&D activities:

1. Study of access-enabling technologies for efficient networking in rural settlements;

2. Study of M2M technologies;

3. Optimization of existing telephone network;

4. Development of recommendations for construction of transport networks to rural settlements;

5. Development of recommendations for ensuring effective coverage of mobile networks;

6. Development of recommendations for implementation of a unified system of media content delivery.

Furthermore, with the aim of establishing academic relationships with institutions for involvement of their intellectual capacity in implementation of joint R&D activities, in 2013, Kazakhtelecom JSC successfully held 2nd International Research and Practice Conference "Fixed-line telecom operators: innovations, challenges and experience".

SHARE OF LOCAL CONTENT IN PROCUREMENTS

The Company's activity on the issues of local content is carried out in accordance with the Program of Kazakhtelecom JSC on increase of local content in procurement of goods, works and services for 2013–2015 approved by the Company's Management Board in January 2013.

The Plan for procurement of goods, works and services for 2013 encompasses all major strategic directions of the Kazakhtelecom JSC's investment policy aimed at providing the Kazakhstani market with new advanced technologies and upgrading existing telecommunications networks.

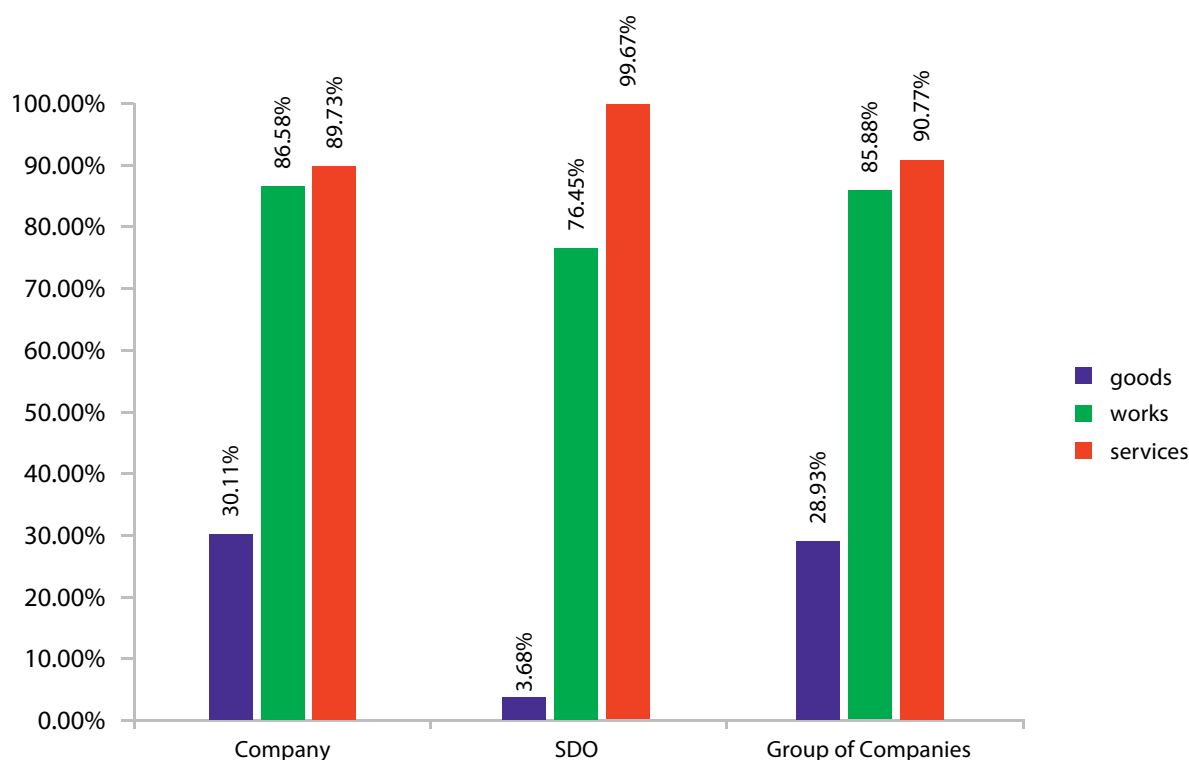
With a view to ensuring transparency of procurement process, in 2013, the Group of companies of Kazakhtelecom JSC made a shift from the procurements used to be made by way of open tender and request

for price quotation to the electronic format, with the plans of procurements for the forthcoming period as well as the information on the ongoing procurements and their results being placed on the Company's portal for electronic procurements (www.tender.sk.kz) and the corporate portal.

The Company constantly carries out monitoring of the indicators of local content in procurements by using the information system "Electronic plan for procurement and automated system of preparing reports thereon". The results of monitoring are displayed on (reflected in) the local content monitoring Card.

As of 2013, the share of local content in procurements across the Group of companies of Kazakhtelecom JSC was at 57.8% level.

LOCAL CONTENT IN PROCUREMENTS OF GOODS, WORKS AND SERVICES IN 2013



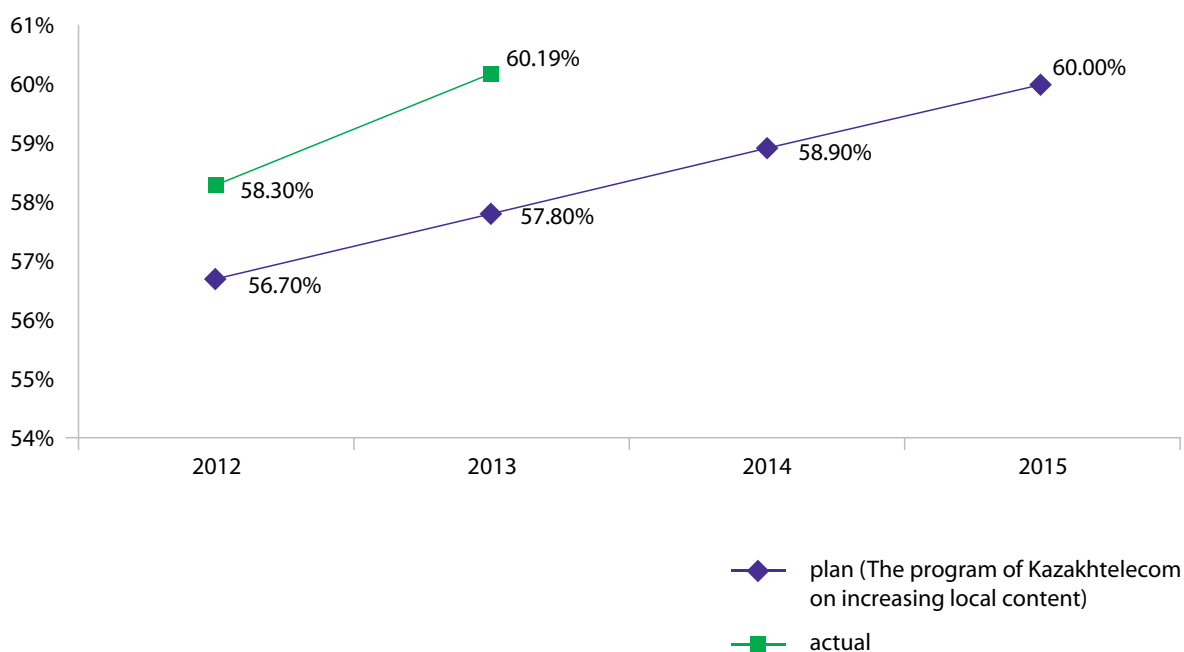
*In total, Kazakhtelecom JSC's Group concluded, in 2013, as many as **13 767 agreements** in the amount of **KZT 85.55 bln** with the Kazakhstani content making up 60.19% (goods in the amount of KZT 38.02 bln (where share of the Kazakhstani content – 28.93%), works – KZT 22.47 bln (share of the Kazakhstani content – 85.88%), services – KZT 25.06 bln (share of the Kazakhstani content – 90.77%), with the share of goods in total procurements by the group of companies making up 44.44%, share of works – 26.27%, share of services – 29.29%.*

To accomplish the indicators on local content, the Company carries out the work aimed at developing the intra-holding cooperation, giving priority to the national commodity producers when making procurements, concluding with them memorandums on cooperation and signing long term agreements on products supply.

The objective of concluding memorandums and long term agreements is to develop interrelations with the national commodity producers in the part pertaining to procurement of those goods produced in Kazakhstan. Conclusion of memorandums and long term agreements implies provision of assistance to the national commodity producers \ suppliers in development of new import-replacing goods, works and services demanded for the needs the Company. For its own part, the producer offers and supplies goods of good quality that meet technical requirements (specifications) required by Kazakhtelecom JSC.

The objective of concluding memorandums and long term agreements is to develop interrelations with the national commodity producers in the part pertaining to procurement of those goods produced in Kazakhstan.

DYNAMIC OF LOCAL CONTENT IN PROCUREMENT OF KAZKHTELECOM JSC







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

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

Effective business of subsidiaries that are well-structured in compliance with the strategic objectives of Kazakhtelecom Group ensures growth of the value of its assets

In 2013, subsidiaries and dependent organizations continued to operate in the market of ICT services in compliance with the strategic objectives of Kazakhtelecom Group.

THE STRUCTURE OF KAZAKHTELECOM GROUP: SUBSIDIARIES/DEPENDENT ORGANIZATIONS AS FOR 31.12.2013

mobile	fixed line	internet and data network	pay tv	VAS, content, applications	radio fr. and another resources
"ALTEL" JSC 100%	"VOSTOKTELECOM" LLP 100%	"Signum" LLC 100%	"DIGITAL TV" LLP 100%	"KT Cloud Lab" LLP 100%	"RadioTell" LLP 100%
	"NURSAT" JSC 77.08%				"Online.kg" LLP 100%
					"MaxCom" LLP 100%

In 2013, activities of subsidiaries were focused on achieving business objectives of Kazakhtelecom Group in key segments of ICT market of the Republic of Kazakhstan and ensuring synergy within the Group:

1) With the aim of developing mobile business a major strategic project "Introduction of LTE/GSM/UMTS networks in the Republic of Kazakhstan in 2012–2021" is being implemented. Also in 2013, MaxCom LLP was acquired with a view to forming a pool of frequencies for the LTE Project.

2) With the aim of developing the market of corporate and ICT services KT Cloud Lab LLP commissioned the ICT Center in Free Economic Zone "Park of Innovative Technologies "Alatau" with 86 racks of TIER II. The Integrated Republican Call Center of Kazakhtelecom Group was established on the basis of KT Cloud Lab LLP to service for such projects as 169, 118 and switching of loads of information and reference services of all branches of Kazakhtelecom JSC to the Company's regional platforms in Astana, Almaty and Karaganda.

3) With the aim of maintaining leading position of the Group in the Pay TV market, in 2013, Digital TV LLP, which specializes in provision of Pay TV services and occupies 15% of the Pay TV market of Kazakhstan, was acquired by Kazakhtelecom Group.

RESULTS:

- In December 2013 LTE network was put into commercial operation in 6 regions of the Republic of Kazakhstan;
- As of year-end 2013 LTE subscriber base amounted to 95 thousand active subscribers;
- At year-end 2013 company's income amounted to KZT 10.6 bln.

Perspectives:

- Broadening of geography of LTE network coverage (settlements with population from 50 thousand people and more);
- Launch of GSM network in the cities of LTE network coverage.

2012

Astana
Almaty

2013

Aktobe
Aktau
Atyrau
Karaganda
Ust-Kamenogorsk
Shymkent
Suburbs and satellite cities of
Almaty and Astana

2014

Settlements with population from
50 thousand people and more

2012

2013 Commercial launch on 20th of December



KT Cloud Lab LLP

COMPETENCE CENTER OF THE GROUP FOR PROVISION OF ICT
AND VAS SERVICES, CALL CENTER SERVICES

RESULTS:

- At year-end 2013 company's income amounted to KZT 1 211 mln;
- The Integrated Republican Call Center of Kazakhtelecom Group was established on the basis of KT Cloud Lab LLP. The company is implementing the projects on outsourcing call centers to support the Electronic Government of the Republic of Kazakhstan "Egov.kz", portal of electronic procurements of the Fund for Samruk-Kazyna Contract LLP, Customer Support of Kaspi Bank JSC and others;
- New ICT Center in Free Economic Zone "Park of Innovative Technologies "Alatau" with 86 racks of TIER II was commissioned.

PERSPECTIVES:

- Further implementation of new outsourcing call centers for the Tax Committee and others;
- As a part of intra-holding cooperation, organization of backup data centers for the companies of Samruk-Kazyna Group on the basis of the ICT Center in Free Economic Zone "Park of Innovative Technologies "Alatau".



DIGITAL TV LLP

PAY TV SERVICES

RESULTS:

- At year-end 2013 company's income amounted to KZT 3.4 bln;
- Pay TV subscriber base of the company amounted to more than 199 thousand subscribers;
- With a view to optimizing the structure of the Group Digital TV's business was integrated into the business of Kazakhtelecom JSC. Management of company's networks was transferred to Kazakhtelecom JSC and servicing of Pay TV customers was transferred to the Company's service networks.

PERSPECTIVES:

- Completion of integration of businesses of Digital TV LLP and Kazakhtelecom JSC for the development of Triple Play service (Internet + telephone + TV) for Internet and telephony subscribers of Kazakhtelecom JSC.

VOSTOKTELECOM LLP

TECHNICAL RESOURCE FOR THE DEVELOPMENT OF RURAL COMMUNICATIONS AND INSTALLATION OF TELEPHONE LINES AND INTERNET ACCESS IN RURAL SETTLEMENTS ON THE BASIS OF CDMA/EVDO-450 WIRELESS TECHNOLOGY

RESULTS:

- As of year-end 2013 technological infrastructure of the company comprised 685 base stations in 14 oblasts of the Republic of Kazakhstan, including 647 base stations with EVDO cards. This allows the company to provide telephony services to 600 thousand subscribers and broadband services to 44 thousand subscribers.

PERSPECTIVES:

- Further implementation of the project "Upgrade and development of rural telecom networks on the basis of CDMA/EVDO radio access" due to extension of the network and putting into operation of 88 new base stations.

NURSAT JSC

SATELLITE SERVICES, TELEPHONY SERVICES (TRADITIONAL IP-TELEPHONY, INTERNET ACCESS SERVICES)

RESULTS:

- At year-end 2013 company's income amounted to KZT 2.8 bln;
- Implementation of the system integration project has been started.

PERSPECTIVES:

- Further development of Sky Edge II satellite platform and provision of services on the basis of this platform, as well as implementation of the system integration project.

SIGNUM LLC

TECHNICAL NODE IN MOSCOW (RUSSIA), WHICH CONNECTS AND SERVES IPLC AND IP VPN CUSTOMER

RESULTS:

- Completion of upgrade and extension of the node at the network of long-distance domestic and international communications №9 for peering with global and Russian ISPs with increase of the node's capacity in 1 400 times;
- Active work on connection of operators to the node is being implemented jointly with Kazakhtelecom JSC.

PERSPECTIVES:

- Further work on connection of operators to the node;
- Use and extension of opportunities offered by Telepresence video conferencing service.





OUTLOOK FOR THE COMPANY'S DEVELOPMENT BUSINESS PLANS FOR 2014

OUTLOOK FOR THE COMPANY'S DEVELOPMENT BUSINESS PLANS FOR 2014

Main objective of the Company in the medium term is to maintain its leading position in the fixed business and develop the mobile business for ensuring operation as an integrated operator, as well as use synergies with the core business for concentrated development in those industries that are adjacent to the telecommunications market.

Innovative development is a priority line of Company's business. Innovations that are introduced by the Company are aimed not only at developing the range of services, but also at improving the quality of service characteristics, production processes, as well as optimization of the production infrastructure.

Availability of the advanced infrastructure, including the largest and the most high-performance backbone data network in the country, multiservice access networks, data centers, and operational personnel ensures systematic and consistent development of the Company in the ICT market.

Roadmap of the development of Company's services involves development of the following services:

Introduction of such additional services as tools for managing subscriber connections (turbo speed, static connections over IPv4 and IPv6, etc.) is caused by the need of home subscribers to manage their services.

1. FURTHER DEVELOPMENT OF FTTH-BASED BROADBAND SERVICES

The priority driver of development in the high-speed broadband market for the Company is to maximize the quality of Internet access services for subscribers. Introduction of high-speed tariff plans with the speed of more than 100 Mbps will allow the Company to make a unique offer in the market of high-speed broadband services with maximum service convergence, which would increase the average connection speed in Kazakhstan due to the greater penetration of high-speed tariff plans.

Introduction of such additional services as tools for managing subscriber connections (turbo speed, static connections over IPv4 and IPv6, etc.) is caused by the need of home subscribers to manage their services. These activities will be implemented on the basis of development of the Personal Account of broadband Internet users, which is planned to become the main sales channel, supermarket of Company's services for the whole family, which will make available both basic services and such additional and partner services as SaaS and VAS.

2. DEVELOPMENT OF CONTENT AND APPLICATION SERVICES, ICT SERVICES

IPTV platform of Pay TV and related services under iD TV brand are the important drivers of growth of Company's revenues. Technological leadership of the Company in the market of paid content will be enhanced due to the development of such business lines as 3D TV and Ultra High Definition TV (UHD TV, 4K TV).

The Company will continue to work with aggregators and providers of content to ensure maximum satisfaction of customers in content. The Company strives to become Telco 2.0, i.e. the operator with horizontal integration of services, quality assurance and penetration of Over-the-Top content, i.e. over broadband connections of subscribers. Therefore, the Company will continue development of content services with a focus on ensuring their universality (e.g. OTT TV will be available to various user terminals from smart phones to smart TVs).

Availability of services will be ensured due to the most simple, scalable and easily integrated service architecture, which is opened for partners and developers. The Company is going to integrate broadband services with online gaming platforms and develop services within the Smart House Concept, CCTV, and Service Delivery Platform.

The Company intends to become an information foundation of Kazakh business by extending the product line and providing integrated solutions that meet all ICT needs of different types of corporate customers, and transiting from a product approach to the corporate segment to the customer- and segment-oriented approach.

Development of information and communication services (including services of virtualization of computing resources on the basis of the most manageable, flexible and efficient platforms, as well as services of outsourcing of information resources, including personnel, information systems, etc.) together with traditional telecom services for business will allow the Company to provide a full portfolio of services for corporate customers and strengthen its positions in various market segments.

3. CONVERGENCE OF FIXED AND MOBILE COMMUNICATIONS

Availability of significant resources in the mobile business allows the Company to set goals for maximum convergence of fixed and mobile businesses in the medium term.

QuadPlay services that involve provision of fixed telephony, fixed Internet access, Pay TV and mobile services as a bundled service with a single account have been already launched for individuals. The Company strives to be with its subscribers not only at home but also in all places of their stay, and therefore, mobility of services is a crucial factor. Starting from 2014, the Company launched public Wi-Fi services for iD Net/ Megaline subscribers that will be available in public places all over Kazakhstan. Development of wireless Wi-Fi technologies is also aimed at ensuring availability of the Internet for business segment and unloading of networks of mobile operators that are the partners of the Company.

The corporate market is also in pleasurable anticipation of fixed and mobile convergence. The Company offers various technological solutions from fixed-mobile virtual networking (VPN) to development of fixed-mobile virtual PBX for convergence of office and mobile telephony.

4. DEVELOPMENT OF THE WHOLESALE BUSINESS

Having a developed network infrastructure throughout Kazakhstan, the Company develops its transit potential in order to maximize efficiency of its networks for the development of wholesale services.

Development of DWDM backbone data networks on the basis of the coherent detection technologies with digital filtering will allow the Company to transit traffic of up to 4 Tbps by channels of 100 Gbps across the country with a minimum latency and by optimal routes with the utmost

manageability and reliability. This is a leap forward in comparison with the previous periods of development of Company's network infrastructure.

Creation of transit services with low latency throughout the territory of the Republic of Kazakhstan to new directions (Western Europe – Iran – Pakistan – India, Western Europe – Central Asia), development of optical networks with mesh topology and joints with all neighboring countries will allow realization of Kazakhstan's transit potential.

Development of wholesale transit services for mobile operators throughout the territory of the Republic of Kazakhstan (Mobile Backhaul) will ensure connectivity of operators at the level of small towns and regional centers, as well as creation of an opportunity for penetration in the "depth" of the country to the areas with low density and remoteness from the main centers of data network concentration.

*Development of the **Content Delivery Networks (CDN)**, participation in CDN confederations with the aim of delivering popular foreign content to more than one and a half million audience of Kazakhstan is a step both to the improvement of quality and availability of the Internet content, and to the Company's opportunity to discover new business prospects and sources of revenues.*

Availability of the developed infrastructure, ability to diversify services by priority characteristics, focus on provision of end-to-end services and warranties to the end users are the keys to the success in the development of this business area.

BUSINESS PLANS FOR 2014. INVESTMENT PROGRAM FOR 2014

IN THE AREA OF FIXED COMMUNICATIONS:

- ▶ To construct 121 thousand FTTH ports as a part of the strategic project;
- ▶ To construct 14 thousand FTTH ports as a part of projects of Company's branches;
- ▶ To construct 46 thousand ADSL ports as a part of projects of Company's branches and 1 500 km of FOCL in regional areas;
- ▶ To put into commercial operation the following innovative products and bundled services:
 - Secured Internet Services;
 - Turbo Speed for iD Net Subscribers;
 - Static IPv4 Address for Megaline/iD Net subscribers;
 - Static IPv6 Address;
 - Managed Security Services Provider (MSSP);
 - Fixed-Mobile Convergence (FMC);
 - iD Net Wireless;
 - Bundled Broadband Fixed-Mobile Services.

IN THE AREA OF WHOLESALE BUSINESS:

- ▶ To construct 840 Mobile Backhaul nodes to interconnect base stations of mobile operators as a part of the strategic project;
- ▶ To launch DWDM backbone network with connectivity of 100 G-channels and total capacity of about 800 Gbps for interconnecting transit services in such directions as Russia – China and Russia – Central Asia.

IN THE AREA OF CORPORATE ICT:

- ▶ To connect 252 server racks (Rent a Rack Service) in the Data Center in Pavlodar and achieve planned use of the Data Center's capacity by 65%;
- ▶ To integrate IT systems (technical support and development of SAP in the Fund and its subsidiaries, cable networking of the Ministry of Transport and Communications of the Republic of Kazakhstan and others);
- ▶ To include iD Host's SaaS services in Megaline package;
- ▶ To launch Private Cloud Environment (virtual data center), Cloud Data Storage;
- ▶ To launch a service of information security of data center's services;
- ▶ To expand the range of services for the Fund's companies as a part of the intragroup cooperation;

- ▶ To implement the project "Automation of treasury transactions in SWF Samruk-Kazyna JSC based on the products of Misys";
 - ▶ To continue implementation of new outsourcing services and projects on the basis of the National Call Center (for the Tax Committee of the Ministry of Finance of the Republic of Kazakhstan, etc.);
 - ▶ To launch an innovative SDP platform and launch the following products on the basis of this platform:
 - Virtual Number;
 - Virtual Call Center;
 - Calls at expense of an advertiser;
 - Calls from a website;
 - Video broadcasting.
-

IN THE AREA OF CONTENT AND APPLICATIONS:

- ▶ To put into commercial operation the following innovative products:
 - iD TV HD;
 - Licensed Software Store;
 - Interactive Information Pages for iD TV;
 - iD TV Online.
-

IN THE AREA OF CORPORATE INFORMATION SYSTEMS:

- ▶ To upgrade and ensure further integration and replication in the Company's branches of key applications for accounting of network resources and billing (Smallworld, SAP, Amdocs);
- ▶ To enhance the platform of customer relationship management with regard to services and sales (Siebel CRM, Genesys CallCenter) and service-oriented platform for integration of applications (SOA).





