

# 2011 ANNUAL REPORT



**KAZAKHTELECOM**

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# Profile of the Company

Telecommunications industry is meant to be not just communication of information, but also connection of people regardless any distance and obstacle. It is an exchange of emotions, feelings, impressions... between people

*The only way to achieve the lasting stability of life is constant forward movement.*

*H. Wallace*

## Information about the Company

**Official full name:** Joint stock company Kazakhtelecom

**Registered address of actual location:** 31, Abai avenue, Sary-arka district, Astana, 010000, Republic of Kazakhstan

**Date of state registration and registration number:**

The National joint-stock company Kazakhtelecom was founded pursuant to 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 regional and specialized telecommunication enterprises to charter fund of established national joint-stock company providing a wide range of communication services across the Republic. In March 1996, the primary emission of shares equaling to the charter fund with the size amounting to KZT 12,1 bln. was registered.

Pursuant to the Law of the Republic of Kazakhstan as of May 13, 2003 «On joint-stock companies», the company was reregistered as joint-stock company Kazakhtelecom (hereinafter – Kazakhtelecom JSC).

Certificate of state re-registration of legal entity № 6924-1901-AO as of April 1, 2004 was issued by the Justice Department of Astana city.

### 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.

The Company is acting upon the General License № 11000766 as of 06.05.2011, issued by the Ministry of communication and information of the Republic of Kazakhstan.

Kazakhtelecom JSC is a legal entity having a centralized management system comprising of 23 structural units and representative offices in the Russian Federation and the People’s Republic of China.

The Company’s central office is located in 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 ensuring provision of telecommunication services across the whole territory of the country.

AS OF THE END OF 2011, THE COMPANY PROVIDES ITS SERVICES TO MORE THAN 3,9 MLN SUBSCRIBERS OF FIXED LINES.

AS OF THE END OF 2011, THE NUMBER OF USERS OF THE INTERNET ACCESS SERVICES OF KAZAKHTELECOM JSC EXCEEDED 2,7 MLN PEOPLE WITH THE NUMBER OF THE BROADBAND INTERNET USERS MAKING UP 2,4 MLN PEOPLE. NETWORKS OF MORE THAN 120 OPERATORS OF THE REPUBLIC OF KAZAKHSTAN ARE CONNECTED TO TELECOMMUNICATION NETWORK OF THE COMPANY. KAZAKHTELECOM JSC ALSO COOPERATES AND INTERACTS WITH MORE THAN 40 OPERATORS FROM OVERSEAS AND NEIGHBORING COUNTRIES.

GENERAL SHAREHOLDERS’ MEETING
BOARD OF DIRECTORS
MANAGEMENT BOARD
CENTRAL ADMINISTRATION OFFICE
AFFILIATED BRANCHES

LOCAL TELECOMMUNICATIONS CENTRE «ASTANATELECOM»	ASSOCIATION «LONG DISTANCE COMMUNICATIONS»
LOCAL TELECOMMUNICATION CENTRE «ALMATYTELECOM»	TELECOMMUNICATION STRUCTURES AND INFRASTRUCTURE CONSTRUCTION ADMINISTRATION
CORPORATE SALES ADMINISTRATION	ADMINISTRATION «INFOCOMMUNICATIONS TECHNOLOGIES ACADEMY»
ADMINISTRATION FOR INFORMATION SYSTEMS	THE MAIN TELECOMMUNICATION NETWORK MANAGEMENT CENTER
«TELECOM-KOMPLEKT» ADMINISTRATION	

REGIONAL TELECOMMUNICATIONS ADMINISTRATION OF AKMOLINSKAYA OBLAST	REGIONAL TELECOMMUNICATIONS ADMINISTRATION OF KARAGANDINSKAYA OBLAST
REGIONAL TELECOMMUNICATIONS ADMINISTRATION OF ALMATINSKAYA 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 - KAZAKHSTANI OBLAST	REGIONAL TELECOMMUNICATIONS ADMINISTRATION OF PAVLODARSKAYA OBLAST
REGIONAL TELECOMMUNICATIONS ADMINISTRATION OF WEST - KAZAKHSTANI OBLAST	REGIONAL TELECOMMUNICATIONS ADMINISTRATION OF NORTH – KAZAKHSTANI OBLAST
REGIONAL TELECOMMUNICATIONS ADMINISTRATION OF ZHAMBYLSKAYA OBLAST	REGIONAL TELECOMMUNICATIONS ADMINISTRATION OF SOUTH – KAZAKHSTANI 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, GSM KAZAKHSTAN KAZAKHTELECOM OJSC LLP, «ONLINE Kg» LLC