RISKS MANAGEMENT

RISKS MANAGEMENT

Kazakhtelecom JSC introduced the Corporate Risks Management System (CRMS) which is the underlying condition for attaining strategic and operating objectives of the Company.

Maintenance of the risk management system allows the Company to efficiently manage and distribute the resources available to it in a way that makes sure the Company has acceptable level of risks and it gains maximum benefit from such resources due to identification, assessment, management and monitoring of potential risks.

The organization structure of Kazakhtelecom is built in such a way that makes all organizational levels be involved in the process of managing the Company's risks: from the Board of Directors to structural divisions represented by each employee.

The mission of the CRMS in the Company consists in building the integrated system that provides the Company's management bodies with the timely information about risks that is needed for taking the decisions that take account of risks and for distributing resources in accordance with the priorities that would ensure acceptable level of risks.

The objectives of the Company's Corporate Risk Management System are accomplished by addressing the following issues:

- ▶ formation by the Company of the adequate internal environment in which the risk management process could operate;
- ▶ identification of risks in all types of the Company's activity;
- ▶ determination of interrelation between separate risks;
- ▶ creation of the risks tracing system at the stage of appearance of negative tendency as well as the system of quick and adequate reaction directed at preventing or lessening probable negative impact of risks on key indicators of the Company's activity;
- ▶ ensuring control of the effectiveness of the risk management process.

To ensure effective functioning of CRMS, the Company carried out a significant work on introducing basic methodological documentation, with the normative and methodological documentation on risks management of the Group of companies of Kazakhtelecom JSC being under constant revision and enhancement.

The Company's risks are reflected in the Risks Register that is approved by the Management Board and updated on a regular basis. Each of the Register risk is subject to the evaluation procedure for determining the level of its probability and extent of consequences. Both internal experts of Kazakhtelecom JSC and leading world risks management consultants are involved in the risks analysis and control process. The Company has Risks Management Committee, the body of the Management Board taking decisions on the Company's key risks management issues.

The Company's strategic risks are reflected in the Long-term Group Development Strategy till 2022 approved by the Board of Directors.

The midterm Plan for Development of Kazakhtelecom Group for 2014–2018 (hereinafter – the Development Plan) contains target values of the Key Performance Indicators (KPI).

Kazakhtelecom JSC pays a special attention to the evaluation and control of both strategic and financial risks, operating and other risks affecting the achievement of strategic objectives reflected in the Long-term Strategy, and on the implementation of the target KPI values of KPI in the Development Plan.

The Company constantly monitors crucial changes in the best world risks management standards for companies operating in real economy sector. Kazakhtelecom JSC shares experience with the leading telecommunications companies that apply in practice the up-to-date risks management standards, e.g., the group of ISO 31000 standards.

In its own practice of risks management, Kazakhtelecom JSC not only follows the world risks management standards and best risks management practices of the leading telecommunications companies but also takes into account to the fullest extent possible the specifics of Kazakhtelecom JSC's activity.

In 2013, within the framework of enhancement and development of CRMS, the Company carried out the work on assessment, development and enhancement of the internal control system of Kazakhtelecom JSC. The Internal Control System of Kazakhtelecom JSC is designed to reasonably guarantee achievement by Kazakhtelecom of its objectives including the achievement of the following:

- effective activity of the Company;
- safety of assets and efficient use of the Company's resources;
- completeness, reliability and trustworthiness of financial and managerial reports (statements) of the Company;
- compliance with the requirements of the legislature of the Republic of Kazakhstan and the internal documents of the Company;
- lowering the likelihood and size of probable losses (including decline in revenues, losses, downgrading of rating of corporate governance etc.).

INFORMATION ON THE COMPANY'S RISKS

Kazakhtelecom JSC singles out the following key risks making impact on its activity.

STRATEGIC RISKS

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

- the increased competition in the Kazakhstani market as a result of liberalization of the industry, entry of Kazakhstan into the Customs Union and Common Economic Space, apparent entry (accession) of Kazakhstan to WTO, entry into the Kazakhstani market of foreign operators of fixed and mobile communications that have large investment opportunities and latest technologies;
- changes in the legislation, including those that bring about changes in the state regulation;
- unforeseen frustration of target indicators of key investment projects of the Group;
- decline in consumption of the Company's services from telecommunications operators due to intensified competition and access to the Kazakhstani market of strong international players.

FINANCIAL RISKS

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

- fluctuations of floating exchange 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.

The Company pays a special attention to the analysis and control of all its risks capable of affecting the achievement of strategic objectives and key indicators of the Development Plan approved by the Board of Directors.

Within the framework of the Corporate risks management system, for each of the risks the Company identified and approved a set of measures aimed at both eliminating risks manifestation and minimizing consequences of development of a risk.

Responsible persons are designated for each of the measures directed at managing risks, with uninterrupted follow-up and control of implementation of those measures being carried out.

The Risks Register, including data on assessment of risks and management-related measures pass a mandatory procedure of revision and actualization. When strategic objectives and Plan for development of the Company are corrected, the work on risks management is corrected accordingly.

The Company's risks management processes have a high level of automation and are integrated with strategic and operating financial planning of the Group and, an integral part of the Company's corporate governance.

Within the framework of the Corporate risks management system, for each of the risks the Company identified and approved a set of measures aimed at both eliminating risks manifestation and minimizing consequences of development of a risk.





CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE AS A FACTOR OF INVESTMENT ATTRACTIVENESS

Effective corporate governance is a tool for enhancing the Company's efficiency, strengthening its reputation and reducing expenses on attraction of capital.

Kazakhtelecom JSC considers good governance as its contribution to the rule of law of the Republic of Kazakhstan and as a factor determining its place in modern economy and society in a whole.

The principles of corporate governance set out in the Company's Code of corporate governance are directed at creating trust in the relations arising from the governance of the Company.

The major principles of the aforementioned Code are the following:

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

STRUCTURE OF CORPORATE GOVERNANCE

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

THE COMPANY'S BODIES

THE GENERAL SHAREHOLDERS' MEETING

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

BOARD OF DIRECTORS

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

MANAGEMENT BOARD

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

INTERNAL AUDIT SERVICE

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

There is the institute of Corporate Secretary in the Company to ensure effective functioning of the system of corporate governance.

Corporate Secretary is accountable to the Company's Board of Directors and ensures efficient interaction between the Company's bodies in accordance with the provisions of the Company's Charter and other internal documents, as well as advises the Company's executives of new tendencies in development of corporate governance.

Mr. B. K. Abdykalykov, Corporate Secretary of Kazakhtelecom JSC, was recognized as the Best Corporate Secretary of 2011–2012 at the III Kazakhstan Forum of Corporate Secretaries.

On January 25, 2013 at the joint meeting of the Board of Corporate Secretaries of Samruk-Kazyna JSC and Club of Corporate Secretaries of Central Asia, the Corporate Secretary of Kazakhtelecom JSC was unanimously elected to the panel of judges of the National Contest "Corporate Secretary 2013".

INFORMATION ABOUT THE POLICY OF ASSESSMENT OF THE BOARD OF DIRECTORS' PERFORMANCE

Pursuant to the international best practices, Kazakhtelecom JSC triennially assesses the performance of Kazakhtelecom JSC's Board of Directors.

In 2012, performance of the members of Kazakhtelecom JSC's Board of Directors was assessed by questionnaire study. According to the results of this assessment, all members of the Board of Directors received the highest score.

Next assessment of the Board of Directors of Kazakhtelecom JSC is scheduled for 2015.

The mission of **the Internal Audit Service (IAS)** consists in providing the Board of Directors and Management Board of the Company with necessary assistance in performing their duties aimed at achieving Company's strategic objectives.

The major objective of IAS is to provide the Company's Board of Directors with independent and objective guarantee and advice aimed at enhancing the risk management system, internal control and corporate governance in the Company.

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

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

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

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

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

In 2013, quality of the internal audit function was assessed (stage 2) and according to the results of this assessment advisers of Ernst & Young LLP / Advisory Services delivered an opinion on compliance of the Company's IAS with the Definition of Internal Audit, Code of Ethics, and International Standards for the Professional Practice of Internal Auditing. The level of compliance was determined as **"generally compliant" (the highest possible level)**.

Kazakhtelecom JSC is the first company in Samruk-Kazyna Group, which received the opinion of full compliance with the International Standards for the Professional Practice of Internal Auditing as a result of external assessment of IAS activity, and one of the first companies generally in the whole country.

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 Management Board.

One of the key positive aspects of the results of corporate governance assessment held in 2013 is the enhancement of internal audit. Last year the Company implemented a number of measures to improve activities of Company's IAS in respect of composition, procedural aspects, equipping, etc.

Information Policy of Kazakhtelecom JSC is based on the principles of transparency and objectivity in disclosing the information about the Company set forth in the Corporate Governance Code.

Information Policy determines major principles and general requirements to the disclosure of information on 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 major principles and general requirements to the protection of information that constitutes the Company's business, commercial and other secret protected by the law. The Policy is aimed at raising the level of awareness of the public, both within and outside Kazakhstan, of the Company's activity which tends to contribute to formation of a favorable image of the Company and strengthen investors' and public's confidence in the Company.

To make sure that the Company's shareholders have the opportunity to make reasonable decisions and with a view to informing the public of the Company's activity, Kazakhtelecom JSC ensures timely disclosure of credible information on the Company, including information on the Company's financial position, economic indicators, performance results, ownership and management structure.

When disclosing and/or releasing any information, provisions of the laws of the Republic of Kazakhstan on commercial and other secrets protected by the law, as well as the requirements of the Company's internal documents are taken into account.

With a view to implementing the Information Policy the Company:

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

Dividend Policy. On January 18, 2013, the extraordinary General Shareholders' Meeting of Kazakhtelecom JSC approved a new wording of the Regulations on Dividend Policy. In December 2013, the Regulations on Dividend Policy were amended and supplemented in accordance with the decision of the extraordinary General Shareholders' Meeting.

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

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

Following the decision of the annual General Shareholders' Meeting dated 20.05.2013, in 2013, the dividends at the end of Q2-4 2012 were distributed in the amount of KZT 161.03 per share.

The extraordinary General Shareholders' Meeting on 27.12.2013 decided to pay out dividends at the first half-year end 2013 and a part of retained earnings of prior years in the amount of KZT 2 603.90 per share.

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

Kazakhtelecom JSC is the leader in terms of the corporate governance rating among subsidiaries of Samruk-Kazyna JSC in 2013.

In 2013, corporate governance of Kazakhtelecom was scrutinized by PricewaterhouseCoopers LLP in accordance with the Method of diagnostic of corporate governance in the companies of Samruk-Kazyna Group. According to the results of this diagnostic the level of corporate governance in Kazakhtelecom JSC is 80.2%.

Kazakhtelecom JSC is a leader in terms of the Corporate Governance Rating among subsidiaries of Samruk-Kazyna JSC that held diagnostic of corporate governance in 2013.

COMPLIANCE OF THE LEVEL OF CORPORATE GOVERNANCE WITH THE REQUIREMENTS OF BEST PRACTICES

Maximum – 100%	80.2%
Components	
Structure	77.3%
Processes	76.2%
Transparency	86.6%

KEY POSITIVE ASPECTS

- ▶ enhancement of the effectiveness of the Board of Directors. Meetings of the Board of Directors are held on a regular basis and mainly with personal attendance and active participation of all members. Strengthening the role of the Board of Directors in making key decisions and active involvement of independent directors and representatives of minority shareholders in discussion of key issues;
- ▶ active work of the Committees of the Board of Directors; anticipatory and detailed discussion of all issues in the Committees. Representatives of minority shareholders and independent directors often give difficult tasks to the executive management;
- ▶ highly efficient centralized Internal Audit Service (IAS). IAS reports directly to the Chairman of the Committee for Audit and independent director and actively works under a number of key issues for the Board of Directors;
- ▶ the structure of remuneration of Company's management is transparent, formalized in internal documents and directly dependent on the performance of the Company;
- ▶ the Company publicly discloses substantial part of the information on its activities stipulated by the best practices, including the policies and amount of remuneration of members of the Board of Directors;
- ▶ the risk management system is successfully implemented and fully integrated into all key business processes.

THE BOARD OF DIRECTORS' COMPOSITION (INFORMATION ABOUT MEMBERS OF BD)

The 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.

Members of the Board of Directors are elected by an annual General Shareholders' Meeting and reelected by an extraordinary General Shareholders' Meeting in the event of early termination of terms of reference. Members of the Board of Directors are elected by the shareholders by using cumulative voting.

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

- 1) shareholders – natural persons;
- 2) the persons proposed for election to the Board of Directors as the shareholders' representatives;
- 3) the natural persons who are not the Company's shareholder and not proposed (not recommended) for election to the Board of Directors of the Company as the shareholder's representative.

Candidates to the position of a member of the Board of Directors must possess relevant experience of work, knowledge, qualification, positive achievements necessary for performing his\her duties, and stainless reputation in business and industry (branch) environment and for organizing effective operation of the Board of Directors in a whole in the interests of the shareholders and the Company.

The Board of Directors is comprised of 9 members each having the right for one vote. Transfer of votes by one member of the Board of Director to another member of the Board of Directors is prohibited.

The Board of Directors of Kazakhtelecom JSC in the current composition was elected on May 8, 2012 at the annual General Shareholders' Meeting of Kazakhtelecom JSC (Protocol № 47).

Mr. Baidauletov Nurzhan is the Chairman of the Board of Directors of Kazakhtelecom JSC, elected by the decision of the Board of Directors of Kazakhtelecom JSC on May 18, 2012 (Protocol № 7). Pursuant to item 1 article 36 of the Kazakhtelecom JSC's Charter, Chairman of the Company's Management Board ex officio should not be member of the Board of Directors.

Candidates to the position of a member of the Board of Directors must possess relevant experience of work, knowledge, qualification, positive achievements necessary for performing his\her duties, and stainless reputation in business and industry (branch) environment and for organizing effective operation of the Board of Directors in a whole in the interests of the shareholders and the Company.

COMPOSITION OF THE BOARD OF DIRECTORS OF KAZAKHTELECOM JSC (AS OF 31.12.2013)

Baidauletov Nurzhan –

Chairman of the Board of Directors, representative of Samruk-Kazyna JSC, the Company's shareholder.

Yessekeyev Kuanyshbek –

Chairman of the Kazakhtelecom JSC's Management Board.

Nurieva Aigul –

representative of Bodam B.V., the Company's shareholder.

Sarsenov Adilbek –

representative of Bodam B.V., the Company's shareholder, Chairman of the Committee for Strategic Planning.

Saudabaev Serik –

representative of Samruk-Kazyna JSC, the Company's shareholder, member of the Committee for Strategic Planning.

Akentieva Natalia –

Independent Director, Chairwoman of the Committee for Social Issues, member of the Committee for Audit, member of the Committee for Appointments and Remunerations.

Kuchura Vitaliy –

Independent Director, member of the Committee for Appointments and Remunerations, Member of the Committee for Strategic Planning, member of the Committee for Social Issues.

Larionov Dmitriy –

Independent Director, Chairman of the Committee for Audit, member of the Committee for Appointments and Remunerations, member of the Committee for Strategic Planning, member of the Committee for Social Issues.

Okaev Ermek –

Independent Director, Chairman of the Committee for Appointments and Remunerations, member of the Committee for Audit, member of the Committee for Social Issues.

INFORMATION ABOUT THE MEMBERS OF KAZAKHTELECOM JSC'S BOARD OF DIRECTORS

NURZHAN BAIDAULETOV

Date of birth:	September 01, 1960
Citizenship:	The Republic of Kazakhstan
Date of the first election to the Board of Directors:	May 08, 2012
Date of the current election to the Board of Directors:	May 08, 2012
Status:	Chairman of the Board of Directors Representative of Samruk-Kazyna JSC (5 570 668 ordinary voting shares)
Share ownership:	none
Education:	
09.1977 – 06.1986	The Moscow Institute of Railway Engineering Qualification: Management of Railway Transportation Processes
Places of employment and positions occupied over the last five years:	
22.12.2006 – 21.09.2008	Samruk Holding JSC Director for Transport and Industrial Assets Management
22.09.2008 – 26.11.2008	Samruk Holding JSC Managing Director
27.11.2008 – till present	Samruk-Kazyna JSC Managing Director
24.01.2012 – till present	KTZ NC JSC Chairman of the Board of Directors
26.12.2008 – till present	Air Astana JSC Chairman of the Board of Directors

KUANYSHBEK YESSEKEYEV

Date of birth:	June 10, 1975
Citizenship:	The Republic of Kazakhstan
Date of the first election to the Board of Directors:	December 16, 2006
Date of the current election to the Board of Directors:	May 08, 2012
Status:	Member of the Board of Directors Chairman of the Management Board of Kazakhtelecom JSC
Share ownership:	none
Education:	
1991 – 1995	The Kazakh State University named after Al-Farabi Qualification: applied mathematics, Candidate of Mathematical sciences
2001 – 2002	The Kazakh State Academy of Management Qualification: management
Places of employment and positions occupied over the last five years:	
23.02.2007 – 15.03.2010	The Agency of the Republic of Kazakhstan for Informatization and Communications Chairman
15.03.2010 – till present	Kazakhtelecom JSC Chairman of the Management Board, member of the Board of Directors

AIGUL NURIEVA

Date of birth:	August 13, 1974
Citizenship:	The Republic of Kazakhstan
Date of the first election to the Board of Directors:	April 14, 2006
Date of the current election to the Board of Directors:	May 08, 2012
Status:	Member of the Board of Directors Representative of Kazakhtelecom JSC's shareholder - Bodam B.V. (1 842 725 ordinary voting shares)
Share ownership:	none
Education:	
1991 – 1995	The Kazakh State Academy of Management. Qualification: Finance and Credit Department Holder of the president scholarship "Bolashak"
1994 – 1995	Indiana University, Bloomington, IN, USA, School of Business Courses in economics, investments, accounting
1995 – 1997	Michigan State University, East Lansing, MI, USA, The Eli Broad Graduate School of Management, MBA, Finance and Management Information Systems
Places of employment and positions occupied over the last five years:	
04.11.2002 – 02.07.2008	Credit Suisse Advisor
22.04.2005 – 24.02.2009	Midas Capital LLP Director General
10.06.2005 – 13.09.2012	Bodam B.V. Director
11.07.2008 – till present	Alnair Capital Holding JSC Managing Director
25.02.2009 – till present	Alnair Capital LLP Managing Director

ADILBEK SARSENOV

Date of birth:	August 28, 1973
Citizenship:	The Republic of Kazakhstan
Date of the first election to the Board of Directors:	December 24, 2007
Date of the current election to the Board of Directors:	May 08, 2012
Status:	Member of the Board of Directors Representative of Kazakhtelecom JSC's shareholder – Bodam B.V. (1 842 725 ordinary voting shares) Chairman of the Committee for Strategic Planning
Share ownership:	none
Education:	
1991 – 1996	The Almaty Institute of Power Engineering. Qualification: radio engineering
2005 – 2006	International Business School (Cambridge, USA) under the Bolashak scholarship, MBA program. General management in international companies
Places of employment and positions occupied over the last five years:	
19.10.2007 – 30.07.2010	Kazakhstan Holding for Management of State Assets "Samruk" JSC Director of the Telecommunication Assets Management Group
25.09.2008 – 30.07.2010	National Information and Communication Holding "Zerde" JSC Chairman of the Management Board
06.11.2008 – till present	Member of the Board of Directors
06.11.2008 – 06.09.2010	National Information Technologies JSC Member of the Board of Directors
09.12.2008 – 06.09.2010	National Company "Kazsatnet" JSC Chairman of the Board of Directors
01.08.2010 – till present	Amun Capital Advisors KZ LLP Director for Telecommunication Assets Management
10.12.2010 – till present	Television Broadcaster ERA Member of the Supervisory Board

SERIK SAUDABAEV

Date of birth:	December 8, 1977
Citizenship:	The Republic of Kazakhstan
Date of the first election to the Board of Directors:	July 12, 2010
Date of the current election to the Board of Directors:	May 08, 2012
Status:	Member of the Board of Directors Representative of Kazakhtelecom JSC's shareholder – "Samruk – Kazyna" JSC (5 570 668 ordinary voting shares) Member of the Committee for Strategic Planning
Share ownership:	none
Education:	
1995 – 1999	The Almaty State University named after Abai Qualification: lawyer
2004 – 2006	The Kazakh University of Economics named after T. Ryskulov Qualification: bachelor of economics
Places of employment and positions occupied over the last five years:	
14.08.2007 – 16.04.2008	Kazakhtelecom JSC Deputy Head of the Legal Department
17.04.2008 – 18.05.2010	Corporate Secretary
17.06.2010 – till present	"Samruk – Kazyna" JSC Director for Telecommunication Assets Management
13.08.2010 – as for 31.12.2013	Kazpochta JSC Member of the Board of Directors

NATALIA AKENTIEVA

Date of birth:	January 2, 1974
Citizenship:	The Republic of Kazakhstan
Date of the first election to the Board of Directors:	March 12, 2010
Date of the current election to the Board of Directors:	May 08, 2012
Status:	Independent Director Chairman of the Committee for Social Affairs Member of the Committee for Audit Member of the Committee for Appointments and Remunerations
Share ownership:	50% participating interest in Glavvinoproduct LTD
Criteria of independence	In compliance with the criteria stipulated in sub-item 20 of article 1 of the Law of the Republic of Kazakhstan "On joint stock companies"
Education:	
1991 – 1994	The Kazakh State University Qualification: International Economic Relations
1991 – 1995	The Kazakh State Academy of Management Qualification: Finance and Credit Department
1998 – 2001	The Kazakh State Academy of Law Qualification: Jurisprudence
Places of employment and positions occupied over the last five years:	
19.01.2003 – 07.08.2008	ABN AMRO Bank Kazakhstan/RBC Kazakhstan Deputy Chairman of the Management Board
07.08.2008 – 01.03.2010	Member of the Management Board, Head of the Corporate Customers Department
01.03.2010 – 18.07.2013	Ivolga-Holding LLP Deputy Director General for Corporate Development
19.07.2013 – as for 31.12.2013	Yug Trade LLP Director

VITALIY KUCHURA

Date of birth:	February 28, 1970
Citizenship:	The Republic of Kazakhstan
Date of the first election to the Board of Directors:	November 6, 2009
Date of the current election to the Board of Directors:	May 08, 2012
Status:	Independent Director Member of the Committee for Appointments and Remunerations Member of the Committee for Strategic Planning Member of the Committee for Social Affairs
Share ownership:	none
Criteria of independence	In compliance with the criteria stipulated in sub-item 20 of article 1 of the Law of the Republic of Kazakhstan "On joint stock companies"
Education:	
1989 – 1997	The Almaty Institute of Power Engineering and Communications Qualification: telecommunication engineer
Places of employment and positions occupied over the last five years:	
10.10.2005 – till present	ACME Investment Advisory Ltd (Great Britain) (Moscow, Russia) Head of the Representative Office
11.07.2006 – till present	Director

DMITRIY LARIONOV

Date of birth:	November 22, 1973
Citizenship:	The Republic of Kazakhstan
Date of the first election to the Board of Directors:	September 29, 2008
Date of the current election to the Board of Directors:	May 08, 2012
Status:	Independent Director Chairman of the Committee for Audit Member of the Committee for Appointments and Remunerations Member of the Committee for Strategic Planning Member of the Committee for Social Affairs
Share ownership:	none
Criteria of independence	In compliance with the criteria stipulated in sub-item 20 of article 1 of the Law of the Republic of Kazakhstan "On joint stock companies"
Education:	
1991 – 1995	The Kazakh State University of International Relations and World Languages Qualification: translator–consultant (English)
1997 – 1999	The Kazakh Institute of Management, Economics and Strategic Research (KIMEP), Master of Business Administration (MBA) in Accounting and Finance
2007 – till present	The Kazakh Institute of Management, Economics and Strategic Research (KIMEP), Doctorate Doctor of Business Administration in Accounting
Places of employment and positions occupied over the last five years:	
08.08.2005 – till present	BDO Kazakhstan audit Partner
30.04.2008 – till present	Air Astana JSC Independent Director, member of the Board of Directors, Chairman of the Committee for Audit, Chairman of the Committee for Appointments, Member of the Committee for Remuneration
01.01.2008 – 31.12.2010	The International Federation of Accountants, USA Professional Organization Member of the Committee for Developing Nations
28.05.2009 – till present	The advisory body for accounting and auditing issues of the Ministry of Finance of the Republic of Kazakhstan Member of the advisory body on behalf of the professional organization
07.05.2003 – 17.09.2010	"The Chamber of Professional Accountants of the Republic of Kazakhstan" PJSC Professional Organization Deputy Chairman, member of the Council
03.12.2013 – till present	National Company "Astana Expo 2017" JSC Independent Director

ERMEK OKAEV

Date of birth:	July 30, 1960
Citizenship:	The Republic of Kazakhstan
Date of the first election to the Board of Directors:	May 29, 2006
Date of the current election to the Board of Directors:	May 08, 2012
Status:	Independent Director Chairman of the Committee for Appointments and Remunerations Member of the Committee for Audit Member of the Committee for Social Affairs
Share ownership:	none
Criteria of independence	In compliance with the criteria stipulated in sub-item 20 of article 1 of the Law of the Republic of Kazakhstan "On joint stock companies"
Education:	
1977 – 1982	The Moscow State University named after Lomonosov, Moscow, economist
1984 – 1987	The Institute of Economics of the Academy of Science of Kaz SSR, Candidate of Economic Sciences (PhD)
1990 – 1991	The Academy of Economics of the Council of Ministers of USSR, Moscow, management specialist
1991	Tokyo Business School, MBA
Vocational training:	visiting on annual basis expositions, conferences, courses on direct and electronic marketing, on distribution of publishing products and on post technologies, mobile and electronic technologies of content communication, on marketing in the field of B2B, on information architecture, on strategic management in London, Boston, Hanover, Berlin, Dubai, Barcelona.
Places of employment and positions occupied over the last five years:	
11.09.1992 – 28.09.2010	Kazfintrade LLP Director
08.08.2007 – till present	Ecoton LLP Director General
06.10.2005 – 01.10.2009	The Publishing House BIKO LLP Director General
01.10.2009 – till present	Deputy Director General
01.10.2003 – 01.10.2009	BIKO LLP Director General
01.10.2009 – 21.05.2010	Deputy Director General
21.05.2010 – till present	Director General

In 2013, there were 4 independent directors in the composition of Kazakhtelecom JSC's Board of Directors who fully complied with the requirements of the law of the Republic of Kazakhstan "On joint stock companies" applied to the notion "independent director".

Pursuant to item 5 article 54 of the Law of the Republic of Kazakhstan "On joint stock companies", the number of independent directors in the composition of a joint stock company's board of directors should be not less than 30%. Kazakhtelecom JSC does comply with this requirement with the minimum threshold making up 44%.

MAJOR ISSUES CONSIDERED BY THE BOARD OF DIRECTORS IN 2013

In 2013, the Company's Board of Directors held 13 meetings in total, including 9 in-person meetings and 4 meetings in absentia. At the in-person meetings the Board of Directors adopted decisions on 75 issues, at the meetings in absentia – on 16 issues.

The list of major issues approved by the Board of Directors in 2013:

- On approval of the motivational KPIs for executives of Kazakhtelecom JSC for 2013;
- On approval of the Risk Management Policy of Kazakhtelecom JSC;
- On approval of the Rules of development, agreement, approval, adjustment, implementation and monitoring of implementation of the Development Plan of Kazakhtelecom JSC;
- On approval of the limits for the certain types of expenses and availability standards of Kazakhtelecom JSC ;
- On approval of the Action Plan for improvement of the corporate governance system of Kazakhtelecom JSC for 2013;
- On approval of the Corporate Accounting Policy of Kazakhtelecom JSC in new wording;
- On preliminary approval of the annual financial statements of Kazakhtelecom JSC for 2012;
- On proposal to the annual General Shareholders' Meeting of Kazakhtelecom JSC with regard to the procedure of distribution of the net income of Kazakhtelecom JSC for Q2-4 2012 and the amount of dividends at the end of Q2-4 2012 per ordinary share;
- On approval of the Report of Kazakhtelecom JSC in the field of corporate social responsibility for 2012;
- On establishment of the Committee for Social Affairs of the Board of Directors of Kazakhtelecom JSC;
- On approval of the Rules and Regulations of the General Shareholders' Meeting of Kazakhtelecom JSC;
- On approval of the Innovation and Technology Strategy of Kazakhtelecom Group till 2022;
- On approval of the Rules of Internal Control over Disposal and Use of Insider Information of Kazakhtelecom JSC and amendments and additions to some internal documents of Kazakhtelecom JSC;
- On approval of the Development Plan of Kazakhtelecom JSC for 2014-2018.

PARTICIPATION OF MEMBERS OF THE BOARD OF DIRECTORS IN THE BOARD OF DIRECTORS' MEETINGS IN 2013:

N. Baidautov, K. Yessekeyev, A. Sarsenov, S. Saudabaev, D. Larionov – 100% participation in the Board of Director's meetings;
A. Nurieva, N. Akentieva, V. Kuchura, E. Okaev – participation in the Board of Director's meetings makes up 92.3% (were absent at the 1st meeting for a good and valid reason).

With a view to ensuring effective performance of the functions of the Company's Board of Directors, the Committee for Strategic Planning, Committee for Audit, Committee for Appointments and Remunerations are established and actively operating in the Company. Furthermore, in accordance with Article 53-1 of the Law of the Republic of Kazakhstan "On Joint Stock Companies" the Committee for Social Affairs was established in the Company in June 2013 (Minutes of the Board of Directors №7) to consider the most important issues and make recommendations to the Board of Directors.

Committees of the Board of Directors are chaired by independent directors.

COMMITTEES OF THE BOARD OF DIRECTORS OF KAZAKHTELECOM JSC

COMMITTEE FOR STRATEGIC PLANNING

CHAIRMAN: Mr. A. Sarsenov (representative of the Company's shareholder – Bodam B.V.)

Members: Mr. V. Kuchura, Mr. D. Larionov (Independent Directors of Kazakhtelecom JSC)
Mr. S. Saudabaev (representative of the Company's shareholder – Samruk-Kazyna JSC)

COMMITTEE FOR AUDIT

CHAIRMAN: Mr. D. Larionov (Independent Director of Kazakhtelecom JSC)

Members: Ms. N. Akentieva, Mr. E. Okaev (Independent Directors of Kazakhtelecom JSC)

COMMITTEE FOR APPOINTMENTS AND REMUNERATIONS

CHAIRMAN: Mr. E. Okaev (Independent Director of Kazakhtelecom JSC)

Members: Ms. N. Akentieva, Mr. V. Kuchura, Mr. D. Larionov (Independent Directors of Kazakhtelecom JSC)

COMMITTEE FOR SOCIAL AFFAIRS

CHAIRWOMAN: Ms. N. Akentieva (Independent Director of Kazakhtelecom JSC)

Members: Mr. V. Kuchura, Mr. D. Larionov, Mr. E. Okaev (Independent Directors of Kazakhtelecom JSC)

The Committee for Strategic Planning makes recommendations to the Board of Directors on the issues on determination of the priority activities and development strategy of the Company, including issues on elaboration of measures that ensure improvement of the Company's efficiency in the long term.

In 2013, the Committee for Strategic Planning held 4 in-person meetings. The Committee considered 8 issues and made relevant recommendations to the Company's Board of Directors, in particular, regarding the following main issues:

- ▶ On approval of the Annual Schedule of Meetings of the Committee for Strategic Planning of the Board of Directors of Kazakhtelecom JSC;
- ▶ Consideration of information on the history of changes in the credit ratings and measures taken to improve the negative factors;
- ▶ On approval of the Rules of development, agreement, approval, adjustment, implementation and monitoring of implementation of the Development Plan of Kazakhtelecom JSC;
- ▶ On approval of the adjustments to the Development Plan of Kazakhtelecom JSC for 2011–2015 and some issues on DIGITAL TV LLP;
- ▶ Consideration of the Corrective Action Plan to improve the credit rating of Kazakhtelecom JSC;
- ▶ On approval of the Innovation and Technology Strategy of Kazakhtelecom Group till 2022;
- ▶ Consideration of the draft Development Plan of Kazakhtelecom JSC for 2014–2018;
- ▶ On approval of the Action Plan of the Committee for Strategic Planning of the Board of Directors of Kazakhtelecom JSC for 2014.

Participation in the meetings of the Committee for Strategic Planning:

Mr. A. Sarsenov – 100% participation in the Committee's meetings;

Mr. V. Kuchura – 100% participation in the Committee's meetings;

Mr. D. Larionov – 100% participation in the Committee's meetings;

Mr. S. Saudabaev – 100% participation in the Committee's meetings.

According to the Regulations on the Committee for Strategic Planning the Chairman of the Committee invited the following persons to the meetings in the capacity of observers and for delivery of information on the issues of the meeting's agenda:

- members of the Board of Directors and Management Board;
- Head of the Internal Audit Service and other representatives of the Company;
- Partners Ernst & Young LLP.

The Committee for Audit acts in the interests of the Company's shareholders, thoroughly supervises the audit process, regularly interacts with the Internal Audit Service and holds meetings with the external auditor and representatives of companies that provide auditing and consulting services.

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

In 2013, the Committee for Audit held 10 in-person meetings. The Committee considered 49 issues and made relevant recommendations to the Company's Board of Directors, in particular, regarding the following main issues:

- On amendments and additions to the internal documents of Kazakhtelecom JSC with regard to the internal audit issues;
- On determination of a single audit firm for 2013–2015 for auditing the consolidated financial statements of Kazakhtelecom JSC and NURSAT JSC and financial statements of ALTEL JSC;
- Consideration of the quarterly report on claims received with regard to implementation of the Policy of Kazakhtelecom JSC on organization of the Hotline for informing about unethical/illegal actions against stakeholders;
- On preliminary approval of the annual financial statements of Kazakhtelecom JSC for 2012, meeting with the independent auditor Ernst & Young LLP;
- On approval of the Corporate Accounting Policy of Kazakhtelecom JSC in new wording;
- Consideration of the report on implementation of recommendations of KPMG Tax and Advisory LLP within the framework of independent assessment of the Risk Management System of Kazakhtelecom JSC;
- Consideration of the Risk Management Report of Kazakhtelecom JSC;
- On approval of the draft Report of Kazakhtelecom JSC in the field of corporate social responsibility for 2012;
- On approval of amendments and additions to the Regulations on the Committee for Audit of the Board of Directors of Kazakhtelecom JSC;
- On approval of increase of the scope of audit services with regard to the separate financial statements of Kazakhtelecom JSC and NURSAT JSC for 2012;
- On consideration of internal documents of the Internal Audit Service;

- Consideration of the Report of PricewaterhouseCoopers on compliance of the level of corporate governance based on the results of diagnostics of the corporate governance system in accordance with the methodology of Samruk- Kazyna JSC;
- On approval of increase of the scope of audit services for 2013-2015;
- On establishment of the Internal Control Departments (ICD) in branches and business units of the Company;
- Consideration of the Report of Ernst & Young LLP / Advisory Services on the results of activities on documentation and identification of opportunities for improvement of the internal control system;
- On approval of the Action Plan of the Committee for Audit of the Board of Directors of Kazakhtelecom JSC for 2014.

Participation in the meetings of the Committee for Audit in 2013:

Mr. D. Larionov – 100% participation in the Committee's meetings;

Ms. N. Akentieva – 100% participation in the Committee's meetings;

Mr. E. Okaev – 100% participation in the Committee's meetings.

It should be noted that in accordance with the international best practice in the area of corporate governance, the highest qualification of the Chairman of the Committee for Audit in the area of audit and finances is among the main positive factors.

The Chairman and members of the Committee for Audit of the Board of Directors of Kazakhtelecom JSC due to their qualification and professional experience performed a large amount of work that has made a significant contribution to the activity of the Board of Directors of Kazakhtelecom JSC and the Company as a whole, addressing the issues of financial, economic and investment planning, audit, risks, etc.

The Committee for Appointments and Remunerations makes recommendations to the Board of Directors on appointments to the Board of Directors, appointments of executives of subsidiaries and affiliates, and other executives in accordance with the List of Executive Employees, as well as recommendations on the issues on motivation and remuneration of employees and executives of the Company.

In 2013, the Committee for Appointments and Remunerations held 10 in-person meetings. The Committee considered 27 issues and made relevant recommendations to the Company's Board of Directors, in particular, regarding the following main issues:

– On approval of the Annual Schedule of Meetings of the Committee for Appointments and Remunerations of the Board of Directors of Kazakhtelecom JSC for 2013;

– On consideration of candidates for election to the Company's Management Board for another term, Directors General of MaxCom LLP and Vostoktelecom LLP, Director of Radio Tell LLP, Chairman of the Management Board of ALTEL JSC, members of the Board of Directors of ALTEL JSC and NURSAT JSC;

– On consideration of the draft Policy of Remuneration of Independent Members of the Board of Directors of ALTEL JSC and NURSAT JSC;

– On approval of the Map of Key Performance Indicators (KPIs) with the targets for executives and Head of the Internal Audit Service of Kazakhtelecom JSC for 2013;

– Method of settlement of key performance indicators (KPI) for executives and Head of the Internal Audit Service of Kazakhtelecom JSC;

– Review of the draft Policy of involvement in Kazakhtelecom Group of highly qualified professionals with experience in foreign companies;

– On approval of the Matrix of Substitution of Key Positions of Kazakhtelecom JSC for 2013–2015 (Succession Plan);

– Consideration of the draft Regulations on the Board of Directors, Regulations on Independent Directors and Policy of Remuneration of Independent Directors of NURSAT JSC and ALTEL JSC;

– Meeting of the Committee for Appointments and Remunerations of the Board of Directors of Kazakhtelecom JSC with members of the Company's personnel pool;

– On approval of the Action Plan of the Committee for Appointments and Remunerations of the Board of Directors of Kazakhtelecom JSC for 2014.

Participation in the meetings of the Committee for Appointments and Remunerations in 2013:

Mr. E. Okaev – 100% participation in the Committee's meetings;

Ms. N. Akentieva – 100% participation in the Committee's meetings;

Mr. V. Kuchura – 100% participation in the Committee's meetings;

Mr. D. Larionov – 100% participation in the Committee's meetings.

According to the Regulations on the Committee for Appointments and Remunerations the Chairman of the Committee invited the following persons to the meetings in the capacity of observers and for delivery of information on the issues of the meeting's agenda:

- members of the Board of Directors, Management Board and Committees;

- Head of the Internal Audit Service and other representatives of the Company;

- candidates for the executive positions in accordance with the List of Executive Employees.

Main objective of the **Committee for Social Affairs** is to make recommendations to the Board of Directors for adoption of decisions on the following issues:

- 1) social support of Company's employees;
- 2) sponsorship and charity;
- 3) making recommendations to the Board of Directors on other issues within its competence in accordance with the instructions of the Board of Directors and/or provisions of the Company's internal documents.

In 2013, the Committee for Social Affairs held 2 in-person meetings. The Committee considered 4 issues, including:

- ▶ On approval of the Schedule of Meetings of the Committee for Social Affairs of the Board of Directors of Kazakhtelecom JSC for the second half of 2013;
- ▶ Hearing of the Company's Management Board on the issues of social support of Kazakhtelecom JSC's employees;
- ▶ On approval of the Action Plan of the Committee for Social Affairs of the Board of Directors of Kazakhtelecom JSC for 2014.

Participation in the meetings of the Committee for Social Affairs in 2013:

Ms. N. Akentieva – 100% participation in the Committee's meetings;

Mr. V. Kuchura – 100% participation in the Committee's meetings;

Mr. D. Larionov – 100% participation in the Committee's meetings;

Mr. E. Okaev – 100% participation in the Committee's meetings.

According to the Regulations on the Committee for Social Affairs the Chairman of the Committee invited members of the Company's Management Board and other representatives of the Company to the meetings in the capacity of observers and for delivery of information on the issues of the meeting's agenda.

When assessing the operation of the Committees it should be noted that the Committees of Kazakhtelecom JSC's Board of Directors during performance of their duties act in the Company's interests, in good faith and in a reasonable manner.

Thus in the reporting period the Committees of Kazakhtelecom JSC's Board of Directors accomplished all tasks and objectives stipulated in the Company's Corporate Governance Code, respective Regulations on the Committees, decisions of the Company's Board of Directors, instructions of the Board of Directors and Action Plans of the Committees for 2013.

INFORMATION ON REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS

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

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

1. The annual fixed remuneration of each independent director of Kazakhtelecom JSC is determined as follows:

– for non-residents of the Republic of Kazakhstan – USD 45 000,

– for residents of the Republic of Kazakhstan – KZT 6 660 000.

2. The amount of additional remuneration of each independent member of the Board of Directors of Kazakhtelecom JSC for participation in each in-person meeting of the Committees of the Board of Directors, as well as in the meetings held via TV and video conferencing is determined as follows:

– for non-residents of the Republic of Kazakhstan 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 FOR 2013

№	Name	Amount of annual remuneration	Amount of additional remuneration for participation in each in-person meeting of the Committees	Total
1	N. Akentieva	KZT 6 660 000	KZT 1 650 000	KZT 8 310 000
2	V. Kuchura	USD 45 000	USD 8 000	USD 53 000
3	D. Larionov	KZT 6 660 000	KZT 1 950 000	KZT 8 610 000
4	E. Okaev	KZT 6 660 000	KZT 1 650 000	KZT 8 310 000



The Management Board's composition (information about members of the Management Board)

The Management Board is the Company's collegial executive body, which is in charge of the Company's operating activities with a view to meeting the objectives and implementing the strategy of the Company. Activity of the Management Board is based on the principle of the utmost protection of interests of Company's shareholders and is fully accountable to the resolutions of the General Shareholders' Meeting and decisions of the Board of Directors.

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

Composition of the Management Board (as of 31.12.2013)

MR. KUANYSHBEK YESSEKEYEV

DATE OF BIRTH: 1975

DATE OF THE FIRST ELECTION TO THE MANAGEMENT BOARD OF KAZAKHTELECOM JSC: MARCH 15, 2010

DATE OF THE CURRENT ELECTION TO THE MANAGEMENT BOARD OF KAZAKHTELECOM JSC: MARCH 15, 2013

STATUS: MEMBER OF THE BOARD OF DIRECTORS, CHAIRMAN OF THE MANAGEMENT BOARD OF KAZAKHTELECOM JSC

EDUCATION: HIGHER, CANDIDATE OF MATHEMATICAL SCIENCES

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

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

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

23.02.2007 – 15.03.2010

The Agency of the Republic of Kazakhstan for
Informatization and Communications
Chairman

15.03.2010 – till present

Kazakhtelecom JSC
Chairman of the Management Board, member of the Board of Directors

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

Chairman of the Board of Directors of ALTEL JSC

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



MR. MARAT ABDILDABEKOV

DATE OF BIRTH: 1967

DATE OF THE FIRST ELECTION TO THE MANAGEMENT BOARD OF KAZAKHTELECOM JSC: 08.06.2007

DATE OF THE CURRENT ELECTION TO THE MANAGEMENT BOARD OF KAZAKHTELECOM JSC: 03.06.2013

STATUS: MEMBER OF THE MANAGEMENT BOARD OF KAZAKHTELECOM JSC, CHIEF INFORMATION OFFICER OF KAZAKHTELECOM JSC

EDUCATION: HIGHER

1984 – 1991 The Kazakh State University named after S. Kirov

Qualification: Mechanics and Applied Mathematics

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

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

Outside employment and membership in the Boards of Directors of other companies: Chairman of the Supervisory Board of KT Cloud Lab LLP

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

MR. RAFAEL ABYKHANOV

DATE OF BIRTH: 1971

DATE OF THE FIRST ELECTION TO THE MANAGEMENT BOARD OF KAZAKHTELECOM JSC: 09.09.2013

DATE OF THE CURRENT ELECTION TO THE MANAGEMENT BOARD OF KAZAKHTELECOM JSC: 09.09.2013

STATUS: MEMBER OF THE MANAGEMENT BOARD OF KAZAKHTELECOM JSC, CHIEF COMMERCIAL OFFICER OF KAZAKHTELECOM JSC

EDUCATION: HIGHER

1990 – 1996 The Kazakh National Technical University

Qualification: Radio Engineering

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

01.2008 – 05.2009 Kazakhtelecom JSC Executive Director for Operator Relationship

05.2009 – 09.2013 Kazakhtelecom JSC Managing Director for Operator Relationship

09.2013 – till present: Kazakhtelecom JSC Chief Commercial Officer

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

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

MR. ALEXANDER LEZGOVKO

DATE OF BIRTH: 1961

DATE OF THE FIRST ELECTION TO THE MANAGEMENT BOARD OF KAZAKHTELECOM JSC: 26.03.2007

DATE OF THE CURRENT ELECTION TO THE MANAGEMENT BOARD OF KAZAKHTELECOM JSC: 02.04.2013

STATUS: MEMBER OF THE MANAGEMENT BOARD OF KAZAKHTELECOM JSC, CHIEF TECHNICAL OFFICER OF KAZAKHTELECOM JSC

EDUCATION: HIGHER

1978 – 1983 The Almaty Institute of Power Engineering

Qualification: Automated Telecommunications

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

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

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

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



MR. BATYR MAKHAMBETAZHIYEV

DATE OF BIRTH: 1972

**DATE OF THE FIRST ELECTION TO
THE MANAGEMENT BOARD OF
KAZAKHTELECOM JSC:** 07.06.2010

**DATE OF THE CURRENT ELECTION
TO THE MANAGEMENT BOARD OF
KAZAKHTELECOM JSC:** 03.06.2013

STATUS: MEMBER OF THE
MANAGEMENT BOARD
OF KAZAKHTELECOM JSC,
CHIEF STRATEGY OFFICER OF
KAZAKHTELECOM JSC.