## The charter capital and securities of Kazakhtelecom JSC

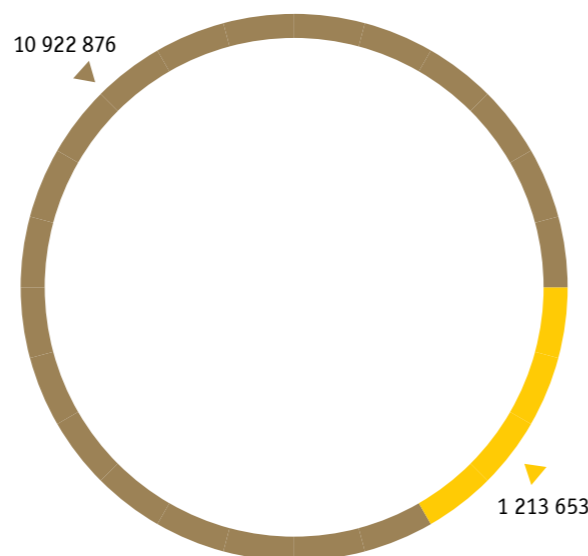
The Charter capital of the Company equals to KZT 12 136 529 thousand and comprises of 10 922 876 ordinary shares and 1 213 653 preferred shares with nominal value of 1 000 tenge per share. The fraction of the Company's preferred shares out of the total number of issued shares totals 10%.

The Company's ordinary and preferred shares have been included into official list of category «A» of the Kazakhstan Stock Exchange (KASE) on October 16, 1997, and from September 1, 1998, they were transferred to the first category of the official list of KASE. Since October 30, 2009, the securities of Kazakhtelecom JSC are included on the Exchange's list on the category «Rated long term securities».

On April 28, 2006 the state block of shares of Kazakhtelecom JSC was transferred to Kazakhstan holding for management of state assets «Samruk» JSC, founded in February 2006 with a view to improving the effectiveness of management of state share fractions in a number of the largest companies of Kazakhstan.

Following the Order of the Government of the Republic of Kazakhstan, № 962, as of October 17, 2008, «On measures for implementation of the Decree of the President of the Republic of Kazakhstan № 669», as of October 13, 2008 Sovereign Wealth Fund Samruk-Kazyna (hereinafter referred to as SWF «Samruk-Kazyna» JSC, the Fund) was founded by merging Kazakhstan holding for management of state assets «Samruk» JSC with «Kazyna» Sustainable Development Fund JSC.

Declared charter capital of Kazakhtelecom JSC, thousands, KZT



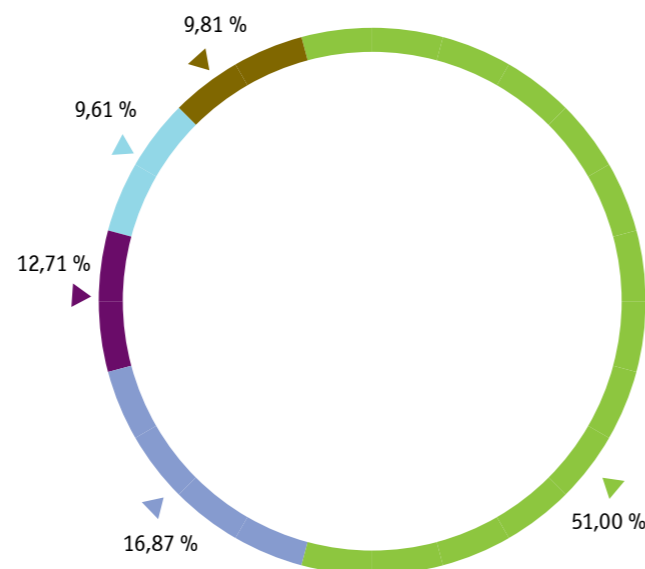
Ordinary shares  
Preferred shares

## Structure of shareholders

As of December 31, 2011, 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., 12,71% being in nominal holding of Bank of New York (ADRs), with 9,81 % being the share of other voting shareholders.