EDUCATION: HIGHER

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

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

01.2007 – 03.2010 The Agency of
the Republic of Kazakhstan for
Informatization and Communications,
Secretary General

04.2010 – till present: Kazakhtelecom JSC
Chief Administrative Officer of
Kazakhtelecom JSC, Chief Strategy
Officer of Kazakhtelecom JSC

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

member of the Board of Directors of
ALTEL JSC

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

MR. ARNUR NURKATOV

DATE OF BIRTH: 1967

**DATE OF THE FIRST ELECTION TO
THE MANAGEMENT BOARD OF
KAZAKHTELECOM JSC:** 11.09.2006

**DATE OF THE CURRENT ELECTION
TO THE MANAGEMENT BOARD OF
KAZAKHTELECOM JSC:** 20.07.2012

STATUS: MEMBER OF THE
MANAGEMENT BOARD OF
KAZAKHTELECOM JSC, CHIEF
FINANCIAL OFFICER OF
KAZAKHTELECOM JSC
EDUCATION: HIGHER

1984 – 1990 The Almaty Institute of
National Economy

Qualification: Accounting and Operating
Analysis

2007 – 2009 The Finance Academy
under the Government of the Russian
Federation

Qualification: Finance

2007 – 2009 The International Academy
of Business

Qualification: Management

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

11.2006 – till present: Kazakhtelecom JSC
Vice-President – Chief Financial Officer,
Chief Financial Officer of
Kazakhtelecom JSC

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

Chairman of the Board of Directors of
NURSAT JSC, member of the Board of
Directors of ALTEL JSC, member of the
Supervisory Board of KT Cloud Lab LLP

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

MR. DARYN TUYAKOV

DATE OF BIRTH: 1969

**DATE OF THE FIRST ELECTION TO
THE MANAGEMENT BOARD OF
KAZAKHTELECOM JSC:** 24.07.2009

**DATE OF THE CURRENT ELECTION
TO THE MANAGEMENT BOARD OF
KAZAKHTELECOM JSC:** 20.07.2012

STATUS: MEMBER OF THE
MANAGEMENT BOARD OF
KAZAKHTELECOM JSC, CHIEF OFFICER
– HEAD OF ADMINISTRATION OF
KAZAKHTELECOM JSC
EDUCATION: HIGHER

1986 – 1990 The Leningrad High Military
and Political School of Air Defense
named after Y. Andropov

Qualification: Military and Political (Air
Missile Defense Officer)

1991 – 1997 The Kazakh State University
named after Al-Farabi.

Qualification: Jurisprudence (Lawyer)

2005 – 2007 The International Academy
of Business

Qualification: Master of Business
Administration

2011 – till present Student of the High
School of Corporate Management of
the Russian Academy of the National
Economy and State Service of the
President of RF

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

08.2005 – 05.2009 LTC Astanatelecom –
a branch of Kazakhtelecom JSC
Deputy Director General – Chief
Commercial Officer

05.2009 – 01.2012 Kazakhtelecom JSC
Managing Director for cooperation with
government agencies

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 2013

In 2013, the Management Board of Kazakhtelecom JSC held 44 in-person meetings and adopted 185 decisions of the Management Board. 61 decisions of the Management Board were adopted by the absentee voting ballots.

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

THE MOST IMPORTANT DECISIONS ADOPTED BY THE COMPANY'S MANAGEMENT BOARD IN 2013:

- On approval of the Program of Kazakhtelecom JSC on increase of local content in procurement of goods, works and services for 2013-2015;
- On approval of the Regulations on remuneration of employees of Kazakhtelecom JSC's branches;
- On approval of the Model Rules and Procedures of a branch of Kazakhtelecom JSC;
- On distribution of the areas of responsibility for the corporate social responsibility indicators of Kazakhtelecom JSC at year-end 2011 and 2012;
- On approval of the Standard Bidding Documents for electronic procurement of goods, works and services of Kazakhtelecom JSC;
- On approval of the Report on Observance of the Principles of the Corporate Governance Code of Kazakhtelecom JSC for 2012;
- On approval of the Matrix of Substitution of Key Positions of Kazakhtelecom JSC for 2013-2015;
- On material incentives of the branches of Kazakhtelecom JSC;
- On approval of the Policy of involvement in Kazakhtelecom Group of highly qualified professionals with experience in foreign companies.

THE MOST IMPORTANT DECISIONS APPROVED BY THE COMPANY'S MANAGEMENT BOARD IN 2013:

- On approval of the Corporate Accounting Policy of Kazakhtelecom JSC in new wording;
- On the annual financial statements of subsidiaries of Kazakhtelecom JSC for 2012;
- On approval of the draft Long-Term Development Strategy of Kazakhtelecom Group till 2022;
- On approval of the Corporate Social Responsibility Report of Kazakhtelecom JSC for 2012;
- On approval of the Rules of Internal Control over Disposal and Use of Insider Information of Kazakhtelecom JSC and amendments and additions to some internal documents of Kazakhtelecom JSC;

- On approval of the Innovation and Technology Strategy of Kazakhtelecom Group till 2022;
- On approval of the Rules and Regulations of the General Shareholders' Meeting of Kazakhtelecom JSC;
- On approval of the draft Rules of development, coordination, approval, correction, execution and monitoring of implementation of the Development Plan of Kazakhtelecom JSC.

INFORMATION ON REMUNERATION OF MEMBERS OF THE MANAGEMENT BOARD

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

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

The major condition for paying remuneration is the availability of the consolidated total revenue for the reporting period. At the year-end 2012, the consolidated total revenue amounted to KZT 222.1 billion. Remuneration at the end of a year is paid out depending on fulfillment of motivational key performance indicators (hereinafter "KPI"). Motivational KPIs are comprised of the corporate and individual indicators and shall be approved by the decision of the Board of Directors (Minutes №1 dated February 12, 2013).

The amount of remuneration payable to the members of the Management Board of Kazakhtelecom JSC at the year-end 2012 are approved by the decision of the Board of Directors of Kazakhtelecom JSC №5 dated 29.04.2013.

The limit of remuneration payable to the members of the Management Board shall not exceed tripled amount of annual salary of this employee.

Remuneration was paid after approval of the consolidated financial statements of Kazakhtelecom JSC.

MATERIAL TRANSACTIONS OF THE COMPANY

According to sub-paragraph 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 Articles of Association.

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

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

In 2013, Kazakhtelecom JSC entered into the following interested party transactions:

- "On entering into the interested party transactions with Sovereign Welfare Fund Samruk-Kazyna JSC". Transactions are related to the issues associated with implementation, development and technical support of automated systems and website of Samruk-Kazyna JSC as a part of the system integration with the Fund in the field of information technologies. The Company also entered into agreements on provision of IT services;
- "On approval of the interested party transaction – Financial Assistance Agreement with ALTEL JSC";
- "On some issues of DIGITAL TV LLP". The Company entered into this transaction for implementation of activities in business combination of DIGITAL TV LLP and Kazakhtelecom JSC. The aim of the transaction is to determine main stages, operating procedures and areas of cooperation of the parties;
- "On approval of the interested party transaction – Agreement on joint activities for provision of local telephony services and WLL CDMA-450 data communication services between VOSTOKTELECOM LLP and Kazakhtelecom JSC";

- "On entering into the interested party transaction with National Company Kazakhstan Temir Zholy JSC". According to this decision the Company entered into the transaction "On procurement of licensed software".

In 2013, the Company didn't enter into the transactions that in accordance with Article 68 of the Law of the Republic of Kazakhstan "On Joint Stock Companies" are deemed material transactions.

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

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

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

The aim of this Policy is to achieve an appropriate level of regulation of conflict of interest in Kazakhtelecom JSC, which excludes the possibility of occurrence of any adverse effect.

In accordance with the decision of the Board of Directors of Kazakhtelecom JSC (Minutes №13 dated 11.26.2013) the Conflict of Interest Policy of Kazakhtelecom JSC is supplemented by paragraph 5-1 "SITUATIONS OF A CONFLICT OF INTEREST", which specifies situations of a conflict of interest or situations that may result in a conflict of interest.

INVESTOR AND ANALYST RELATIONS

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

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

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

In the process of interaction with shareholders and investors the Company organized the following events in 2013:

- annual and extraordinary General Shareholders' Meeting;

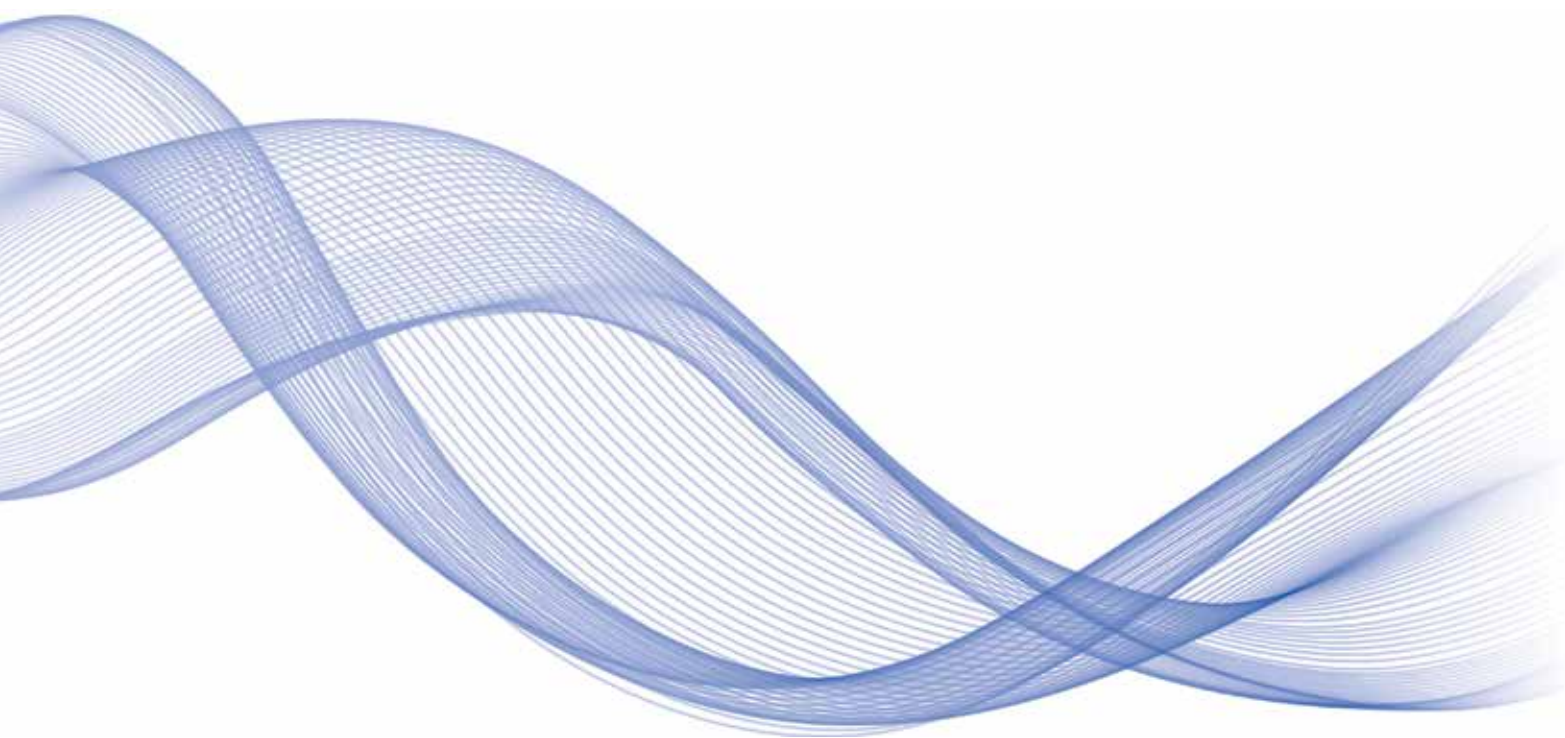
- meeting of the Management Board of Kazakhtelecom JSC and top management of ALTEL JSC in extended composition with representatives of mass media and analysts (on 12.04.2013) regarding implementation and future development of LTE project;

- webcast/conference call (on 03.09.2013) regarding the results of the first six months of 2013;

- as a part of redesigning of the Company's corporate website, the Company improved the section "For Investors", all sub-sections of this website's section are regularly updated, including presentations for investors;

- representatives of Company's top management regularly organize meetings with analysts regarding the issues of Company's interest for preparation of analytical reviews.

The Company intends to continue active improvement of the Company's investor and analyst relations, and will take every effort to increase information transparency and build an effective dialogue with the investment community.



QUALITY MANAGEMENT SYSTEM

Quality management system as part of the corporate governance system

In market conditions high quality products is one of the critical success factors of the organization and ensure its competitiveness. Real tool for achieving these goals is the implementation of a quality management system, comprehensively covering all aspects of the organization .

In Kazakhtelecom JSC successfully developed, implemented and certified quality management system (hereinafter – QMS) that has been certified by the quality management system of Kazakhtelecom JSC ST RK ISO 9001-2009 (ISO 9001:2008). Scope of certification has been defined **"Organization providing telecommunications services"**.

Management of our Company believes that the creation of a quality management system is important strategic activity. Quality management is considered as an effective

tool for analyzing customer requirements, building effective internal and external business processes and their continuous improvement .

Customer focus, leadership, involvement of personnel and process approach to work organization are the main principles for the implementation of quality management system of the Company.

With the intention to formalize the management of Kazakhtelecom JSC to apply the principles of total quality management, Quality Policy was approved, which is an expression of the principles and values arising from the mission, goals and strategies of the Company.

The Company holds regular measurement, analysis and adjustment processes to confirm compliance with the requirements for product quality and services.

In 2013, the Company continued to work under further improvement of its certified quality management system.

In October 2013, the Company once again confirmed validity of the certificate issued on September 07, 2011 by the National Center of Expertise and Certification with the scope of "Organization of telecommunications services".

With a view to increasing QMS efficiency, in 2013, the system documents of the Company and its 21 subsidiaries were reviewed and unified.

At present, QMS is focused on implementation of the "process approach" and improvement of business processes. Therefore, the Company implemented the following measures:

- *expanded structure of the business process model was established;*
- *process owner matrix was formed;*
- *registry of operating level KPIs was formed;*
- *pilot project on setting statistical methods of control over operational processes was implemented on the basis of three Company's branches.*

The Company's top management decided to focus the quality management system improvement on ensuring interconnection of strategic objectives and enhancing effectiveness of business processes and, in the midterm perspective, implement the integrated management system in Kazakhtelecom Group on the basis of ISO 9001, ISO 14001, OHSAS 18001 standard requirements.





PERSONNEL

PERSONNEL

Knowledge and skills of Company's personnel is the most important resource that ensures competitive advantages of the Company in the market environment

HR MANAGEMENT

The Company implements the Personnel Policy of Kazakhtelecom JSC, which is adopted in 2012 and based on the process approach.

In 2013, the Company carried out systematic work on introduction and implementation of projects aimed at strengthening and developing human resources and intellectual potential of the Company.

In 2013, HR processes of the Personnel Policy were supplemented by the processes of labor and salary management in accordance with the best practices. Thus, integration of the assessment and motivation systems was achieved evidencing a positive factor for effective implementation of the Personnel Policy. Activities on introduction of software to business processes of the Personnel Policy, in particular, assessment of personnel, personnel pool, and knowledge management were continued.

It is very important for the Company to identify professional employees, develop, protect and personally motivate them, ensure conditions for social and career development, use their talents to achieve the Company's success.

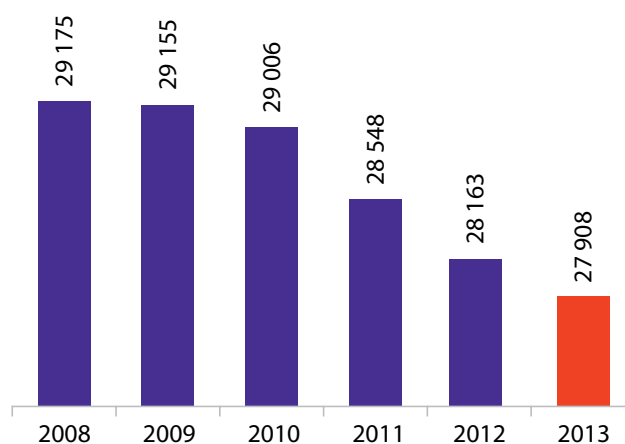
In the reporting year the Company held unscheduled certification of 8 094 employees of the head offices of Company's branches with the aim of diagnosing, monitoring and analyzing their HR capacity. In a very short time the Company carried out extensive and meticulous work in the Central Administration Office and in all branches of the Company, in particular, special software for simultaneous personnel certification in all branches was developed and a unique database of test questions was formed. Certification of personnel enabled mass training of employees in the process of preparation for the test.

As a part of regulation of social and labor relations, the Company carried out activities to implement the institute of mediation. During the reporting period the team of professional mediators.

STRUCTURE OF THE COMPANY'S PERSONNEL

Actual number of Company's employees in 2013 was 27 908 people (7.3% of them are administrative employees and 92.6% of them are operating employees). The downward trend in the number of the Company's administrative staff is still observed.

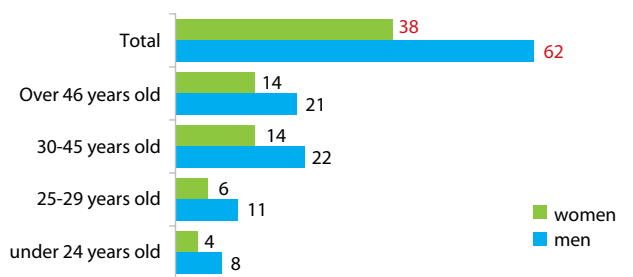
DYNAMICS OF CHANGES IN THE ACTUAL
NUMBER OF EMPLOYEES OF KAZAKHTELECOM JSC,
2008–2013



The main capital of our Company is our personnel. The Company pays serious attention to the professional and personal development of employees, their social security, motivation and considers training as an investment in the Company's future.

Composition of the Company's personnel is quite stable. 41% of employees work for Kazakhtelecom JSC for more than 10 years and 21% of employees work for more than 5 years.

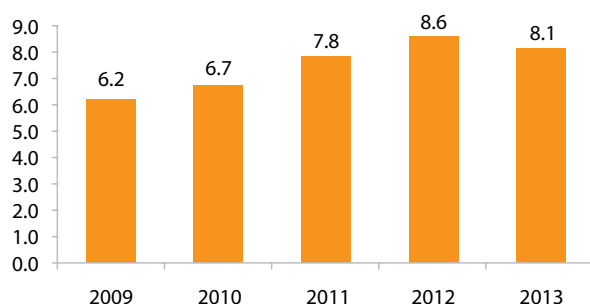
GENDER COMPOSITION, %



HR-INDICATORS

Key HR indicators of the Company are stable. Personnel turnover in the Company is 8.1%. Turnover of management personnel is 7% and turnover of operating personnel is 7.5%. These indicators are within the planned values.

PERSONNEL TURNOVER



Personnel stability index is 74.5%.

The degree of personnel satisfaction as the main KPI, which defines effectiveness of regulation of social and labor relations and feedback tools, is in the middle range of satisfaction (74.27% with a range from 61 to 79%) and is closer to the upper boundary of the range.

In 2013, Samruk-Kazyna JSC introduced a strategic social key performance indicator "Rating of Social Stability" for the Groups of the Fund. According to the results of a pilot study aimed at determining the rating of social stability and conducted on the basis of Kazakhtelecom JSC this indicator in the reporting year was 58%, which refers to the average level.

HR PROJECTS OF THE COMPANY

In 2013, the Company implemented the system of **Performance Assessment** of the Company's Central Administration Office and formed individual ratings of employees that are tied to the incentive system.

With the aim of improving the motivation system the Company works under assessment of positions in the Central Administration Office with regard to orientation of their functionality to the Company's strategy, effectiveness of the positions, and their involvement into the major strategic projects of the Company. Hierarchy of positions (grades) in future will allow the Company to form the most objective HR management system in terms of the most effective incentives for the Company's employees, form a positive attitude of employees towards their work and career progression, and motivate key employees.

An important trend of the Company's HR management in terms of the corporate culture, formation of "feedback bank" and information flow management is further development of the Company's social network – internal corporate website **my.telecom.kz**.

To date, the number of registered users of the internal corporate website reached 15 thousand people, among them 95% are employees of the branches and 37% are young employees.

During the reporting period the level of business communications of the Company's business units increased significantly. The Company identified the main problem areas of personnel (by means of forum and online chat), identified talented and active employees of the Company, and formed a bank of proposals for formation of the Company's youth policy and policy of innovation development and urgent production issues.

Knowledge Center created in 2011 on the Company's corporate website is the interactive, regularly updated information, analytical and educational resource. On the basis of the Knowledge Center the Company offered the opportunity of e-learning, opened e-library, and posted 20 webinars of Company's top managers, leading experts, and trainers of the Administration of ICT Academy.

As a part of promotion of the Knowledge Centre the Company held the Week of Knowledge and created the Think Tank. With a view to promoting the concept of self-education as the element of a successful person, the Company created the Telecom Library, which includes forum devoted to discussion of the world bestsellers and post of the best books read by forward-minded persons for whom these books served as the impetus for building of a brilliant career.

*The **Personnel Pool**, being a HR project implemented by the Company, is a long-term initiative, which is being carried out with coverage of all of business units of Kazakhtelecom Group. The Single Personnel Pool 2013 was formed. Within the Personnel Pool there are the groups of managers, experts and youth (based on the results of assessment held according to the methods of the assessment center). All branches of the Company held calibration session and formed the Personnel Pool. In the reporting year, the Company for the first time held an informal meeting of independent directors of Kazakhtelecom JSC with employees included in the Single Personnel Pool of the Company. There was a constructive dialogue, which allowed identification of the problem areas and prioritization of trainings for the Company's management.*

PERSONNEL TRAINING / KNOWLEDGE MANAGEMENT

Taking into account new trends and innovations in the market of intellectual services, in 2013, the Company approved the Knowledge Management Rules.

As a part of realization of the Fund's project on implementation of a dual education system, the Company carried out activities on workforce planning, development of the dual education system, considering issues related to the qualifications framework of the industry and models of professional standards.

Measures on modernization of the corporate training center – the Administration of ICT Academy – were taken by the Company.

As a part of the Company's anniversary activities devoted to the 20th anniversary of Kazakhtelecom JSC, the Company developed and approved the concept of the project "World's Business Elite for Kazakhtelecom" with the series of lectures and round tables for employees of the Company with involvement of management gurus.





CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility for the business is improvement of its reputation and establishment of a stable and favorable environment for its development

Kazakhtelecom JSC understands social responsibility of the business as an aggregate of Company's obligations to stakeholders (including obligations in the field of environmental, social and economic impact management) that are:

- 1) voluntarily accepted (in addition to the obligations stipulated by the laws of the Republic of Kazakhstan);
- 2) implemented publicly and in cooperation with the stakeholders;
- 3) oriented to ensuring successful and sustainable development and feasibility of the Company's Strategy in the field of corporate social responsibility.

With a view to Company's joining to the global social responsibility movement and introducing its principles to the business practice, as well as increasing Company's competitive advantages, Kazakhtelecom JSC approved the Strategy in the field of corporate social responsibility for 2012-2020. Starting from 2012, Kazakhtelecom JSC issues Reports in the field of corporate social responsibility. When preparing the Report the Company is guided by recommendations of the Sustainability Reporting Guidelines of the Global Reporting Initiative.

Following the principles of sustainable development, Kazakhtelecom JSC is consistently implementing the idea of social responsibility of business to the society. The Company addresses social responsibility in various aspects, including commitments of business to the society in general and to its customers and employees in particular.

EXTERNAL SOCIAL RESPONSIBILITY OF THE COMPANY

Being guided by the principles of social responsibility, Kazakhtelecom JSC devotes much attention to participation in socially significant processes and implementation of programs in the social sphere.

The Company takes an active part in implementation of socially significant tasks of development of rural communications, education, bridging the digital divide, as well as improving quality of life due to the increased availability of telecom services.

In the past year, the Company continued implementation of the project "Development of WLL CDMA network in rural areas of the Republic of Kazakhstan". Main objective of this project is rapid and efficient development of rural telecom

networks based on CDMA-450 wireless technology and meeting the demand of rural residents of the country for telecom services. WLL CDMA network is deployed in the territory of all oblasts of the country and the total number of base stations operating on the rural network at year-end 2013 amounted to 625 base stations with the installed capacity of more than 400 thousand numbers. CDMA network covers about 6 thousand rural settlements.