- SWF «Samruk-Kazyna» JSC
- BODAM B.V.
- The Bank of New York (ADR)
- Deran Services B.V.
- Others

Structure of shareholders of Kazakhtelecom JSC as of 31.12.2011



# Mission and Strategy of the Company

Any large company can be compared with living organism because it also consists of variety of elements – “organs”, each performing specific function. To secure adequate, eventful life, this organism needs to reasonably plan its own existence because a constant development and forward movement is the only way that can secure stability.

*Life is like riding a bicycle.  
To keep your balance you must keep moving.*

*Albert Einstein*

## 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!**

THE TELECOMMUNICATION SECTOR IS A GROWING AND CONNECTING SEGMENT OF KAZAKHSTAN'S 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.

**THE KAZAKHTELECOM'S JSC ACTIVITY IS AIMED AT DEVELOPING THE TELECOMMUNICATIONS SYSTEM THAT IS EFFECTIVE AND OF GOOD QUALITY ENSURING AVAILABILITY OF BASIC SERVICES AND PROVIDING INFO-COMMUNICATION ASSISTANCE IN DIVERSIFYING AND MODERNIZING THE NATIONAL ECONOMY.**

## 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 in the market of Kazakhstan and overseas by:

- strengthening and forming leading positions in all key segments of the info-communications market of Kazakhstan;
- extending the range of products;
- extending the geography of the business and taking leading positions in the telecommunications markets of countries of presence;
- introducing the latest world technologies in the field of info-communications and business processes as a guarantee of persistent growth and leadership;
- taking and retaining leading positions in the telecommunications market of RK by offering the complete info-communications solution that meets all the needs of the client groups of the Company in the telecommunications services;
- using additional value that the Group creates for its subsidiary companies, particularly with regard to raising efficiency of activity and enhancing corporate governance;
- turning into indispensable and habitual part of everyone's life changing itself and anticipating expectations.

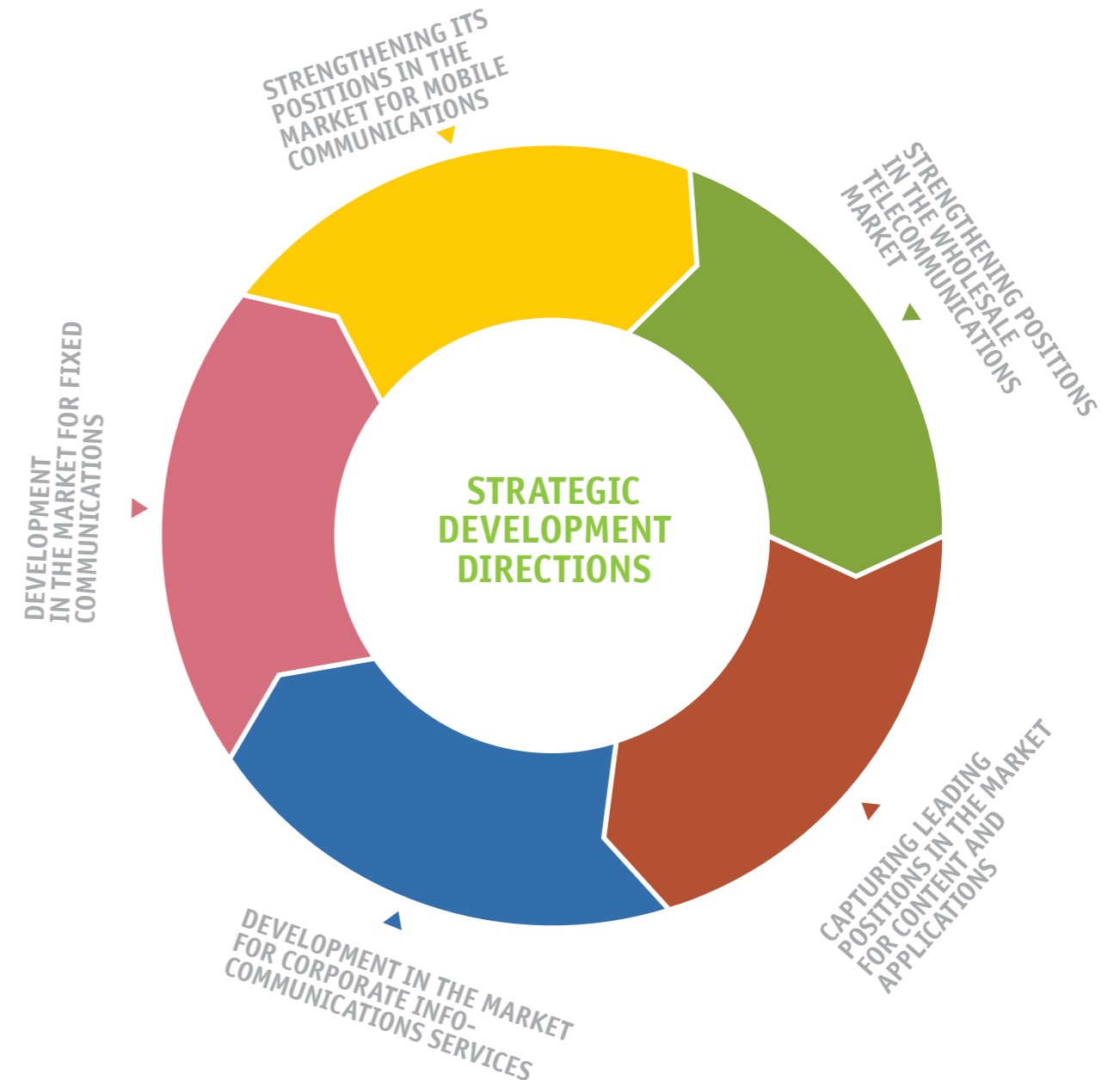
## KEY NOTIONS OF THE MISSION:

<b>TO BECOME</b>	to lay down the foundation for transforming the Company in accordance with its strategy;
<b>INDISPENSABLE</b>	to compete by offering a unique service in the market owing to its leadership in innovation, prices, geography and complex of services;
<b>HABITUAL</b>	convenience, affordability (availability), stability;
<b>PART OF EVERYONE'S LIFE</b>	creation of communication environment, receipt and exchange of information, management of knowledge, entertainment and social orientation;
<b>EVERYONE'S (LIFE)</b>	all segments, differentiated approach;
<b>CHANGING ITSELF</b>	structure and processes of the Company oriented towards flexible and timely reaction to changes in technology, market, demand and competitive situation;
<b>SURPRISING</b>	achievement of a unique client experience;
<b>SURPASSING EXPECTATIONS</b>	formatting and meeting demand, dominance in innovations.

## Strategic objectives and areas of development

**THE MAJOR OBJECTIVE OF THE GROUP'S STRATEGY IS TO INCREASE THE GROUP'S VALUE ON THE LONG-TERM BASIS.**

The strategic directions in developing, strengthening and forming leading positions in the key markets for info-communications services of PK supported by and coordinated with one another by realizing the potential of the synergy of these markets will make significant contribution to the achievement of the major objective of the Group.



Provision of broadband access services by using the network of new generation that will lay down the foundation for active transition of traditional services to IP technology will become major source of the Kazakhtelecom's JSC competitiveness in the future. The Company sets itself the objective of developing content and providing its customers with the whole complex of brand new, innovative services that are developed and \ or will be developed in the leading laboratories.

Dear shareholders!

# ADDRESS OF CHAIRMAN OF THE BOARD OF DIRECTORS

In 2011 Kazakhtelecom JSC continued moving forward accomplishing the tasks it set for itself. A long term success is always meant to be a result of following the course of actions aimed at achieving the set objectives and changing itself while preserving the best that has been achieved throughout the long journey to success.

In the reported period the telecommunication industry demonstrated high growth rate. In this period, the Company worked very hard taking effective decisions directed at strengthening and forming leading positions in all key segments of the info-communication market of the Republic of Kazakhstan. Penetration of our Company's network is still at the highest level of covering the subscriber base, we retained and developed leading positions in the market for broadband access as well as in the market for wholesale business; and yet, we continue the work on upgrading our network to reflect the current trends in development of telecommunication industry.

We also continued to pay particular attention to the development of corporate governance in the Company, the factor that is critical for being successful in developing the Company and securing its competitiveness on the long term basis. This is particularly important in the light of the intended accession of our country to the WTO and accession to the Customs Union that has already taken place.

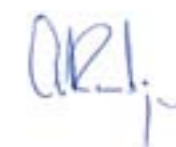
The Board of Directors approved the Plan of actions aimed at improving the corporate management system. Within the framework of the implementation of this Plan, the General shareholders' meeting of Kazakhtelecom JSC brought into line and approved the Company's Charter, Code of corporate governance, Provision on the General shareholders' meeting, Provision on the Board of Directors. As a result of implementation of the Plan of actions for improving the corporate governance system, the level of corporate governance of Kazakhtelecom JSC, pursuant to the report of KPMG Tax & Advisory, does meet the requirements of the best practice and makes up 64,8%. Kazakhtelecom JSC is a leader when it comes to the rating of corporate governance among the subsidiary companies of SWF «Samruk-Kazyna» JSC that passed through the examination in 2011.

The successful work of four highly professional independent Directors sitting on the Board of Directors of Kazakhtelecom JSC do make a significant contribution to the efficiency of this body and the investment attractiveness and reputation of the Company making it impossible for anyone to violate the shareholders' rights and infringe upon their legitimate interests. The role played by the Committees of the Board of Directors in raising efficiency and quality of decisions to be taken by the Board of Directors, by preliminary considering the issues attributed to the competence of the Board of Directors and subsequently making recommendations thereupon is also essential. The operation of the Committees on a permanent basis is assisting the Board of Directors in taking well balanced and timely decisions. The detailed information on the work of the Committees of the Board of Directors is also included in this report.

In the current year, at the Board of Directors' first internal meeting, the Company has approved the Long term development strategy. We are facing no less complicated tasks. In the future, we will continue working over the extension of the range of our products, geography of business, the introduction of latest technologies as security for persistent growth, the strengthening our leadership in the telecommunications market of Kazakhstan by offering complete info-communication solution that would meet all the demands of the Company's clients in telecommunications services. We will also be moving forward toward enhancing the efficiency of corporate governance. I'm sure that together we will realize our intentions and plans, and make our Company more successful and prosperous.

*Chairman of the Board of Directors*

*Karibzhanov Aidan*



# ADDRESS OF CHAIRMAN OF THE MANAGEMENT BOARD OF KAZAKHTELECOM JSC

**Dear shareholders,  
customers and partners,**

In 2011, Kazakhtelecom JSC significantly strengthened its positions across all key performance indicators, and its current level of technical development and stable capitalization growth do confirm the reputation of the leading telecommunications operator as being reliable and confidently developing company. Summarizing the Company's performance I'd like to point out that all the objectives and tasks that we set before us have been achieved.

Talking about strategic tasks I have to say that we're planning to continue developing the high speed access to the Internet services by using the latest FTTH technology under the iD Net brand, and we'll make sure that this service is provided in all oblasts (regional centers) of the country. In 2012, the Company will continue developing packet offers on fixed telephony services. Enhancing the quality of the services provided and the level of customers' loyalty is an objective that we also regard as being a priority. And I want to particularly note the following trend in developing our company – migration to "cloud" computation. The work on changing the Kazakhtelecom's JSC infrastructure to adopt "cloud" solutions is already under way. In 2011, the Company launched into commercial operation the "Cloud conference" service that enables to hold a video conference through the Internet via IP Protocol, and also signed the Memorandum of Cooperation with Microsoft. And on the top of that, we're planning to set up, in 2012, 4 (four) data-centers in the cities of Astana, Almaty, Pavlodar and Akkol, upon which we're going to provide the "cloud" services.

I'm sure the Company will put all the efforts to make sure that the set tasks are implemented in consistent and thoughtful manner. Our employees are working very hard to develop solutions that would allow us to offer our customers the competitive services, achieve higher profitability of our business and strengthen the leading positions in the market. I do want to thank our shareholders, customers, partners for trusting us! Moving forward in our own way as a united and energetic team, we will be able to achieve new success across all key segments, which will lay the foundation for sustainable and strong development of the info-communications industry of Kazakhstan.

**Chairman of the Management Board  
Kazakhtelecom JSC**

**Kuanyshebek Yessekeyev**







# Major achievements of the Company in 2011

Each year the growth rate of the Company's development is rising, and this is true. But we'd better not rest on our laurels as we still face boundless space to be explored.