In 2013, as a part of implementation of the 3rd phase of the project of the Ministry of Education and Science of the Republic of Kazakhstan "E-learning System", the Company organized the Internet access at the speed from 4 to 10 Mbps for 578 educational organizations in all regions of the country. 1 159 educational institutions were connected to the E-learning System just during three years.

The Company strongly contributes to the growth of availability of telecom services. Positive customer experience begins with availability of services. Thus, Kazakhtelecom JSC enhances its offers in this area.

A subscriber is able to connect bundled services (phone, broadband, TV and VAS) not only through the sales offices, but also through the call center, Company's website or Personal Account.

Starting from January 01, 2013 the Company reduced:

- Non-recurring charges for connection to a port of iD Net broadband Internet access service via optical link by 6%;
- Monthly charges for bundled services "Triple Advantage Basic Drive" and "Triple Advantage Elite Drive" with the port's capacity of 8 Mbps by 5.9% and 5.6%;
- Non-recurring charges for connection to a port of the broadband Internet access service based on EVDO (WLL CDMA-450) technology by 29.5%;
- Monthly charges for Megaline Hit Optima and Megaline Light Optima tariff plans by 10%.

Moreover, the Company took a number of measures to improve consumer appeal of tariff plans of broadband Internet access services:

- volume of traffic included in the monthly fee of EVDO-based Internet access service was increased twofold without changing the monthly fee;
- threshold volume of incoming traffic of Megaline Hit, Megaline Light and Megaline Box tariff plans was increased twofold without changing the monthly fee (from 30 to 60 Gb);
- threshold volume of incoming traffic of Megaline Turbo, Megaline Turbo Plus, Megaline Turbo Light tariff plans was increased (from 80 to 100 Gb);
- speed of access to external resources of Megaline Hit tariff plan was increased twofold for individuals without increasing the monthly fee;
- limits of external traffic included in the monthly fee of Megaline Drive tariff plan were lifted.

Starting from February 01, 2013 the Company reduced:

- charges for shared Internet access by 5%;
- charges for existing tariff plans of VPS service.

The speed of access to external resources under tariff plans of CDMA/EVDO-450 broadband service was increased up to 1 Mbps for inbound traffic.

Starting from June 01, 2013 charges for the broadband Internet access services for ISPs were reduced from 50 to 67%.

Starting from July 01, 2013 the speed of access to external resources under tariff plan "Megaline Hit/Light Optima" was increased (from 1 Mbps to 2 Mbps) without changing the amount of monthly charges.

In the wholesale segment Kazakhtelecom JSC also continues the policy of reducing:

- charges for the service "Connection to the telecom network of Kazakhtelecom JSC of telecom networks of fixed telephony operators at the local level per one installed point of interconnection (E1 port)" by 10%;
- charges for the service "Connection to the telecom network of Kazakhtelecom JSC (at the long-distance level) of equipment (access nodes) of IP telephony (Internet telephony) operators" by 26%;
- charges for the service "Transit of telephone traffic from (to) the equipment (access nodes) of IP telephony (Internet telephony) operators per each second of connection" by 3%.

Moreover, **starting from September 01, 2013** the following services became more affordable for Kazakhstan and foreign operators:

- charges for the set of Internet transit services were reduced by 70%;
- charges for the lease of international terrestrial channels terminating in Kazakhstan were reduced from 35 to 65%;

– charges for the lease of international terrestrial digital channels terminating in Kazakhstan (IPLC) were reduced by 30%;

– charges for the lease of international terrestrial digital channels terminating in Kazakhstan in the direction of non-CIS countries were reduced by 50%.

Starting from December 01, 2013 the speed of the Unlimited tariff plan of the broadband Internet access services was increased twofold without changing the monthly charge (including iD Phone bundled services). Restrictions on the volume of external traffic included in the monthly charge were lifted for the tariff plan "Megaline Turbo Plus".

Thus, Kazakhtelecom JSC seriously puts into practice its strategy aimed at increasing affordability of telecom services, in particular the Internet access services, i.e. the Company increases quality and speed and decreases charges.

SPONSORSHIP AND CHARITY

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

The Company pays great attention to the development and support of arrangements in the field of sports, culture, education, health and environmental protection. Since Samruk-Kazyna JSC imposed moratorium on application of Company's funds allocated for sponsorship and charity, sponsorship and charity donations were not provided by the Company in monetary terms in 2013.

At the same time, in 2013, according to the Decision of the Board of Directors of Kazakhtelecom JSC, the Company provided charitable assistance to the Center of Kazakh Language and Culture at the Moscow State Linguistic University in kind by providing 12 personal computers free of charge.

SOCIAL SUPPORT OF EMPLOYEES

Social security of Kazakhtelecom's staff and retirees in accordance with the Collective Agreement is an indispensable component of the social policy of Kazakhtelecom JSC.

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

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

The Company signed the Collective Agreement 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;
- gifting valuable presents to employees in the event of anniversaries;
- a lump sum in the event of retirement for the first time;
- a lump sum in the event an employee is referred to the 1st or 2nd group of disability;
- financial aid for funeral arrangements in connection with the death of a close relative of an employee.

The Company provides targeted loans to the Company's employees with a view to improving living conditions of employees, whereby implementing internal corporate social responsibility of Kazakhtelecom JSC. Housing policy is being implemented in the Company on a regular planned basis and in accordance with the decisions of the meetings of the Company's Social Commission.

SUPPORT OF RETIREES

To date, the Company provides social support to about **9 000 retirees**. Management of Kazakhtelecom JSC annually organizes meetings with retirees of telecommunications industry in commemoration of professional holiday of telecommunications workers and the International Day for the Elderly and provides targeted social assistance and presents gifts to these retirees.

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 700 people), in commemoration of the Victory Day. The Company also congratulates with anniversary dates the retired veterans of telecommunications industry, who are registered in the Company.

THE YOUTH POLICY

Youth organization "Zhastelekom" functions in the Company during almost three years. Each branch of the Company established Regional Groups of this organization. Every year young employees of the Company from all regions gather together to take part in the Youth Forum for discussion and addressing the issues of youth policy, formation of action plans and activities for involvement of the Company's youth in the Company's business development.

Chairman of the Management Board and Chief Strategy Officer of Kazakhtelecom JSC held a working meeting with members of the Youth Council of "Zhastelekom" to discuss the activities of the youth organization and consider the issues of concern. Based on the results of this meeting the training program for members of the youth organization "Zhastelekom" for 2014 was formed.

The composition of the Youth Council of Kazakhtelecom JSC was approved with the aim of coordination of activities on further implementation and improvement of the Company's Youth Policy.

The Company annually provides **educational quota** for higher education (bachelor's programme) in higher education institutions of telecommunications and information technologies.

The Company guarantees to the students enrolled on the basis of the Company's quota that they will be employed and will receive a grant during the period of learning in the event of excellent and good results. It is the educational quota that allowed the Company to address the issue of staff insufficiency in the critical period of "staff starvation". The number of students educated on the basis of Kazakhtelecom JSC's quota in 2012–2013 school year was 226 people, including 109 people or 48.2% of students who are the residents of small towns and rural areas.

The Corporate Master Program of Kazakhtelecom JSC is functioning in the Company. Students of this program are employees of the Company with the priority given to those students that were educated on the basis of the Company's quota and showed the highest results (GPA). In February 2013, the first students graduated this program and 10 students received the master's degree.

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

In 2013, in accordance with the requirements of the Labour Code of the Republic of Kazakhstan the Company organized the following activities:

- trainings for managers and professionals responsible for occupational safety and health;

- special testing sites are organized and used in the Company's branches to train operating personnel with regard to the safe methods of work. Activities on organization of similar testing sites are being implemented in all branches of the Company;

- medical examination of employees;

- assessments of workplaces;

- providing certain categories of employees with protective clothing, footwear and personal protective equipment.

The Company annually inspects the conditions of occupational safety and health and the conditions of life and work. The winners are awarded cash bonuses and certificates of appreciation.

Environment-related activities, conservation of favorable environment and efficient use of resources are the main priorities of the Company. When replacing obsolete technologies by the new ones, the Company gives preference to the resource-recovery and environment-friendly technologies.

The Company continues to implement the Energy Conservation Program, which provides for organizational, scientific and industrial measures for efficient use of energy resources and involvement of renewable sources of energy into the commercial production.

GLOSSARY

ARPU

Average Revenue Per User.

CDMA

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

CDN

Content Delivery Network or Content Distribution Network is a geographically distributed network infrastructure, which allows optimization of delivery and distribution of content to end-users of the Internet.

DWDM

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

EVDO

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

FTTH

Fiber To The Home.

FTTx

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

GPON

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

Hosting

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

IP/MPLS

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

LTE

Long Term Evolution, mobile protocol for data communications enabling to set up high speed cellular systems optimized for batch communication at up to 300 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.

Mobile Backhaul

is a set of all resources that perform transportation functions in telecommunications networks. It includes not only transmission system, but also all related control, switching, backup and management facilities. In mobile communications, backhaul comprises a segment of network between operator's backbone network and base station.

MS Lync.,

Microsoft Lync, formerly known as Microsoft Office Communicator, is a communication client software that allows users to communicate with each other in real time using different types of communication: instant messaging, video and voice calls, shared access to the desktop, conferences, file sharing.

NGN

(Next Generation Network) is a multiservice network built around the backbone IP network allowing complete or partial integration of voice, data and multimedia communication services.

OTT

Over the Top technology is gaining a wide spread in the segment of delivery of video content over the Internet and is a part of IPTV technology. This term means delivery of a video signal to a console (computer, mobile phone) of a user over the Internet without direct contact with a telecom operator as opposed to IPTV services, which are provided over a network controlled by an operator with a guaranteed quality.

SIP

Session Initiation Protocol, an application layer protocol designed by IETF MMUSIC Working Group and a standard proposed for creating, modifying and terminating user session consisting of multimedia elements such as video and voice, instant messaging, online games.

Service Delivery Platform

is a set of components that ensure functioning of a service delivery architecture, such as service creation, session control and protocols.

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.

VoD

(Video on Demand) – a system of individual delivery of TV programs or video films to subscriber via cable network from multimedia server in MPEG, AVI, FLV, MKV containers.

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.

xDSL

(digital subscriber line) – high speed digital transmission via copper subscriber line.

REFERENCE INFORMATION FOR SHAREHOLDERS

FULL NAME: KAZAKHTELECOM, JOINT STOCK COMPANY
SHORT NAME: KAZAKHTELECOM JSC

REGISTERED ADDRESS:

31 Abai avenue
Saryarka district, Astana
010000, Republic of Kazakhstan
Mailing address: 12 Sauran street
Essil district, Astana
010000, Republic of Kazakhstan

Tel: +7 (7172) 587 718
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E-mail: 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) 258 72 64
Public Relations Service
Tel: +7 (7172) 587 748
Tel: +7 (727) 258 75 11
Fax: +7 (727) 258 75 12

INFORMATION ABOUT THE AUDITOR OF THE COMPANY

Ernst & Young is the external auditor of Kazakhtelecom JSC starting from 2007. The Agreement on audit of the consolidated financial statement of the Group of companies of Kazakhtelecom JSC with Ernst & Young is annually signed pursuant to the results of opened tender held by the Company.

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 МФЮ-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) 258 59 60

Fax: +7 (727) 258 59 61

E-mail: 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.

Starting from December 20, 2012 **Integrated Securities Registrar JSC** is the new registrar of Kazakhtelecom JSC.

Mailing address: 141, Abylai khan avenue, Almaty, 050000, Republic of Kazakhstan

Tel: +7 (727) 272 47 60

Fax: +7 (727) 272 47 60, ext. 230

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 registrar's website (<http://tisir.kz>).







CONSOLIDATED FINANCIAL STATEMENTS



KAZAKHTELECOM

Kazakhtelecom JSC

Consolidated financial statements

*For the year ended 31 December 2013
with independent auditors' report*

CONTENTS

Independent auditors' report

Consolidated financial statements

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF KAZAKHTELECOM JSC

We have audited the accompanying consolidated financial statements of Kazakhtelecom JSC and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, 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 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

[Signature]



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

4 March 2014

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

<i>In thousands of tenge</i>	<i>Notes</i>	2013	2012*
Assets			
Non-current assets			
Property and equipment	8	289,230,439	257,308,842
Intangible assets	9	26,237,752	16,216,520
Advances paid for non-current assets	11	673,558	248,421
Deferred tax asset	36	352,200	108,151
Other non-current financial assets	13	10,807,868	10,671,993
Other non-current assets	14	4,450,873	4,711,375
		331,752,690	289,265,302
Current assets			
Inventories	15	5,339,214	4,692,179
Trade accounts receivable	16	16,192,756	17,411,450
Prepayments	17	1,063,692	809,544
Income tax prepaid		716,423	2,108,774
Other financial assets	18	12,146,401	46,933,722
Other current assets	19	6,571,279	4,572,038
Cash and cash equivalents	20	42,352,823	53,466,201
		84,382,588	129,993,908
Total assets		416,135,278	419,259,210
Equity and liabilities			
Equity attributable to equity holders of the parent			
Charter capital	21	12,136,529	12,136,529
Treasury shares	21	(6,290,144)	(6,019,715)
Currency translation reserve	21	(12,208)	(4,576)
Other capital reserve	21	1,820,479	1,820,479
Retained earnings		257,903,737	268,816,693
		265,558,393	276,749,410
Non-controlling interests		(55,058)	(1,911)
Total equity		265,503,335	276,747,499

The accompanying notes on pages 8 to 56 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(continued)

<i>In thousands of tenge</i>	<i>Notes</i>	2013	2012*
Non-current liabilities			
Borrowings	22	36,028,656	63,785,730
Finance lease liabilities	23	10,689,177	10,125,646
Deferred tax liability	36	13,313,741	12,537,430
Employee benefit liability	24	4,600,737	4,818,099
Debt component of preferred shares	21	892,966	894,065
Other non-current liabilities	25	4,433,757	4,470,476
		69,959,034	96,631,446
Current liabilities			
Borrowings	22	9,117,411	11,349,815
Current portion of finance lease liabilities	23	6,994,294	6,067,658
Current portion of employee benefit liability	24	362,721	354,137
Accounts payable	26	21,939,224	15,635,557
Advances received		4,238,571	3,387,458
Income tax payable		1,546	8,061
Other current liabilities	27	38,019,142	9,077,579
		80,672,909	45,880,265
TOTAL LIABILITIES		150,631,943	142,511,711
TOTAL EQUITY AND LIABILITIES		416,135,278	419,259,210

* Some figures presented herein do not correspond to figures in 2012 consolidated financial statements and reflect reclassifications detailed in *Note 4*.

Chief Financial Director


Nurkatov A.A.

Chief Accountant


Baishumurova G.Zh.

The accompanying notes on pages 8 to 56 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

As at 31 December 2013

<i>In thousands of tenge</i>	<i>Notes</i>	2013	2012
Continuing operations			
Revenue	28	185,838,836	170,360,333
Compensation for universal services provision in rural areas	29	5,028,584	5,308,628
		190,867,420	175,668,961
Cost of revenue	30	(135,725,761)	(124,178,351)
Gross profit		55,141,659	51,490,610
General and administrative expenses	31	(20,833,393)	(14,177,146)
Selling expenses	32	(5,350,930)	(5,279,321)
Operating profit		28,957,336	32,034,143
Finance costs	34	(11,173,578)	(11,995,737)
Finance income	34	4,214,185	3,729,107
Foreign exchange loss, net		(481,103)	(942,478)
Loss from disposal of property and equipment		(150,832)	(489,646)
Other income	35	3,151,564	2,758,807
Other expenses	35	(1,010,793)	(594,407)
Profit before tax from continuing operations		23,506,779	24,499,789
Income tax expense	36	(3,945,859)	(4,352,741)
Profit for the year from continuing operations		19,560,920	20,147,048
Discontinued operations			
Profit after tax for the year from discontinued operations	37	–	201,996,328
Profit for the year		19,560,920	222,143,376
Attributable to:			
Owners of the parent		19,614,067	222,129,565
Non-controlling interests		(53,147)	13,811
Other comprehensive income			
<i>Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences on translation of foreign operations		(7,632)	11,421
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods		(7,632)	11,421
<i>Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:</i>			
Actuarial losses on defined benefit plan		(80,029)	–
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		(80,029)	–
Other comprehensive (loss)/income for the year, net of tax		(87,661)	11,421
Total comprehensive income for the year, net of tax		19,473,259	222,154,797
Attributable to:			
Owners of the parent		19,526,406	222,140,986
Non-controlling interest		(53,147)	13,811
		19,473,259	222,154,797

The accompanying notes on pages 8 to 56 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(continued)

<i>In thousands of tenge</i>	<i>Notes</i>	2013	2012
Earnings per share			
Basic and diluted, profit for the year attributable to owners of the parent, tenge	21	1,783.99	19,972.96
Earnings per share for continuing operations			
Basic and diluted, profit for the year from continuing operations attributable to owners of the parent, tenge		1,783.99	1,817.63

Chief Financial Director



 Nurkatov A.A.

Chief Accountant



 Baishumurova G.Zh.

The accompanying notes on pages 8 to 56 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 31 December 2013

In thousands of tenge	Attributable to owners of the parent							
	Charter capital	Treasury shares	Foreign currency translation reserve	Other capital reserves	Retained earnings	Total	Non-controlling interests	Total equity
Notes	21	21	21	21				
At 1 January 2012	12,136,529	(2,652,860)	(15,997)	1,820,479	271,629,837	282,917,988	(15,722)	282,902,266
Profit for the year	–	–	–	–	222,129,565	222,129,565	13,811	222,143,376
Other comprehensive income	–	–	11,421	–	–	11,421	–	11,421
Total comprehensive income	–	–	11,421	–	222,129,565	222,140,986	13,811	222,154,797
Treasury shares repurchased (Note 21)	–	(3,366,855)	–	–	–	(3,366,855)	–	(3,366,855)
Dividends (Note 21)	–	–	–	–	(224,942,709)	(224,942,709)	–	(224,942,709)
At 31 December 2012	12,136,529	(6,019,715)	(4,576)	1,820,479	268,816,693	276,749,410	(1,911)	276,747,499
Profit/(loss) for the year	–	–	–	–	19,614,067	19,614,067	(53,147)	19,560,920
Other comprehensive income	–	–	(7,632)	–	(80,029)	(87,661)	–	(87,661)
Total comprehensive income	–	–	(7,632)	–	19,534,038	19,526,406	(53,147)	19,473,259
Treasury shares repurchased (Note 21)	–	(270,429)	–	–	–	(270,429)	–	(270,429)
Dividends (Note 21)	–	–	–	–	(30,446,994)	(30,446,994)	–	(30,446,994)
At 31 December 2013	12,136,529	(6,290,144)	(12,208)	1,820,479	257,903,737	265,558,393	(55,058)	265,503,335

Chief Financial Director


Nurkatov A.A.

Chief Accountant


Baishumurova G.Zh.

The accompanying notes on pages 8 to 56 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

As at 31 December 2013

<i>In thousands of tenge</i>	<i>Notes</i>	2013	2012
Operating activities			
Profit before tax from continuing operations		23,506,779	24,499,789
Profit before tax from discontinued operations	37	–	201,996,328
Profit before tax		23,506,779	226,496,117
Adjustments for:			
Depreciation of property and equipment	8	33,579,770	33,907,902
Amortization and impairment of intangibles assets	9	3,291,666	3,125,512
Share of profit of an associate (discontinued operations)	37	–	(1,962,663)
Change in deferred revenues		(715,883)	(1,112,158)
Change in employee benefit liability		(288,807)	(283,556)
Unrealized foreign exchange loss		927,113	964,356
Provision for doubtful debts	31	326,471	(5,367,195)
Reversal of NRV write down		179,328	22,246
Finance costs	34	11,173,578	11,995,737
Finance revenue	34	(4,214,185)	(3,729,107)
Gain on disposal of an associate	37	–	(200,033,665)
Loss from disposal of property and equipment		150,832	489,646
Working capital adjustments:			
Change in trade accounts receivable		1,348,165	(1,684,556)
Change in inventories		(56,997)	(456,804)
Change in other current and non-current assets		1,240,422	2,107,245
Change in prepayments		(149,311)	(339,583)
Change in accounts payable		2,122,956	(3,147,052)
Change in advances received		577,350	743,466
Change in other current liabilities		504,786	(288,047)
Cash generated from operations		73,504,033	61,447,841
Dividends paid	21	(1,928,375)	(222,008,044)
Income taxes paid		(3,758,810)	(5,066,897)
Interest paid		(7,568,593)	(7,570,620)
Interest received		2,220,200	1,737,038
Net cash flows from/(used in) operating activities		62,468,455	(171,460,682)
Investing activities			
Purchase of property and equipment		(49,786,150)	(49,899,788)
Purchase of intangible assets		(7,351,694)	(7,834,791)
Proceeds from sale of property and equipment		137,126	97,966
Purchase of subsidiaries, excluding acquired cash	5	(10,232,457)	–
Deposits placed		(4,142,347)	(44,580,940)
Refund on deposits		44,478,688	–
Dividends received from an associate		–	34,723,134
Proceeds from sale of an associate	37	–	225,738,590
Long-term loans to employees		(3,737,679)	(5,284,894)
Loans repaid by employees		263,952	281,528
Restricted cash placed		(4,056,109)	–
Financial aid returned		10,614	2,499
Net cash flows (used in)/from investing activities		(34,416,056)	153,243,304

The accompanying notes on pages 8 to 56 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT (continued)

<i>In thousands of tenge</i>	<i>Notes</i>	2013	2012
Financing activities			
Proceeds from borrowings		11,375,291	2,021,036
Repayment of borrowings		(43,579,485)	(7,394,130)
Repurchase of treasury shares	21	(236,182)	(3,572,410)
Repayment of finance lease liabilities		(6,746,995)	(7,397,637)
Net cash flows used in financing activities		(39,187,371)	(16,343,141)
Net decrease in cash and cash equivalents		(11,134,972)	(34,560,519)
Effects of exchange rate changes on cash and cash equivalents		21,594	311,033
Cash and cash equivalents at 1 January		53,466,201	87,715,687
Cash and cash equivalents at 31 December	20	42,352,823	53,466,201

Non-cash transactions are disclosed in Note 38.

Chief Financial Director


Nurkatov A.A.

Chief Accountant


Baishumurova G.Zh.

The accompanying notes on pages 8 to 56 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2013

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: 31 Abay street, Astana, 010000, Republic of Kazakhstan.

The Company is controlled by the Government of the Republic of Kazakhstan through National Welfare Fund “Samruk-Kazyna” (“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:

	2013	2012
Samruk-Kazyna	51.0%	51.0%
Bodam B. V.	16.9%	16.9%
ADR (The Bank of New York is a depositor)	9.9%	11.1%
Deran Services Limited	9.6%	9.6%
Kazkommertsbank	3.1%	3.1%
Other	9.5%	8.3%
	100%	100%

The Company is included in the register of natural monopolists in relation to transit traffic services provided to telecommunication operators, public switch telecommunication network (“PSTN”) connection services provided to third party telecommunication operators, and leasing of phone channels to telecommunication operators for connection to PSTN.

The Company and its subsidiaries listed in Note 6 (together the “Group”) have a significant share of the fixed line communication market, including local, long-distance intercity and international telecommunication services including CIS and non-CIS countries; and provides also rent of lines, data transfer services and wireless communication services.