*You must first take  
a step to reach your goal*

*Honore de Balzac*

Throughout the last year, the Company continued implementing the project called «Development of the WLL CDMA network in rural settlements of the Republic of Kazakhstan» with a view to assuring rapid and effective development of rural telecommunications network based on wireless CDMA-450 technology and meeting the demand from rural population for telecommunication services. The WLL CDMA network was deployed in all oblast (regional centers) of the country with the installed capacity making up 504 base stations having in total 453 600 numbers, and covering 5 484 rural settlements.

Despite the intensified competition in the market and the construction by other operators of their own FOCLs (fiber optical communications lines), the number of digital backbone channels leased by Kazakhtelecom JSC in the last year increased by 4,2 times. Since the beginning of the year, the total throughput of the Internet channels provided by ISP providers has increased by 3,4 times.

The work being undertaken with a view to upgrading the Company's backbone network by using DWDM technology coupled with the implementation of projects on extending the existing joints with the leading telecommunications operators of bordering countries allowed the Company to increase, in 2011, the sales volume of non-switched transit by more than 2 times compared to the results of 2010.

In 2011, the Company extended connections to external ports of the Internet to the degree that is 2,34 times higher than the level of connections achieved as of the end of 2010. This has allowed Kazakhtelecom JSC to fulfill the task assigned to it by the government of the Republic of Kazakhstan on increase of the Internet speed for subscribers of Megaline service, and increase the total volume of connections of international operators to the «Internet-transit» service by 1,7 times compared to the results of 2010.

Signing of the strategic agreement with SWF «Samruk-Kazyna» JSC on foundation, on the basis of Kazakhtelecom JSC, of a single system integrator and provider of telecommunications services for the Group of companies of the Fund is one of the milestone events of 2011.

▶ **WITHIN THE FRAMEWORK OF THE PARK OF INFORMATION TECHNOLOGIES «ALATAU» (SPECIAL ECONOMIC ZONE) THE COMPANY FOUNDED (INCORPORATED) «KT CLOUD LAB», PARTNERSHIP WITH LIMITED LIABILITY – OPERATOR OF VALUE ADDED SERVICES, AND STARTED ENGINEERING AND CONSTRUCTING SEVERAL LARGE DATA-CENTERS.**

**THE YEAR 2011 CAN BE CHARACTERIZED AS A YEAR WHEN KAZAKHTELECOM JSC IMPLEMENTED A NUMBER OF INFRASTRUCTURAL AND INNOVATIVE PROJECTS THAT ARE EXTREMELY IMPORTANT FOR FURTHER QUALITATIVE DEVELOPMENT OF THE COMPANY AND THE TELECOMMUNICATION INDUSTRY AS A WHOLE.**

**THAT YEAR THE COMPANY LAUNCHED A BREAK-THROUGH PROJECT ON CONSTRUCTION OF UNIVERSAL FIBER OPTICAL NETWORK OF ACCESS CALLED FTTH (FIBER TO THE HOME), THE PROJECT THAT IS INCLUDED IN THE STATE PROGRAM OF FORCED INDUSTRIAL INNOVATIVE DEVELOPMENT OF THE REPUBLIC OF KAZAKHSTAN. IMPLEMENTATION OF THE PROJECT IS AIMED AT MEETING THE GROWING DEMAND FOR HIGH SPEED BROADBAND DATA COMMUNICATIONS SERVICES AND AT EXTENDING THE TELECOMMUNICATION SERVICES BEING PROVIDED BY THE COMPANY.**

Within the framework of the adopted structural model NGOSS the Company completed the works on introducing the service-oriented architecture (SOA), set specified indicators to operate key applications, developed OSS/BSS platforms as planned.

The last year, the Company did a great deal of work to enhance loyalty of the Company's customers. In 2011, within the framework of the project «Service management system», the Company proceeded to implement pilot project by introducing the first stage of «Servicing standards of Kazakhtelecom JSC». To date, all regional subsidiaries of the Company provide training for their employees, prepare for conducting an internal service-audit.

The Strategy of Kazakhtelecom JSC in the field of corporate social responsibility for 2012–2020 based on the advanced international standard – Guide for sustainable development (GRI), was approved. The Strategy is directed at enhancing accountability of the Company to the interested parties (stakeholders). Implementation of this strategy will enable to increase the Company's transparency and hence accountability to the state, society, and citizen for protecting environment and setting up favorable conditions for the Company's activities and its employees. The Company is planning to regularly issue annual social reports along with annual financial statements.