The consolidated financial statements were authorised for issue on 4 March 2014 by the Management of the Company.

2. BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements have been prepared on a historical cost basis, except as described in the accounting policies and the notes to these consolidated financial statements. These consolidated financial statements are presented in Kazakhstan tenge (“tenge”) and all values are rounded to the nearest thousand, except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2013. Control is achieved when the Group is exposed, or has the right, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee only 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.

▸ 2. BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (continued)

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

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 statement of comprehensive income 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 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 change of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings in accordance with specific requirements of IFRS, as would be required if the Group had directly disposed of the related assets or liabilities.

▸ 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective as of 1 January 2013:

- IFRS 10 *Consolidated Financial Statements* and IAS 27 *Separate Financial Statements*;
- IFRS 11 *Joint Arrangements* and IAS 28 *Investment in Associates and Joint Ventures*;
- IFRS 12 *Disclosure of Interests in Other Entities*;
- IFRS 13 *Fair Value Measurement*;
- IAS 1 *Presentation of Items of Other Comprehensive Income* (amendments to IAS 1);
- IAS 1 *Clarification of the Requirement for Comparative Information* (amendment);
- IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities* (amendments to IFRS 7);

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New and amended standards and interpretations (continued)

- IAS 19 *Employee Benefits* (amendment);
- IAS 36 *Assets Impairment: Disclosures on Recoverable Amount for Non-financial Assets* (amendment).

The adoption of the standards or interpretations is described below:

IFRS 10 *Consolidated Financial Statements* and IAS 27

Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it 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. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Group.

IFRS 11 *Joint Arrangements* and IAS 28 *Investments in Associates and Joint Ventures*

IFRS 11 eliminates the possibility of accounting for jointly controlled entities using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers* and is effective for annual periods beginning on or after 1 January 2013.

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed – IAS 28 *Investments in Associates and Joint Ventures*. Revised standard describes the application of the equity method to investments in joint ventures in addition to associates. Amendment is effective for annual periods beginning on 1 January 2013.

The adoption of these standards and amendments did not have any impact on the financial position or performance of the Group.

IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. For example, where a subsidiary is controlled with less than a majority of voting rights. While the Group does not have subsidiaries with material non-controlling interests, there are no unconsolidated structured subsidiaries.

Application of IFRS 12 did not have an impact on the consolidated financial statements of the Group.

IFRS 13 *Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group. IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 *Financial Instruments: Disclosures*. These requirements have not materially impacted the fair value measurements carried out by the Group.

Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net loss or gain on available-for-sale financial assets) have to be presented separately from items that will not be reclassified (for example, revaluation of land and buildings). The amendments affect presentation only and have no impact on the Group's financial position or performance.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New and amended standards and interpretations (continued)

Amendment to IAS 1 Clarification of the Requirement for Comparative Information

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period.

The amendment clarifies that the opening statement of financial position (as at 1 January 2012 in case of the Group) presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. As a result, the Group has not included comparative information in respect to the opening statement of financial position as at 1 January 2012. The amendments affect presentation only and have no impact on the Group's financial position or performance.

IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments did not have any impact on the Group's financial position or performance.

Amendments to IAS 19 Employee Benefits

IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income (OCI) and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures.

In case of the Group, the transition to IAS 19R had no impact on the net defined benefit plan obligations, but it impacted profit for the year as well as other comprehensive income for the year. The effect of the adoption of IAS 19R is explained below:

<i>In thousands of tenge</i>	2013
Decrease of the cost of revenue	(92,034)
Decrease of the general and administrative expenses	(8,003)
Increase of the income tax expense	20,008
Net increase of profit for the period	80,029
Increase in actuarial changes in other comprehensive loss	100,037
Increase in income tax effect on actuarial changes in other comprehensive loss	(20,008)
Net increase in other comprehensive loss, net of tax	80,029
The impact on total comprehensive income for the year, net of income taxes	–

The Group did not restate the comparative information, as the effect on net increase in other comprehensive loss, net of tax, for the year ended 31 December 2012 was insignificant.

► 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New and amended standards and interpretations (continued)

Amendments to IAS 36 Assets impairment: Disclosures on Recoverable Amount for Non-financial Assets

These amendments remove unintended consequences for disclosures in accordance with IAS 36, associated with IFRS 13 coming into effect. In addition, these amendments require disclosure of information on asset's or CGU recoverable amount on which impairment loss was recognized or reimbursed during the reporting period. These amendments are applied retrospectively for annual periods beginning on or after 1 January 2014. The amendments are deemed to have no impact on the financial statements of the Group.

Standards issued but not yet effective

IFRS 9 Financial Instruments

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 *Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurements of the Group's financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through comprehensive income. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group would qualify to be an investment entity under IFRS 10.

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of “currently has a legally enforceable right to set-off” and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Group.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Group does not expect that IFRIC 21 will have material impact in future financial statements.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. The Group has not novated its derivatives during the current period. The adoption of these amendments is not expected to have any impact on the financial position or performance of the Group.

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 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 2013	31 December 2012
US dollar	153.61	150.74
Euro	211.17	199.22
South Korean won	0.14	0.14
Russian rouble	4.7	4.96

The functional currency of the foreign operations Signum LLC (Russia) and Online.kg JSC (Kyrgyzstan) is the Russian ruble and Kyrgyz som, respectively. On consolidation the assets and liabilities of foreign operations are translated into tenge at the rate of exchange prevailing at the reporting date and their statements of comprehensive income are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognized in other comprehensive income.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in the consolidated statement of comprehensive income. It is then considered in the determination of goodwill.

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 re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the consolidated statement of comprehensive income.

► 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period;
- 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;
- 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

The Group measures financial instruments and non-financial assets at fair value at each balance sheet date.

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;
- 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 to 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (continued)

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

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

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in *Note 40*.

Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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

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

Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the consolidated statement of comprehensive income as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

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

	Years
Buildings	50
Constructions	10-25
Telecommunication equipment	3-20
Other	3-20
Land is not depreciated.	

► 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment (continued)

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 when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of comprehensive income in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the consolidated statement of comprehensive income in the period in which the expenditure is incurred.

The useful lives of intangible assets other than goodwill are assessed to be finite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (continued)

The amortisation expense for 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 to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, 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 subsidiaries or other available fair value indicators.

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

Impairment losses of continuing operations, including impairment on inventories, are recognised in the consolidated statement of comprehensive income in expense categories consistent with the function of the impaired asset, except for a property previously revalued when the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of comprehensive income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

► 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets (continued)

The following assets have specific characteristics for impairment testing:

Goodwill

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables or held-to-maturity investments, as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through consolidated statement of comprehensive income, 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 recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and cash equivalents, trade and other receivables, loans and other receivables.

Subsequent measurement

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

Loans and receivables

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 amortized cost using the effective interest rate method (EIR), less impairment. 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 income in the statement of comprehensive income. The losses arising from impairment are recognized in the consolidated statement of comprehensive income in finance costs for loans and in operating expenses for accounts receivable.

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 2013 and 2012, except for deposits placed in banks.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less from the origination date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition

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

- the rights to receive cash flows from the asset have expired;
- 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 it has retained the risks and rewards of the property, and to which extent, if any. When the Group has neither transferred substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Impairment of financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred "loss event"), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation. Besides, such evidence includes observable data indicating that there is a measurable decrease in the estimated future cash flows on a financial instrument such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortized cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss 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 liability component of preferred shares.

Subsequent measurement

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

Loans and borrowings

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.

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.

Liability component of preferred shares

The component of the preferred shares that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. The corresponding minimal guaranteed dividends on those shares are charged as interest expense in the consolidated statement of comprehensive income. On initial recognition, the fair value of the liability component is determined by discounting expected future cash flows at a market interest rate for a comparable debt instrument. The fair value of the equity component on initial recognition is assigned the residual amount after deducting from the initial carrying amount of the instrument as a whole the fair value determined for the liability component. Subsequently, the liability component is measured according to the same principles used for subordinated debt, and the equity component is not remeasured in subsequent years.

Trade and other payables

Liabilities for trade and other amounts payable are recognized at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

Derecognition

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or 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

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group, are capitalised at the commencement of the lease at the 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 statement of consolidated comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the statement of consolidated comprehensive income on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Provisions

General

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

► 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions (continued)

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 provision is discounted and the unwinding of the discount is expensed as incurred and recognized in the consolidated statement of comprehensive income as a finance cost. At the time of establishing the provision, a corresponding asset is capitalized where it gives rise to a future benefit and depreciated over the useful life of the corresponding assets. The provision is reviewed on an annual basis for changes in cost estimates, discount rates or operating life.

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 the Collective Agreement the Company provides certain long-term and retirement benefits to certain employees (the "Defined Benefit Plan").

Long-term benefits are paid to employees upon completion of a certain number of years of service whereas retirement benefits represent one-off payments paid upon retirement in accordance with the Collective Agreement. Both items vary according to the employee's average salary and length of service.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest (not applicable to the Group) and the return on plan assets (excluding net interest), are recognized immediately in the consolidated statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to comprehensive income in subsequent periods.

Past service costs are recognised in the consolidated statement of comprehensive income on the earlier of:

- The date of the plan amendment or curtailment;
- The date that the Group recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "Cost of revenue" and "General and administrative expenses" in the statement of consolidated comprehensive income.

Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the consolidated statement of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in equity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Dividends

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

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

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

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. 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.

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.

► 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Compensation for provision of universal services in rural areas

Compensation for provision of universal services is recognised where there is reasonable assurance that the compensation will be received and all attached conditions will be complied with. When the compensation relates to an expense item, it is recognised as income over the period necessary to match the compensation on a systematic basis to the costs that it is intended to compensate. Where the compensation relates to an asset, it is recognised as deferred income and released to the statement of consolidated comprehensive income in equal amounts over the expected useful life of the related asset.

Compensation related to income is presented separately in the statement of consolidated comprehensive income within revenues from operating activities.

Interest income

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income is recorded using the EIR. EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of consolidated comprehensive income.

Dividends

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

Expense recognition

Expenses are recognized as incurred and are reported in the consolidated financial statements 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 an entity 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 statement of consolidated 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;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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

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

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances changed. The adjustment is either treated as a reduction to goodwill (as long as it does not exceed goodwill) if it occurred during the measurement period or recognised in the consolidated statement of comprehensive income.

► 4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful life of property and equipment and intangible assets

The Group assesses the remaining useful lives of items of property and equipment and intangible assets with finite useful lives at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the amounts of the carrying values of property and equipment and intangible assets and on depreciation and amortization expenses recognized in the consolidated statement of comprehensive income. In 2013, following the analysis of historical data on usage of equipment, as well as technological obsolescence, the Group reassessed the remaining useful lives of telecommunication transmission equipment which resulted in prolonged remaining useful lives by 1 to 5 years on average, and remaining useful lives of certain CDMA equipment were decreased by 4-5 years on average. The change in the remaining useful lives resulted in a total decrease of depreciation expense included in cost of revenue for the year ended 31 December 2013 of 2,680,999 thousand tenge.

Discontinued operations

In 2011 the Group announced its intention to sell its 49% share in GSM Kazakhstan Kazakhtelecom LLP, its associate, to Sonera Holding B.V. The Board considered the associate met the criteria to be classified as held for sale as of 31 December 2011 for the following reasons:

- On 21 December 2011, Kazakhtelecom JSC concluded an agreement to sell its ownership in GSM Kazakhstan OJSC Kazakhtelecom LLP to Sonera Holding B.V., a subsidiary of Swedish mobile operator Telia Sonera AB. GSM Kazakhstan OJSC Kazakhtelecom LLP was the separate reportable operations segment of the Group.
- On 1 February 2012, the Group completed the sale for consideration of 1,519 million US dollars (equivalent to 225,738,590 thousand tenge).

For more details on the discontinued operation refer to *Note 37*.

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.

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.

► 4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Allowances (continued)

In 2012, following the change in its estimates, the Group reassessed impairment allowance recognized previously for long term receivables from Mobile Telecom-Service LLP. As a result of this reassessment, the Group reversed previously recognized impairment provisions in the amount of 5,685,203 thousand tenge (*Note 13*).

As of 31 December 2013, allowances for doubtful accounts have been created in the amount of 2,307,739 thousand tenge (2012: 3,001,346 thousand tenge) (*Notes 14, 16, 17 and 19*).

Connection fees

Upfront fees received for activation and connection to the wireline and wireless network that do not represent a separate earning process are deferred and recognized over the expected period of the customer relationship. In making its judgments, management considered the detailed criteria for the recognition of revenues from connection fees set out in IAS 18, industry practice and the Group's historical churn rate. As at 31 December 2013 average customer relationship period is assessed as 13 years for fixed telephony customers, 5 years for internet customers and 11-28 months for mobile and satellite telecommunications customers.

Finance lease – Group as lessee

The Group has entered into leases with respect to certain telecommunication equipment. The Group has determined that the lease transfers substantially all the risks and rewards incidental to ownership of this equipment and, therefore, the lease is classified as a finance lease.

Employee benefit liability

The cost of the defined benefit pension plan and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

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 24*.

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.

The Group has 1,383,399 thousand tenge (2012: 721,758 thousand tenge) of tax losses carried forward. These losses relate to subsidiaries that have a history of losses, expire after 10 years and may not be used to offset taxable income elsewhere in the Group.

The carrying value of recognized deferred tax assets at 31 December 2013 is 352,200 thousand tenge (2012: 108,151 thousand tenge). Further details on taxes are disclosed in *Note 36*.

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the DCF model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See *Note 40* for further disclosures.

► 4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Reclassifications

Certain amounts in the consolidated statement of financial position as at 31 December 2012 have been reclassified in accordance with the format of presentation adopted in the reporting year.

<i>In thousands of tenge</i>	Before reclassifications	Reclassifications	As reclassified	Note
Consolidated statement of financial position as at 31 December 2012				
Other non-current financial assets	–	10,671,993	10,671,993	[1]
Other non-current assets	15,383,368	(10,671,993)	4,711,375	[1]
Other financial assets	45,234,299	1,699,423	46,933,722	[2]
Other current assets	6,271,461	(1,699,423)	4,572,038	[2]
Consolidated statement of comprehensive income as at 31 December 2012				
Other income	2,164,400	594,407	2,758,807	[3]
Other expenses	–	(594,407)	(594,407)	[3]

[1] Separation of non-current portion of long-term receivable from Mobile Telecom-Services LLP in the amount of 7,376,303 thousand tenge, non-current portion of loans to employees in the amount 2,460,464 thousand tenge, long term guarantee deposit in the amount 808,806 thousand tenge and other financial assets in the amount 26,420 thousand tenge from other non-current assets into other non-current financial assets.

[2] Reclassification of current portion of loans to employees in the amount of 1,699,423 thousand tenge to other financial assets.

[3] Reclassification of other expenses in the amount 594,407 thousand tenge into different line in the consolidated statement of comprehensive income.

Reclassifications had no effect on net income, comprehensive income or equity, and the classification of assets and liabilities for current and non-current.

► 5. BUSINESS COMBINATIONS

Acquisition of Digital TV LLP

On 29 March 2013, the Group acquired 100% interest in Digital TV LLP (“DTV”) a private entity that is not listed on any public exchange. DTV is based in the Republic of Kazakhstan and provides analogous and digital cable television services. The Group has acquired DTV because it expands both its existing services portfolio and customer base. The acquisition has been accounted for using the acquisition method. The consolidated financial statements include the results of DTV for the period from the acquisition date.

As of 31 December 2013 the Group completed the valuation of fair value of its share in identified assets, liabilities and contingent liabilities. Business combination was accounted for using fair value amounts as at acquisition date.

Fair value amounts of identified assets, liabilities and contingent liabilities of Digital TV LLP as at the date of acquisition comprised the following:

<i>In thousands of tenge</i>	Fair value recognized on acquisition
Assets	
Property and equipment	5,234,025
Intangible assets	2,364,031
Cash and cash equivalents	307,145
Trade accounts receivable	139,039
Other current assets	117,120
Inventories	58,895
Prepayments	104,837
	8,325,092
Liabilities	
Accounts payable	203,687
Advances received	273,763
Deferred tax liabilities	538,398
Other current liabilities	209,029
	1,224,877
Total identifiable net assets at fair value	7,100,215
Goodwill (Note 9)	2,706,335
Purchase consideration transferred	9,806,550

5. BUSINESS COMBINATIONS (CONTINUED)

Acquisition of Digital TV LLP (continued)

The deferred tax liability mainly comprises the tax effect of the difference between tax base of tangible and intangible assets and fair value of those assets recognized.

The goodwill of 2,706,335 thousand tenge comprises the value of expected synergies arising from the acquisition.

Analysis of cash flows on acquisition	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	307,145
Cash paid	(9,806,550)
Net cash outflow	(9,499,405)

From the date of acquisition, Digital TV LLP has contributed 2,897,565 thousand tenge of revenue and gain in the amount of 106,709 thousand tenge to the net profit before tax from the continuing operations of the Group. If the combination had taken place at the beginning of the year, the Group's revenue from continuing operations would have been 191,846,589 thousand tenge, and the profit from continuing operations for the period would have been 19,556,157 thousand tenge.

Acquisition of MaxCom LLP

On 3 April 2013, the Group acquired 100% interest in MaxCom LLP a not listed private entity. MaxCom LLP is based in the Republic of Kazakhstan and provides mobile and fixed telecommunication services. The Group has acquired MaxCom LLP for widening of frequency band for provision of mobile services and customer base. The acquisition has been accounted for using the acquisition method. The consolidated financial statements include the results of MaxCom LLP for the period from the acquisition date.

Fair value amounts of identified assets, liabilities and contingent liabilities of MaxCom LLP as at the date of acquisition comprised the following:

In thousands of tenge	Fair value recognized on acquisition
Assets	
Property and equipment	53,564
Intangible assets	890,838
Cash and cash equivalents	948
Prepayments	7,055
Other current assets	5,619
	958,024
Liabilities	
Borrowings	41,943
Accounts payable	6,008
Deferred tax liabilities	175,952
Other current liabilities	121
	224,024
Total identifiable net assets at fair value	734,000
Purchase consideration transferred	734,000

The deferred tax liability mainly comprises the tax effect of the difference between tax base of tangible and intangible assets and fair value of those assets recognized.

Analysis of cash flows on acquisition	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	948
Cash paid	(734,000)
Net cash outflow	(733,052)

Since the date of acquisition MaxCom LLP has incurred loss before tax amounted to 17,013 thousand tenge. Revenue and profit for the period from continuing operations would remain unchanged, had the acquisition occurred at the beginning of the year.

6. CONSOLIDATION

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

	Percentage ownership		
	Country of residence	2013	2012
ALTEL JSC	Kazakhstan	100.00%	100.00%
NURSAT JSC	Kazakhstan	77.08%	77.08%
Radio Tell LLP	Kazakhstan	100.00%	100.00%
Signum LLC	Russia	100.00%	100.00%
KT Cloud Lab LLP	Kazakhstan	100.00%	100.00%
VOSTOKTELECOM LLP	Kazakhstan	100.00%	100.00%
Digital TV LLP	Kazakhstan	100.00%	–
MaxCom LLP	Kazakhstan	100.00%	–
Online.kg LLC	Kyrgyzstan	100.00%	100.00%

7. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on the organizational structure of the Group. The Group has three reportable operating segments as follows:

- Wireline telecommunication services mainly provided by Kazakhtelecom JSC, VOSTOKTELECOM LLP and Digital TV LLP business units.
- CDMA and LTE mobile telecommunication services mainly provided by ALTEL JSC business unit.
- Satellite telecommunication services, including data transfer services mainly provided by NURSAT JSC business unit.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

Transfer prices between operating segments are on a basis similar to transactions with third parties.

Year ended 31 December 2013

In thousands of tenge	Wireline telecommunication	CDMA and LTE mobile telecommunication	Satellite telecommunication	Other	Eliminations and adjustments	Group
Revenue						
External customers	180,187,330	8,349,421	2,223,949	106,720	–	190,867,420
Inter-segment	713,934	2,275,534	614,423	1,369,285	(4,973,176)	–
Total revenue	180,901,264	10,624,955	2,838,372	1,476,005	(4,973,176)	190,867,420
Results						
Depreciation and amortization	(32,252,267)	(3,744,618)	(708,844)	(165,707)	–	(36,871,436)
Finance costs	(10,841,708)	(540,399)	(102,449)	–	310,978	(11,173,578)
Finance income	5,059,958	19,737	–	614	(866,124)	4,214,185
(Recovery) / Charge of bad debt expense	337,376	14,382	(26,616)	1,329	–	326,471
Income tax	(4,781,323)	784,042	48,863	2,559	–	(3,945,859)
Segment profit/(loss)	30,922,305	(6,566,763)	(280,745)	1,535	(569,553)	23,506,779
Operating assets	414,018,340	30,780,278	5,042,819	3,739,710	(37,445,869)	416,135,278
Operating liabilities	135,749,285	22,358,699	3,228,734	336,760	(11,041,535)	150,631,943
Other disclosures						
Capital expenditure	69,594,580	8,930,633	176,120	2,028,672	–	80,730,005

7. SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2012

<i>In thousands of tenge</i>	Wireline tele-communications	CDMA and LTE mobile telecommunications	Satellite telecommunications	Other	Eliminations and adjustments	Group
Revenue						
External customers	163,121,469	10,254,952	2,208,574	83,966	–	175,668,961
Inter-segment	1,671,542	1,764,477	1,208,828	564,941	(5,209,788)	–
Total revenue	164,793,011	12,019,429	3,417,402	648,907	(5,209,788)	175,668,961
Results						
Depreciation and amortization	(34,276,882)	(1,987,679)	(681,159)	(87,694)	–	(37,033,414)
Finance costs	(11,757,145)	(149,891)	(91,860)	(39)	3,198	(11,995,737)
Finance income	3,713,929	14,186	–	992	–	3,729,107
(Recovery) / Charge of bad debt expense	(5,490,235)	97,061	26,161	(182)	–	(5,367,195)
Income tax	(4,066,270)	(207,080)	(75,991)	(3,400)	–	(4,352,741)
Segment profit/(loss)	25,186,664	(812,202)	114,607	10,720	–	24,499,789
Operating assets	417,860,633	20,478,162	5,524,362	1,611,507	(26,215,454)	419,259,210
Operating liabilities	131,375,754	10,747,846	3,470,248	594,005	(3,676,142)	142,511,711
Other disclosures						
Capital expenditure	67,173,136	4,919,703	372,061	638,087	–	73,102,987

- 1) Inter-segment revenues are eliminated on consolidation.
- 2) Finance costs and income does not include inter-segment finance charges.
- 3) Segment operating profit does include profit from inter-segment sales.
- 4) Capital expenditure consists of additions of property and equipment and intangible assets.

Reconciliation of profit

<i>In thousands of tenge</i>	2013	2012
Segment profit	24,076,332	24,499,789
Other	(569,553)	–
Group profit	23,506,779	24,499,789

Reconciliation of assets

<i>In thousands of tenge</i>	2013	2012
Segment operating assets	453,581,147	445,474,664
Elimination of the Company's investments in subsidiaries	(26,674,775)	(21,904,990)
Elimination of intergroup balances of accounts receivable and payable	(10,771,094)	(4,310,464)
Group operating assets	416,135,278	419,259,210

Reconciliation of liabilities

<i>In thousands of tenge</i>	2013	2012
Segment operating liabilities	160,323,580	146,187,853
Deferred tax liabilities	1,079,457	634,322
Elimination of intergroup balances of accounts receivable and payable	(10,771,094)	(4,310,464)
Group operating liabilities	150,631,943	142,511,711

► 8. PROPERTY AND EQUIPMENT

The movements in property and equipment for the year ended 31 December were as follows:

<i>In thousands of tenge</i>	Land	Buildings and constructions	Equipment	Other	Construction in progress	Total
Cost						
At 1 January 2012	652,643	33,837,831	344,359,701	12,473,761	27,195,811	418,519,747
Additions	16,272	217,255	32,220,192	1,331,289	31,261,915	65,046,923
Internal transfers	–	3,645,932	21,898,510	(839,911)	(24,704,531)	–
Disposals	(1,842)	(222,917)	(5,340,260)	(351,714)	(117,558)	(6,034,291)
Transfers to intangible assets (Note 9)	–	–	–	–	(378,379)	(378,379)
At 31 December 2012	667,073	37,478,101	393,138,143	12,613,425	33,257,258	477,154,000
Additions	4,919	858,242	36,198,818	1,051,075	24,600,675	62,713,729
Acquisition of a subsidiaries (Note 5)	4,735	496,946	4,635,803	33,832	116,273	5,287,589
Internal transfers	–	4,784,689	21,023,767	(136,286)	(25,672,170)	–
Disposals	(2,029)	(166,208)	(6,184,942)	(258,200)	(20,336)	(6,631,715)
Transfers to intangible assets (Note 9)	–	–	–	–	(987,709)	(987,709)
At 31 December 2013	674,698	43,451,770	448,811,589	13,303,846	31,293,991	537,535,894
Accumulated depreciation and impairment						
At 1 January 2012	–	8,720,707	174,627,726	7,735,392	89,165	191,172,990
Depreciation expense	–	1,462,629	31,242,979	1,221,165	–	33,926,773
Disposals	–	(85,908)	(4,760,333)	(323,121)	(85,243)	(5,254,605)
At 31 December 2012	–	10,097,428	201,110,372	8,633,436	3,922	219,845,158
Depreciation expense	–	1,596,721	30,935,818	1,081,363	–	33,613,902
Disposals	–	(50,506)	(4,862,093)	(241,006)	–	(5,153,605)
At 31 December 2013	–	11,643,643	227,184,097	9,473,793	3,922	248,305,455
Net book value						
At 31 December 2011	652,643	25,117,124	169,731,975	4,738,369	27,106,646	227,346,757
At 31 December 2012	667,073	27,380,673	192,027,771	3,979,989	33,253,336	257,308,842
At 31 December 2013	674,698	31,808,127	221,627,492	3,830,053	31,290,069	289,230,439

Construction in progress primarily represents construction of network and telecommunication equipment under installation.

At 31 December 2013, certain property and equipment with a net carrying amount of 3,046,995 thousand tenge (2012: 6,809,247 thousand tenge) were pledged as security for some of the Group's borrowings (Note 22).

Borrowing costs of 32,223 thousand tenge on loans obtained to finance the construction of property and equipment were capitalized during 2013 at an average capitalization rate of 5.75% (2012: 78,986 thousand tenge at an average capitalization rate of 4.23%).

At 31 December 2013, the carrying value of equipment held under finance leases and included in property and equipment amounted to 28,903,323 thousand tenge (2012: 24,130,201 thousand tenge). Additions during the year include 7,768,930 thousand tenge (2012: 7,892,857 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 2013, property and equipment amounting to 120,459,427 thousand tenge, were fully amortized (2012: 108,675,442 thousand tenge).

9. GOODWILL AND INTANGIBLE ASSETS

The movements of goodwill and intangible assets for the year ended 31 December were as follows:

<i>In thousands of tenge</i>	Licenses and trademarks	Software	Goodwill	Other	Total
Cost					
At 1 January 2012	15,282,519	15,344,051	–	1,630,637	32,257,207
Additions	6,060,191	1,995,873	–	–	8,056,064
Transfers from construction in progress (Note 8)	98,641	279,738	–	–	378,379
Disposals	(260,135)	(157,236)	–	–	(417,371)
Internal movements	259,858	(259,858)	–	–	–
At 31 December 2012	21,441,074	17,202,568	–	1,630,637	40,274,279
Additions	2,920,051	2,590,449	–	1,256,983	6,767,483
Acquisition of a subsidiaries (Note 5)	967,401	81,246	2,706,335	2,206,222	5,961,204
Transfers from construction in progress (Note 8)	324,192	663,517	–	–	987,709
Disposals	(105,679)	(532,756)	–	(67,684)	(706,119)
Internal movements	293,328	(293,328)	–	–	–
At 31 December 2013	25,840,367	19,711,696	2,706,335	5,026,158	53,284,556
Accumulated amortization					
At 1 January 2012	10,490,973	9,394,312	–	1,464,117	21,349,402
Amortization expense	1,150,959	1,920,605	–	53,948	3,125,512
Disposals	(260,135)	(157,020)	–	–	(417,155)
At 31 December 2012	11,381,797	11,157,897	–	1,518,065	24,057,759
Amortization expense	1,451,765	1,621,943	–	217,958	3,291,666
Disposals	(82,644)	(152,817)	–	(67,160)	(302,621)
At 31 December 2013	12,750,918	12,627,023	–	1,668,863	27,046,804
Net book value					
At 31 December 2011	4,791,546	5,949,739	–	166,520	10,907,805
At 31 December 2012	10,059,277	6,044,671	–	112,572	16,216,520
At 31 December 2013	13,089,449	7,084,673	2,706,335	3,357,295	26,237,752

Certain licenses were acquired through business combinations.

Acquisition during the year

Licenses and trademarks, software and other include intangible assets acquired through business combinations. Other intangible assets include customer base in the amount of 1,771,615 thousand tenge acquired through a business combination with DTV (Note 5).

As at 31 December 2013, these assets were tested for impairment (Note 10).

As at 31 December 2013 intangible assets (mainly software) amounting to 6,283,986 thousand tenge were fully amortized (2012: 5,317,884 thousand tenge).

10. IMPAIRMENT TESTING OF GOODWILL

Goodwill acquired through business combination has been allocated to the IP TV cash generating unit, which is part of wireline telecommunications segment.

Carrying amount of goodwill allocated to IP TV CGU:

	Wireline telecommunication services	
	2013	2012
Goodwill	2,706,335	–

► 10. IMPAIRMENT TESTING OF GOODWILL (CONTINUED)

The Group performed its annual impairment test as of 31 December 2013.

The recoverable amount of the cash-generating unit as at 31 December 2013 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 pre-tax discount rate applied to cash flow projections is 13.27% and cash flows beyond the five-year period are extrapolated using a 1% growth rate that approximates the expected long-term average growth rate for the telecommunications industry. As a result of this analysis, as at 31 December 2013 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 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 infrastructure to increase market share of Kazakhtelecom. 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 19% would result in accrual of expenses from impairment in the IP TV CGU.

Growth rate assumptions

Management recognises that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions. A reduction to -9% in the long-term growth rate in IP TV CGU would result in impairment.

Discount rates

A rise in pre-tax discount rate to 19% in the IP TV CGU would result in impairment.

► 11. ADVANCES PAID FOR NON-CURRENT ASSETS

As at 31 December 2013 and 2012, advances paid for non-current assets comprised advances to contractors for the construction and supply of property and equipment (mainly telecommunication equipment).

► 12. INVESTMENT PROPERTY

The movement in investment property was as follows for the years ended 31 December:

<i>In thousands of tenge</i>	2013	2012
Cost		
At 1 January	1,264,668	1,264,668
At 31 December	1,264,668	1,264,668
Accumulated impairment		
At 1 January	(1,264,668)	(1,264,668)
At 31 December	(1,264,668)	(1,264,668)
Carrying amount		
At 1 January	–	–
At 31 December	–	–

Investment property represents an office building constructed for the purposes of renting to Government related entities.

The impairment of 1,264,668 thousand tenge represents the write down of the carrying value of the investment property to the recoverable amount. The recoverable amount was based on analysis of value in use and fair value less costs to sell and estimated to be zero as of 31 December 2013 and 2012, 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.

► 13. OTHER NON-CURRENT FINANCIAL ASSETS

Other non-current financial assets comprised the following at 31 December:

<i>In thousands of tenge</i>	2013	2012
Long-term trade receivables	7,622,976	7,376,303
Long-term loans to employees	2,783,614	2,460,464
Long-term guarantee deposits placed	374,858	808,806
Other	26,420	26,420
	10,807,868	10,671,993
Less: impairment allowance	–	–
	10,807,868	10,671,993

Long-term trade receivables as at 31 December 2013, 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 ten years. The long-term loans were discounted at origination using market interest rates. 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.

Long-term guarantee deposits placed represent restricted deposits placed as a security for some of the Group's borrowings and cannot be used until maturity. Average interest rate for deposits was 1.5% per annum (2012: 1.47%) (Note 22).

The movements in the impairment allowance were as follows for the years ended 31 December:

<i>In thousands of tenge</i>	2013	2012
Allowance for doubtful debts at the beginning of the year	–	(5,685,203)
Recovery for the year	–	5,685,203
Allowance for doubtful debts at the end of the year	–	–

► 13. OTHER NON-CURRENT FINANCIAL ASSETS (CONTINUED)

As of 31 December, the Group's other non-current financial assets were denominated in various currencies as follows:

<i>In thousands of tenge</i>	2013	2012
Tenge	10,406,640	10,262,995
US dollars	374,808	382,578
Other	26,420	26,420
	10,807,868	10,671,993

► 14. OTHER NON-CURRENT ASSETS

Other non-current assets comprised the following at 31 December:

<i>In thousands of tenge</i>	2013	2012
Deferred connection costs	2,944,502	3,224,292
Long-term VAT recoverable	1,216,958	1,222,787
Other	292,663	264,296
	4,454,123	4,711,375
Less: impairment allowance	(3,250)	–
	4,450,873	4,711,375

At 31 December 2013 and 2012, 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>	2013	2012
Impairment allowance at the beginning of the year	–	–
Charge for the year	(3,250)	–
Impairment allowance at the end of the year	(3,250)	–

► 15. INVENTORIES

Inventories comprised the following at 31 December:

<i>In thousands of tenge</i>	2013	2012
Cable materials at cost	1,611,715	1,813,467
Other materials and supplies at cost	1,366,477	940,732
Goods for resale at net realizable value	910,892	437,176
Spare parts at cost	887,788	936,262
Fuel at cost	562,342	564,542
	5,339,214	4,692,179

► 16. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable comprised the following at 31 December:

<i>In thousands of tenge</i>	2013	2012
Trade receivables	18,077,833	20,027,562
	18,077,833	20,027,562
Less: allowance for doubtful debts	(1,885,077)	(2,616,112)
	16,192,756	17,411,450

The movements in the allowance for doubtful debts were as follows for the years ended 31 December:

<i>In thousands of tenge</i>	2013	2012
Allowance for doubtful debts at the beginning of the year	(2,616,112)	(2,567,505)
Charge for the year	(282,399)	(291,635)
Write-offs	1,013,434	243,028
Allowance for doubtful debts at the end of the year	(1,885,077)	(2,616,112)

► 16. TRADE ACCOUNTS RECEIVABLE (CONTINUED)

As at 31 December, the ageing analysis of trade receivables is as follows:

In thousands of tenge	Total	Neither past due nor impaired	Past due but not impaired				
			<30 days	30-90 days	90-120 days	120-360 days	>360 days
2013	16,192,756	13,799,530	1,427,668	522,023	327,074	116,461	–
2012	17,411,450	15,292,136	1,323,221	587,012	137,800	71,281	–

As at 31 December, the Group's trade accounts receivable were denominated in various currencies as follows:

In thousands of tenge	2013	2012
Tenge	15,514,427	16,472,611
US dollars	625,092	869,211
Other	53,237	69,628
	16,192,756	17,411,450

► 17. PREPAYMENTS

Prepayments comprised the following at 31 December:

In thousands of tenge	2013	2012
Prepayments	1,097,200	826,978
	1,097,200	826,978
Less: impairment allowance	(33,508)	(17,434)
	1,063,692	809,544

The movements in the impairment allowance were as follows for the years ended 31 December:

In thousands of tenge	2013	2012
Impairment allowance at the beginning of the year	(17,434)	(10,030)
Charge for the year	(16,623)	(13,849)
Write-offs	549	6,445
Impairment allowance at the end of the year	(33,508)	(17,434)

► 18. OTHER FINANCIAL ASSETS

Other financial assets comprised the following at 31 December:

In thousands of tenge	2013	2012
Bank deposits	4,870,000	44,580,940
Restricted cash on current bank account	4,056,059	–
Due from employees	1,970,371	1,699,423
Other receivable	537,000	–
Restricted deposit	441,000	–
Interest receivable	271,971	653,359
	12,146,401	46,933,722

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 3 to 6.5% per annum (2012: from 2 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.

Restricted deposit with interest rate of 1.45% per annum was placed as collateral for borrowings for the period less than one year.

As of 31 December, the Group's other financial assets were denominated in various currencies as follows:

In thousands of tenge	2013	2012
Tenge	12,134,969	11,698,625
US dollars	11,432	35,235,097
	12,146,401	46,933,722

► 19. OTHER CURRENT ASSETS

Other current assets comprised the following at 31 December:

<i>In thousands of tenge</i>	2013	2012
VAT recoverable	2,094,175	1,168,940
Deferred expenses	1,821,116	1,609,475
Prepaid taxes other than income tax	311,058	492,721
Other	2,730,834	1,668,702
	6,957,183	4,939,838
Less: impairment allowance	(385,904)	(367,800)
	6,571,279	4,572,038

Other represent 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>	2013	2012
Allowance at the beginning of the year	(367,800)	(239,187)
Charge for the year	(23,665)	(140,259)
Write-offs	5,561	11,646
Allowance at the end of the year	(385,904)	(367,800)

At 31 December 2013 and 2012, other current assets were primarily denominated in tenge.

► 20. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following at 31 December 2013 and 2012:

<i>In thousands of tenge</i>	2013	2012
Cash on current bank accounts	41,516,634	51,173,062
Deposits with maturity less than 90 days from origination date	802,136	2,247,768
Cash on hand	34,053	45,371
	42,352,823	53,466,201

Cash on current bank accounts earn interest at the rates ranging from 0.08 to 3.98% per annum (2012: from 0.11 to 4.26% 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 4% per annum (2012: from 0.1 to 4% per annum).

At 31 December cash and cash equivalents were denominated in various currencies as follows:

<i>In thousands of tenge</i>	2013	2012
US dollars	28,935,778	23,196,670
Tenge	13,081,223	29,833,383
Russian rubles	185,181	430,951
Euro	148,581	2,252
Other	2,060	2,945
	42,352,823	53,466,201

21. EQUITY

Authorised and issued shares

	Number of shares		Thousands of tenge		
	Ordinary shares	Preferred non-voting shares	Ordinary shares	Preferred non-voting shares	Total issued capital
As at 31 December 2011	10,922,876	1,213,653	10,922,876	1,213,653	12,136,529
As at 31 December 2012	10,922,876	1,213,653	10,922,876	1,213,653	12,136,529
As at 31 December 2013	10,922,876	1,213,653	10,922,876	1,213,653	12,136,529

Treasury shares

	Number of shares		Thousands of tenge		
	Ordinary shares	Preferred non-voting shares	Ordinary shares	Preferred non-voting shares	Total
As at 31 December 2012	186,688	885,829	2,583,167	3,436,548	6,019,715
Treasury shares purchased	45,748	20,477	666,953	259,511	926,464
Treasury shares sold	(28,481)	(20,074)	(407,749)	(248,286)	(656,035)
As at 31 December 2013	203,955	886,232	2,842,371	3,447,773	6,290,144

Issued shares net of treasury shares

As of 31 December 2013, outstanding issued ordinary and preferred shares net of treasury shares were 10,718,921 and 327,421 respectively (in 2012: 10,736,188 and 327,824 respectively).

Preferred shares

Preferred stockholders are entitled to priority rights for participation in dividends and in any case are entitled, at the discretion of the Company's shareholders, to 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, amounts to 892,966 thousand tenge (2012: 894,065 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 98,450 thousand tenge were accrued during the year ended 31 December 2013 (2012: 89,787 thousand tenge) and are treated as finance costs in the consolidated statement of comprehensive income. Present value of non-discounted future cash flows represents the liability component in liabilities.

According to the decisions of the General Shareholders' Meeting held on 20 May and Extraordinary General Shareholder's Meeting held on 27 December 2013, the Company declared additional dividends on preferred shares in the amount of 803,398 thousand tenge and dividends on ordinary shares in the amount of 29,643,596 thousand tenge (2012: 7,763,813 thousand tenge and 217,178,896 thousand tenge, respectively). Dividends declared per share (ordinary and preferred): 2,604 tenge (2012: 19,888 tenge).

<i>In thousands of tenge</i>	2013	2012
Dividends declared on ordinary shares	29,643,596	217,178,896
Dividends declared on preferred shares	803,398	7,763,813
	30,446,994	224,942,709
Withholding tax accrued	(28,067)	(1,814,779)
Dividends paid	(1,928,375)	(222,008,044)
Change in dividends payable	28,589,002	1,209,673

21. EQUITY (CONTINUED)

Other capital reserve

According to the Company's Charter, the Company created a reserve capital which is equal to 15% of the authorized share capital. This reserve was created from the appropriation of the retained earnings.

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.

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>	2013	2012
Net profit attributable to ordinary owners of the parent from continuing operations	19,614,067	20,133,237
Net profit attributable to ordinary owners of the parent from a discontinued operations	–	201,996,328
Net profit attributable to ordinary owners of the parent for basic and diluted earnings	19,614,067	222,129,565
Interest on debt component of preferred shares	98,450	89,787
Net profit attributable to ordinary and preferred owners of the parent for basic and diluted earnings	19,712,517	222,219,352
Weighted average number of all shares outstanding for basic and diluted earnings per share	11,049,653	11,126,010
Basic and diluted earnings per share, tenge	1,783,99	19,972,96

There have been no other transactions involving ordinary shares between the reporting date and the date of completion of these financial statements.

To calculate earnings per share amounts for the discontinued operation (Note 37), the weighted average number of all shares for both basic and diluted amounts is as per the table above. The following table provides the profit figure used:

<i>In thousands of tenge</i>	2013	2012
Net profit attributable to ordinary owners of the parent from a discontinued operation for basic and diluted earnings per share calculations	–	201,996,328

In accordance with Kazakhstan Stock Exchange requirements the Company 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 2013, that measure was 22,291 tenge (2012: 24,236 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 2013, that measure was 10,878 tenge (2012: 8,819 tenge).

22. BORROWINGS

Borrowings comprised the following at 31 December:

<i>In thousands of tenge</i>	Weighted average interest rate	2013	Weighted average interest rate	2012
Fixed interest rate borrowings with range between 3% and 8.5% p.a.	5.49%	17,004,856	6.36%	12,928,056
Variable interest rate borrowings with range between 2.59% and 9.5% p.a.	6.69%	28,141,211	8.10%	62,207,489
		45,146,067		75,135,545

At 31 December borrowings were denominated in various currencies as follows:

<i>In thousands of tenge</i>	2013	2012
US dollar	22,246,768	21,071,395
Tenge, payments indexed to exchange rate tenge/US dollar	16,242,112	47,401,708
Tenge	5,144,630	4,998,812
Won	1,512,557	1,595,527
EURO	–	68,103
	45,146,067	75,135,545

Borrowings are repayable as follows:

<i>In thousands of tenge</i>	2013	2012
Current portion	9,117,411	11,349,815
Maturity between 1 and 2 years	4,799,169	7,939,301
Maturity between 2 and 5 years	11,960,887	9,421,752
Maturity over 5 years	19,268,600	46,424,677
Total long-term portion	36,028,656	63,785,730
Total borrowings	45,146,067	75,135,545

In September 2013, the Group made early redemption of bonds issued by Development Bank of Kazakhstan for nominal amount 30,580,000 thousands tenge and paid premium in amount of 2,201,760 thousands tenge. As at 31 December 2013, the Group has outstanding bonds in the amount of 16,242,112 thousand tenge.

As at 31 December 2013, certain property and equipment with a net carrying amount of 3,046,995 thousand tenge were pledged as a security for some of the Group's borrowings (2012: 6,809,247 thousand tenge) (Note 8).

As at 31 December 2013, long-term guarantee deposits in amount of 374,808 thousand tenge were placed in banks as a security for some of the Group's borrowings (2012: 808,806 thousand Tenge) (Note 13).

As at 31 December 2013, the Group's borrowings of 1,512,557 thousand tenge were guaranteed by the Government of the Republic of Kazakhstan (2012: 1,595,527 thousand Tenge) (Note 39).

23. 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:

▸ 23. LEASES (CONTINUED)

<i>In thousands of tenge</i>	2013		2012	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Within one year	8,912,030	6,994,294	8,079,113	6,067,658
After one year but not more than five years	12,496,169	10,689,177	12,635,535	10,125,646
After five years	–	–	–	–
Less: amounts representing interest charges	(3,724,728)	–	(4,521,344)	–
Present value of minimum lease payments	17,683,471	17,683,471	16,193,304	16,193,304
Less: amounts due for settlement within 12 months		(6,994,294)		(6,067,658)
Amounts due for settlement after 12 months		10,689,177		10,125,646

The amounts representing interest are based on effective interest rates ranging from 12.5% to 21% p.a.

Operating leases

The Group has entered into commercial leases on certain property and equipment, primarily buildings and premises. These leases have an average life of 1 year with renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases. Operating lease commitments are disclosed in *Note 41*.

▸ 24. EMPLOYEE BENEFIT LIABILITY

State contribution plan

The Group pays social tax according to the current statutory requirements in the Republic of Kazakhstan. Social tax and payroll are expensed as incurred.

The Group also withholds 10% from the salaries of its employees as the employee contribution and transfers on behalf of employees to their personal accounts at cumulative pension funds. These amounts are part of payroll and expensed when they are incurred.

Defined benefit plan

Employee benefit liability under this plan are payable in accordance with a labour union agreement concluded between the Company and its employees.

The Defined Benefit Plan is unfunded.

The total liability for the Company's defined benefit plan comprised the following at 31 December:

<i>In thousands of tenge</i>	2013	2012
Present value of defined benefit liability	4,963,458	5,172,236

▸ 24. EMPLOYEE BENEFIT LIABILITY (CONTINUED)

Defined benefit plan (continued)

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>	2013	2012
Total liability at the beginning of the year	5,172,236	5,455,792
Current service cost	229,063	238,423
Interest cost	486,030	498,392
Benefits paid during the year	(1,023,908)	(804,501)
Actuarial loss/(gain) recognized during the year	100,037	(215,870)
Total liability at the end of the year	4,963,458	5,172,236
Liability falling due within one year	362,721	354,137
Liability falling due after one year	4,600,737	4,818,099

Actuarial loss recognised for the year ended 31 December 2013 results primarily from changes in the assumptions relating to the discount rate and expected rate of future annual minimum salary increases. In determining the appropriate discount rate, management considers the interest rate of highly rated corporate bonds in the respective currency.

Current service cost and interest cost in the aggregate amount of 715,093 thousand tenge were recorded in the cost of revenue and general and administrative expenses within personnel costs (2012: 520,945 thousand tenge) (Note 33).