Based on the findings of the social public inquiry conducted by the Association of HR managers of Kazakhstan, Kazakhtelecom JSC was referred to as a type of company that the majority of respondents most want to work for as potential job seekers. The results of the social public inquiry were voiced at the VII International conference «Human resources management: integrated HR». Besides, Kazakhtelecom JSC is a leader in the «spontaneous knowledge about the Company» public interrogation component.



# Corporate governance

Holding leading positions in the field of technological progress and innovations, we must take farsighted and weighted decisions only as our further actions will have a material effect on many things.

*Horizons shift  
along with those who are moving.*

*Hans-Georg Gadamer*

## Corporate governance system

Corporate governance of Kazakhtelecom JSC is built upon the principles of fairness, integrity, accountability, transparency, professionalism and competence. In pursuing its activity, the Company follows the basic principles laid down in the Code of corporate governance of Kazakhtelecom JSC:

- 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.

**THE SYSTEM OF CORPORATE GOVERNANCE OF KAZAKHTELECOM JSC IS DIRECTED AT SETTING UP AND MAINTAINING RELIABLE AND TRUSTED RELATIONSHIP WITH THE COMMUNITY OF INVESTORS AND SHAREHOLDERS WHICH TEND TO INCREASE INVESTMENT ATTRACTIVENESS OF THE COMPANY.**

The Company has the institute of Corporate secretary.

**Corporate Secretary** performs his/her activity in accordance with the legislative acts of the Republic of Kazakhstan, the Company's Charter, Code of corporate governance, Provision on Corporate secretary as well as the General shareholders' meetings' resolutions and Board of Directors' decisions, and is subordinated to the Company's Board of Directors.

The major tasks of Corporate Secretary are the following:

- Making sure that the Company's bodies and executives are abiding by the legislature in the field of corporate governance, the Company's Charter, Code of corporate governance and other internal documents, and improving the policy and practices in the field of corporate governance;
- Assuring effective activity of the Board of Directors and its committees;
- Making sure that the Company's General shareholders' meetings are held in accordance with the requirements of the Legislature, the Company's Charter and other internal documents;
- Assuring efficient interaction between the Company and shareholders, as well as between the Company's bodies.

**THE ACTIVITY OF THE INTERNAL AUDIT SERVICE (IAS) IS DIRECTED AT ACHIEVING THE KAZAKHTELECOM'S JSC OBJECTIVES BY USING SYSTEM APPROACH TO ASSESSING AND IMPROVING THE PROCESSES OF CORPORATE MANAGEMENT, INTERNAL CONTROL, AND RISKS MANAGEMENT.**

**THE IAS** is an independent structural division accountable to the Board of Directors and responsible for assessing efficiency of the internal control system.

The key functions of the IAS of Kazakhtelecom JSC include:

- assessment of reliability and efficiency of the internal control and risks management systems;
- assessment of trustworthiness, completeness, objectivity of the accounting system and reliability of the financial reporting;
- assessment of compliance with legislature requirements and assessment of the adequacy of the systems and procedures created and applied for ensuring compliance with the legislature requirements (compliance control);
- assessment of rationality and efficiency of using resources and methods applied for ensuring safety of property;
- assessment of the corporate governance improvement process;
- methodological provision of the internal audit services of subsidiary/ dependent organizations.

In its own activity, the IAS follows the Provision on Internal Audit Service and the Plans for audit of Kazakhtelecom JSC

that are to be approved by the Company's Board of Directors. With a view to setting and applying unified principles and procedures to the organization of internal audit in Kazakhtelecom JSC, the Board of Directors has approved the Policy for organization of internal audit.

The Board of Directors approves on a regular basis reports on operation of the IAS as well as annual Plans for auditing Kazakhtelecom JSC.

**The informational policy** of Kazakhtelecom JSC is based upon the principles of transparency and objectivity in disclosing the information about the Company set forth in the Code of corporate governance, and directed at raising the level of awareness of the public 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.

Kazakhtelecom JSC ensures that reliable (credible) information about the Company including the information on the Company's financial position, economic indicators, activity results, ownership and management structure is disclosed in a timely manner. When disclosing and \ or releasing any information, the provisions of the legislature of RK on commercial and other secrets protected by the legislature as well as the requirements of the Company's internal documents are to be taken into account.