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:

	2013	2012
Discount rate	9.40%	9.73%
The expected rate of future annual minimum salary increase	6.24%	7.88%

▸ 25. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities comprised the following at 31 December:

<i>In thousands of tenge</i>	2013	2012
Deferred connection revenue	3,304,035	3,883,165
Asset retirement obligations	1,065,771	553,309
Other	63,951	34,002
	4,433,757	4,470,476

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 for the years ended 31 December:

<i>In thousands of tenge</i>	2013	2012
Provision for asset retirement obligations at 1 January	553,309	217,542
Increase in provision for the year	479,901	319,387
Unwinding of discount	32,561	16,380
Provision for asset retirement obligations at 31 December	1,065,771	553,309

▸ 26. ACCOUNTS PAYABLE

Accounts payable comprised the following at 31 December:

<i>In thousands of tenge</i>	2013	2012
Accounts payable for property and equipment	13,663,823	9,975,206
Accounts payable for services	5,776,442	5,372,137
Accounts payable for inventory	2,498,959	288,214
	21,939,224	15,635,557

As at 31 December 2013 and 2012, accounts payable were not interest bearing.

As at 31 December, accounts payable were denominated in various currencies as follows:

<i>In thousands of tenge</i>	2013	2012
Tenge	18,085,138	13,395,937
US dollars	2,250,816	1,905,107
Euro	1,513,261	91,154
Other	90,009	243,359
	21,939,224	15,635,557

▸ 27. OTHER CURRENT LIABILITIES

Other current liabilities comprised the following at 31 December:

<i>In thousands of tenge</i>	2013	2012
Dividends payable (Note 21)	30,268,498	1,679,496
Due to employees	3,580,509	2,837,900
Deferred connection revenue	1,498,531	1,703,433
Taxes payable other than income tax	1,198,333	1,432,909
Payable to pension funds	674,322	555,449
Guarantees issued	–	112,755
Other	798,949	755,637
	38,019,142	9,077,579

At 31 December 2013 and 2012, other current liabilities were not interest bearing and were primarily denominated in tenge.

▸ 28. REVENUE

Revenue for the year ended 31 December comprised the following:

<i>In thousands of tenge</i>	2013	2012
Data transfer services	83,195,307	67,407,857
Rendering of wireline and wireless phone services	70,893,249	70,715,198
Interconnect	14,213,905	16,007,198
Rent of lines	6,564,206	9,671,510
Sale of equipment and mobile devices	5,596,720	1,349,901
Other	5,375,449	5,208,669
	185,838,836	170,360,333

▸ 29. 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 2013, totalled 5,028,584 thousand tenge (2012: 5,308,628 thousand tenge).

▸ 30. COST OF REVENUE

Cost of services provided for the year ended 31 December, comprised the following:

<i>In thousands of tenge</i>	2013	2012
Personnel costs (Note 33)	46,563,523	40,915,221
Depreciation and amortization	36,243,501	36,562,009
Interconnect	11,039,100	12,262,833
Repair and maintenance	7,624,529	7,404,389
Rent of channels	6,842,979	6,295,314
Materials	6,382,829	6,803,653
Equipment and mobile devices	5,762,261	1,976,895
Electricity	2,257,648	1,874,414
Rental of equipment	2,069,462	1,691,914
Security and safety	2,040,968	2,057,206
Fees for the right to provide telecom services	1,795,381	1,722,447
Fees for use of frequency range	1,243,562	814,260
Other	5,860,018	3,797,796
	135,725,761	124,178,351

▸ 31. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the year ended 31 December, comprised the following:

<i>In thousands of tenge</i>	2013	2012
Personnel costs (Note 33)	11,023,218	11,614,134
Taxes other than income tax	2,782,580	2,410,639
Consulting services	1,484,531	1,113,021
Bank fees	678,158	619,282
Social activities	658,811	643,177
Depreciation and amortization	627,935	471,405
Business trips	485,631	467,315
Insurance	414,018	327,002
Materials	358,714	365,169
Repair and maintenance	248,311	299,710
Rental of equipment	234,483	166,242
Trainings	224,084	297,034
Security and safety	103,341	105,051
Charge for / (recovery of) bad debt expense (Notes 14, 16, 17 and 19)	326,471	(5,367,195)
Other	1,183,107	645,160
	20,833,393	14,177,146

▸ 32. SELLING EXPENSES

Selling expenses for the year ended 31 December, comprised the following:

<i>In thousands of tenge</i>	2013	2012
Marketing and advertising	3,512,477	3,601,808
Dealer commissions	1,300,548	1,231,278
Other	537,905	446,235
	5,350,930	5,279,321

▸ 33. PERSONNEL COSTS

Personnel costs for the year ended 31 December, comprised the following:

<i>In thousands of tenge</i>	2013	2012
Payroll	51,898,668	47,392,195
Payroll related taxes	4,972,980	4,616,215
Employee benefits expense (Note 24)	715,093	520,945
	57,586,741	52,529,355

The split of personnel costs for the year comprised the following:

<i>In thousands of tenge</i>	2013	2012
Cost of revenue (Note 30)	46,563,523	40,915,221
General and administrative expenses (Note 31)	11,023,218	11,614,134
	57,586,741	52,529,355

▸ 34. FINANCE COSTS/INCOME

Finance costs and income for the year comprised the following:

<i>In thousands of tenge</i>	2013	2012
Finance costs		
Interest on borrowings	(7,081,563)	(5,757,963)
Interest payable under finance leases	(2,211,460)	(1,983,479)
Discounting of long-term loans to employees	(1,497,698)	(2,297,270)
Discounting of non-current financial assets (Note 13)	(284,407)	(1,867,238)
Interest on debt component of preferred shares (Note 21)	(98,450)	(89,787)
	(11,173,578)	(11,995,737)
Finance income		
Interest income on bank deposits	1,839,451	1,228,348
Amortization of discount on long-term loans to employees	1,001,213	852,243
Amortization of discount on long-term trade receivables (Note 13)	887,673	451,906
Income on current accounts	373,093	915,507
Interest income on guarantees issued	112,755	281,103
	4,214,185	3,729,107

35. OTHER INCOME/EXPENSES

Other income and expenses for the year comprised the following:

<i>In thousands of tenge</i>	2013	2012
Other income		
Rent income	1,905,616	1,621,345
Non-core operations	428,782	401,414
Other	817,166	736,048
	3,151,564	2,758,807

Rent income mainly represents rent of spaces designated for the installation of technological equipment by third parties.

<i>In thousands of tenge</i>	2013	2012
Other expenses		
Non-core operations	(450,918)	(456,550)
Rent income	(10,424)	(7,586)
Other	(549,451)	(130,271)
	(1,010,793)	(594,407)

36. INCOME TAX

Corporate income tax expense comprised the following:

<i>In thousands of tenge</i>	2013	2012
Current corporate income tax charge	4,107,939	3,063,541
Deferred tax (income)/expense	(162,080)	1,289,200
	3,945,859	4,352,741

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% in 2013 and 2012.

A reconciliation of corporate income tax expense applicable to profit before income tax at the statutory income tax rate of 20% (2012: 20%) to current income tax expense was as follows for the year ended 31 December 2013:

<i>In thousands of tenge</i>	2013	2012
Profit before tax from continuing operations	23,506,779	24,499,789
Gain before tax from discontinued operations	-	201,996,328
Profit before income tax	23,506,779	226,496,117
At statutory income tax rate of 20%	4,701,356	45,299,223
Non-taxable gain on disposal of the investment in an associate	-	(40,399,266)
Change in unrecognized deferred tax assets	82,117	(3,950)
Non-taxable gain	(837,614)	(543,266)
Total income tax expense	3,945,859	4,352,741

36. INCOME TAX (CONTINUED)

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 at 31 December:

	Consolidated statement of financial position		Consolidated statement of comprehensive income	
<i>In thousands of tenge</i>	31 December 2013	31 December 2012	2013	2012
Deferred tax assets				
Tax losses carry-forward	1,383,399	721,758	661,641	(86,129)
Deferred income	–	155,090	(155,090)	(209,822)
Employee benefits obligations	1,012,700	1,034,447	(21,747)	(56,711)
Bad debt allowance	348,644	430,621	(81,977)	(756,444)
Intangible assets	192,182	42,988	149,194	(571,221)
Discount on non-current assets	1,547,178	1,604,548	(57,370)	565,755
Other	1,019,450	528,594	490,856	333,246
Less: deferred tax assets offset with deferred tax liabilities	(5,151,353)	(4,409,895)	(741,458)	710,013
Deferred tax assets	352,200	108,151	244,049	(71,313)
Deferred tax liabilities				
Property and equipment	17,406,959	16,383,509	1,023,450	478,519
Intangible assets	1,058,135	563,816	(220,031)	29,355
Less: deferred tax assets offset with deferred tax liabilities	(5,151,353)	(4,409,895)	(741,458)	710,013
Deferred tax liabilities	13,313,741	12,537,430	61,961	1,217,887
Deferred tax expense			(182,088)	1,289,200
Reflected in the statement of financial position as follows				
Deferred tax assets			352,200	108,151
Deferred tax liability			(13,313,741)	(12,537,430)
Net deferred tax liabilities			(12,961,541)	(12,429,279)

<i>In thousands of tenge</i>	2013	2012
Reconciliation of deferred tax liabilities, net		
Opening balance as of 1 January	12,429,279	11,140,079
Tax income during the period recognized in profit or loss	(162,080)	1,289,200
Tax income during the period recognized in other comprehensive income	(20,008)	–
Deferred taxes acquired in business combinations	714,350	–
Closing balance as at 31 December	12,961,541	12,429,279

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. In accordance with Kazakhstan tax legislation tax losses can be carried forward up to ten years from the origination date and will start expiring in 2020 year. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

37. DISCONTINUED OPERATIONS

As at 31 December 2011, the Group had a 49% interest in LLP GSM Kazakhstan OJSC Kazakhtelecom ("GSM Kazakhstan"), which is engaged in the provision of mobile telecommunication services in the GSM standard in Kazakhstan. GSM Kazakhstan is a private entity that is not listed on any public exchange.

On 21 December 2011, Kazakhtelecom concluded an agreement to sell its 49% ownership in GSM Kazakhstan to Sonera Holdings B.V., a subsidiary of Swedish mobile operator Telia Sonera AB.

On 1 February 2012, the Group completed the sale of 49% ownership in GSM Kazakhstan for the consideration of 1,519 million of US dollars (equivalent to 225,738,590 thousand tenge). As a result, the gain from disposal comprised of 200,033,665 thousand tenge. The cash flows generated by the sale of the discontinued operation during 2012 have been considered in the cash flow statement as part of investing activities.

The movements in the investment in an associate balance were as follows:

<i>In thousands of tenge</i>	2013	2012
As at 1 January	–	58,389,446
Share of profit of an associate	–	1,962,663
Dividends declared	–	(34,723,134)
Discontinued operations	–	(25,628,975)
As at 31 December	–	–

The movements in dividends receivable from an associate were as follows:

<i>In thousands of tenge</i>	2013	2012
As at 1 January	–	–
Dividends declared	–	34,723,134
Cash received	–	(34,723,134)
As at 31 December	–	–

Discontinued operation comprised of the following during the year ended 31 December:

<i>In thousands of tenge</i>	2013	2012
Share of profit of an associate	–	1,962,663
Profit before tax from a discontinued operation	–	1,962,663
Gain on disposal	–	200,033,665
Income tax expense	–	–
Profit after tax for the period from a discontinued operation	–	201,996,328

Gain on disposal of the investment comprised the following:

<i>In thousands of tenge</i>	2012
Consideration received from Sonera Holdings B.V.	225,738,590
Net assets associated with disposal group as of the date of disposal	(25,628,975)
Forex gain	(75,950)
Gain on disposal	200,033,665

Earnings per share from a discontinued operation were as follows:

<i>In tenge</i>	2013	2012
Basic and diluted earnings per share, from a discontinued operation, tenge	–	18,155,32

► 38. NON-CASH TRANSACTIONS

These transactions have been excluded from the consolidated statement of cash flows:

In 2013, under finance lease agreements, the Group received telecommunication equipment with a value of 7,768,930 thousand tenge (2012: 7,892,857 thousand tenge).

In 2013, the Group capitalized interest on borrowings to the cost of property and equipment in the amount 32,223 thousand tenge (2012: 78,986 thousand tenge).

In 2013, the Group transferred property and equipment to the inventory in the amount 704,852 thousand tenge.

In 2013, the Group, in accordance with an agreement with counterparty, offset accounts payable and trade accounts receivable for property and equipment in the amount 391,681 thousand tenge.

In 2013, 9,326,736 thousand tenge was paid for property and equipment purchased in the prior year (2012: 7,043,577 thousand tenge). Property and equipment of 13,663,823 thousand tenge was purchased in 2013 but not paid by 31 December 2013 (2012: 9,975,206 thousand tenge).

During 2013 income tax prepaid was netted with VAT payable for the amount 1,040,949 thousands tenge.

► 39. RELATED PARTY TRANSACTIONS

The category "parent-controlled entities" comprises entities controlled by the Parent, except for banks controlled by the Parent. Transactions with (purchases from) parent-controlled entities are mainly represented by transactions of the Group with NC Kazakhstan TemirZholy JSC, NC KazMunayGaz JSC, KEGOC JSC, Kazpost JSC. The Group provides telecommunication services to Parent and parent-controlled entities.

BTA Bank JSC, Development Bank JSC, Temirbank JSC and Alliance Bank JSC are related parties since they are controlled by Parent.

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.

For the years ended 31 December 2013 and 2012, the Group has not recorded any impairment of trade accounts receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Sales and purchases with related parties during the years ended 31 December 2013 and 2012 and the balances with related parties at 31 December 2013 and 2012, were as follows:

<i>In thousands of tenge</i>	2013	2012
Sales of goods and services		
Parent	261,011	410,673
Parent-controlled entities	4,289,648	3,705,882
Government bodies	23,863,594	18,397,562
Purchases of goods and services		
Parent	8,121	—
Parent-controlled entities	4,322,312	2,053,178
Government bodies	749,550	157,153
Interest earned on financial assets		
Alliance Bank	92,416	116,634
<i>Average interest rate on financial assets</i>	3.98%	4.26%
BTA Bank	25,313	32,370
<i>Average interest rate on financial assets</i>	2.33%	2.63%
Interest accrued on borrowings		
Development Bank of Kazakhstan	5,730,179	4,409,635
<i>Average interest rate on borrowings</i>	9.50%	9.65%

► 39. RELATED PARTY TRANSACTIONS (CONTINUED)

<i>In thousands of tenge</i>	2013	2012
Cash and cash equivalents		
Alliance Bank	759,639	1,937,946
BTA Bank	330,513	1,252,564
Development Bank of Kazakhstan	24,583	8,043
Temirbank	73	85
Borrowings		
Development Bank of Kazakhstan	16,242,112	47,401,708
Trade and other receivables		
Parent	87,086	379,880
Parent-controlled entities	1,211,106	581,470
Government bodies	2,005,348	1,000,147
Accounts payable		
Parent	14,505,462	—
Parent-controlled entities	256,026	72,275
Government bodies	354,949	466,781
Other non-current assets		
Long-term loans to key management personnel	44,137	48,932

Total compensation to key management personnel in general and administrative expenses in the accompanying consolidated statement of comprehensive income amounted to 826,998 thousand tenge and 657,521 thousand tenge for the years ended 31 December 2013 and 2012, 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 29*, 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 22*, some of the Group's borrowings for the amount of 1,512,557 thousand tenge were guaranteed by the Government of the Republic of Kazakhstan (2012: 1,595,527 thousand tenge).

► 40. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments consist of bank borrowings, lease liabilities, cash and cash equivalents as well as accounts receivable and accounts payable. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk and credit risk. The Group further monitors the market risk and liquidity risk arising from all financial instruments.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term borrowings with floating interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before income tax (through the impact on floating rate borrowings). There is no impact on the Group's equity.

<i>In thousands of tenge</i>	Increase/decrease in basis points	Effect on profit before tax
2013	+3	(8,239)
	-3	8,239
2012	+5	(30,098)
	-5	30,098

* 1 basis point = 0.01%

► 40. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

As a result of significant borrowings, lease liabilities and accounts payable, cash and cash equivalents and accounts receivable denominated in US dollars, Euro and South Korean won, the Group's consolidated statement of financial position can be affected significantly by movement in the US dollar/tenge, Euro/tenge and Won/tenge exchange rates.

The following table demonstrates the sensitivity to a reasonably possible changes in the US dollar, Euro and Won exchange rates, with all the variables held constant, of the Group's profit before income tax (due to changes in the fair value of monetary assets and liabilities). There is no impact on the Group's equity.

In thousands of tenge	2013		2012	
	Increase/decrease in exchange rate	Effect on profit before tax	Increase/decrease in exchange rate	Effect on profit before tax
US dollar	+30%	(3,219,911)	+2%	(182,171)
	+10%	(1,073,304)	-2%	182,171
Euro	+30%	(407,142)	+11%	(15,308)
	+10%	(135,714)	-11%	15,308
Won	+30%	(453,767)	+11%	(171,838)
	+10%	(151,256)	-11%	171,838

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 Group selects only reputable banks with high ratings to place its deposits and open current accounts. The maximum exposure is the carrying amount as disclosed in *Notes 13, 14, 16, 18 and 19*. There are no significant concentrations of credit risk within the Group.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and cash on deposits, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

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, 26% of the Group's debt will mature in less than one year at 31 December 2013 (2012: 19%) based on the carrying value of borrowings reflected in the financial statements, excluding discontinued operations.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2013 based on contractual undiscounted payments.

40. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

<i>In thousands of tenge</i>	On demand	Due later than one month but not later than three months	Due later than three month but not later than one year	Due later than one year but not later than five years	Due after five years	Total
As at 31 December 2013						
Borrowings	–	5,445,790	5,388,065	25,066,756	21,463,022	57,363,633
Finance lease liabilities	–	2,600,337	6,238,172	12,496,169	–	21,334,678
Accounts payable	16,725,541	2,172,656	3,041,027	–	–	21,939,224
Debt component of preferred shares	–	–	98,450	359,148	119,716	577,314
Employee benefit liability	–	–	362,721	4,095,632	5,119,540	9,577,893
Other financial liabilities	–	34,647,956	–	1,129,722	–	35,777,678
	16,725,541	44,866,739	15,128,435	43,147,427	26,702,278	146,570,420
As at 31 December 2012						
Borrowings	–	5,532,861	9,208,894	36,724,129	56,658,990	108,124,874
Finance lease liabilities	–	2,315,510	5,763,603	12,635,535	–	20,714,648
Accounts payable	11,919,890	1,548,400	2,167,267	–	–	15,635,557
Debt component of preferred shares	–	–	89,787	483,828	120,957	694,572
Employee benefit liability	–	–	354,137	3,218,004	4,022,505	7,594,646
Other financial liabilities	–	5,385,788	–	587,311	–	5,973,099
	11,919,890	14,782,559	17,583,688	53,648,807	60,802,452	158,737,396

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 2013 and 2012.

The Group monitors capital using a debt-to-equity ratio, which is net debt divided by total capital. The Group's policy is to keep the ratio not greater than 1.0. The Group includes within net debt interest bearing loans and borrowings, accounts payable and finance lease liabilities. Capital includes equity attributable to the equity holders of the Group.

The debt-to-equity ratio at the year-end was as follows:

<i>In thousands of tenge</i>	2013	2012
Borrowings	45,146,067	75,135,545
Accounts payable	21,939,224	15,635,557
Finance lease obligations	17,683,471	16,193,304
Net debt	84,768,762	106,964,406
Equity	265,503,335	276,747,499
Debt-to-equity ratio	0.32	0.39

40. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Fair values

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.

Fair value hierarchy for financial instruments measured at fair value as at 31 December 2013:

		Fair value measurement using			
<i>In thousands of tenge</i>	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2013	42,352,823	–	–	42,352,823
Other non-current financial assets	31 December 2013	–	–	10,807,868	10,807,868
Other financial assets	31 December 2013	–	–	12,146,401	12,146,401
Accounts receivable	31 December 2013	–	–	16,192,756	16,192,756
Liabilities for which fair values are disclosed					
Borrowings	31 December 2013	–	–	45,146,067	45,146,067
Finance lease liabilities	31 December 2013	–	–	17,683,471	17,683,471
Accounts payable	31 December 2013	–	–	21,939,224	21,939,224
Debt component of preferred shares	31 December 2013	–	892,966	–	892,966
Employee benefit liability	31 December 2013	–	–	4,963,458	4,963,458

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 2013	Fair value 2013	Unrecognised gain 2013	Carrying value 2012	Fair value 2012	Unrecognised loss 2012
Financial assets						
Cash and cash equivalents	42,352,823	42,352,823	–	53,466,201	53,466,201	–
Other non-current financial assets	10,807,868	10,807,868	–	10,671,993	10,671,993	–
Other financial assets	12,146,401	12,146,401	–	46,933,722	46,933,722	–
Trade accounts receivable	16,192,756	16,192,756	–	17,411,450	17,411,450	–
Financial liabilities						
Borrowings	45,146,067	42,730,424	2,415,643	75,135,545	79,347,141	(4,211,596)
Finance lease liabilities	17,683,471	17,683,471	–	16,193,304	16,193,304	–
Accounts payable	21,939,224	21,939,224	–	15,635,557	15,635,557	–
Debt component of preferred shares	892,966	892,966	–	894,065	894,065	–
Employee benefit liability	4,963,458	4,963,458	–	5,172,236	5,172,236	–
Total unrecognised change in fair value			2,415,643			(4,211,596)

40. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Financial liabilities carried at amortized cost

The fair value of borrowings is estimated by discounting future cash flows using rates currently available for loans on similar terms, credit risk and remaining maturities.

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 2013, the Group had contractual commitments totalling 42,361,938 thousand tenge (2012: 15,966,601 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>	2013	2012
Within one year	1,379,056	776,206
After one year but not more than five years	415,340	1,167,179
	1,794,396	1,943,385

License commitments

Under the terms of certain licenses on the provision of wireless telecom services, the Group has certain obligations in terms of coverage area of the Group's network. The Group is obliged to expand the cellular telecommunication coverage to the regions along the major highways and small-sized towns and urban-type communities of the Republic of Kazakhstan. The Group's management believes that the Group is in compliance with the terms of the licenses.

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. In addition, management believes that international agreements, under which the Group works with non-residents residing in International Telecommunication Union, and which provide for certain tax exemptions, have a priority over national tax legislation. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2013. As at 31 December 2013 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.

41. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Guarantees issued

On 14 November 2009 the Group signed an agreement with Kazakhmys Plc, Parent and China Development Bank ("CDB") where the Group and Kazakhmys provided a 12 to 15 years guarantee to CDB for loans of the Parent. The Group's liability under the guarantee is capped at 300 million US dollars of principal plus 15% of any interest and any other duly payable costs and expenses. For this purpose, the Group and Parent signed an agreement on full compensation of any amounts paid by the Group arising from the guarantee agreement by the Parent.

42. SUBSEQUENT EVENTS

On 17 January 2014 the Group has paid the ninth coupon interest on its bonds in the amount of 742,591 thousand tenge.

On January 2014 the Group has paid dividends declared in 2013 on the preferred shares in the amount of 653,985 thousand tenge and ordinary shares in the amount of 27,327,529 thousand tenge.

On 11 February 2014 the exchange rate of the Kazakh tenge to the US Dollar and other major currencies was devalued by approximately 20%. At the date these financial statements have been authorized for issue, the official exchange rate of tenge to US Dollar as set by the National Bank of Kazakhstan comprised 184.06 tenge.

On 26 February 2014 the Group announced decision about winding down of Digital TV LLP with transfer of all its assets, liabilities and operations to Kazakhtelecom JSC.

On 28 February 2014 the Group concluded a credit agreement with Bank of China for the total amount of 170 mln US dollars.