## The Company's bodies

**GENERAL SHAREHOLDERS' MEETING**  
THE COMPANY'S SUPREME BODY

**BOARD OF DIRECTORS**  
A MANAGEMENT BODY PERFORMING GENERAL MANAGEMENT OF THE COMPANY'S ACTIVITY

**INTERNAL AUDIT SERVICE**  
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, AND CONSULTATION WITH A VIEW TO IMPROVING THE COMPANY'S ACTIVITY

**MANAGEMENT BOARD**  
AN EXECUTIVE BODY MANAGING THE DAY-TO-DAY ACTIVITY WITH A VIEW TO ACCOMPLISHING TASKS AND IMPLEMENTING THE COMPANY'S STRATEGY

## DIVIDEND POLICY OF THE KAZAKHTELECOM'S JSC IS BASED UPON RESPECT AND STRICT OBSERVANCE OF THE SHAREHOLDERS' RIGHTS.

The dividend policy of the Company is directed at:

- increasing shareholders' welfare;
- increasing the Company's investment attractiveness and capitalization.

In 2011, dividend payments to the Company's shareholders increased. Following the resolution of the Company's General shareholders' meeting (protocol AGSM №45 as of 31.05.2011), in 2011, the dividends for 2010 were distributed in amount of KZT 528,73 per share, which is 25% higher of the dividends for the previous year.

**Dividends (KZT per share)**

<b>422,09</b>	<b>528,73</b>
2010 (for 2009)	2011 (for 2010)

**DIVIDENDS (NOT LESS THAN 17,5% OF NET INCOME)**

**PREFERRED SHARES**

**GUARANTEED DIVIDEND  
= KZT 300 PER SHARE**

**ADDITIONALLY UP TO THE LEVEL OF  
DIVIDENDS ON ORDINARY SHARES**

**ORDINARY SHARES**

**DIVIDENDS**

## Information on assignment to the Company of the Rating of corporate governance

Pursuant to the recommendations of SWF «Samruk-Kazyna» JSC and with a view to maintaining corporate governance system of Kazakhtelecom JSC at the attained level, KPMG Tax & Advisory LLP carried out in 2011 the diagnostics of corporate governance in accordance with the Method of diagnostics in the companies of the Fund's group.

Interviews were conducted with the Company's management, heads of structural divisions as well as with some members of Kazakhtelecom JSC Board of Directors.

Pursuant to the KPMG's Report as of November 30, 2011 on conformity of the level of corporate governance to the best world practice, the level of corporate governance of Kazakhtelecom JSC does correspond to the requirements of the best practice and makes up **64,8%**.

Following the performance results for 2011, Kazakhtelecom JSC is a leader on the Corporate Governance Rating (CGR) among the subsidiary companies of SWF «Samruk-Kazyna» JSC that passed through the examination in 2011.

Later on the Company will undertake measures to achieve by 2015 the level of CGR of **75%** on the KPMG method.

## The Kazakhtelecom's JSC Board of Directors

**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 re-elected by an extraordinary General shareholders' meeting in the event of early termination of their terms of reference. Members of the Board of Directors are elected by cumulative voting. 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 Directors to another member of the Board of Directors is prohibited.

Pursuant to item 1 article 36 of the Kazakhtelecom's JSC Charter, Chairman of the Company's Management Board serves on the Company's Board of Directors ex officio.

## General shareholders' meeting of Kazakhtelecom JSC

**▶ THE GENERAL SHAREHOLDERS' MEETING IS A SUPREME BODY OF THE COMPANY THROUGH WHICH THE SHAREHOLDERS EXERCISE THEIR RIGHTS TO PARTICIPATION IN MANAGING THE COMPANY. THE DECISIONS TAKEN AT THE GENERAL SHAREHOLDERS' MEETING ARE BINDING UPON ALL SHAREHOLDERS OF THE COMPANY.**

In 2011, the Company held the annual General shareholders' meeting and extraordinary General shareholders' meeting where the following decisions (resolutions) were taken:

- On approval of the audited consolidated financial statements of Kazakhtelecom JSC for 2010 prepared in accordance with the IFRS (International Financial Reporting Standards);
- On the order and procedure of distributing net income of Kazakhtelecom JSC for 2010, payment of dividends on ordinary shares, and approval of size of dividends calculated per ordinary share;
- On considering Kazakhtelecom JSC shareholders' claims against the Company and its officials submitted in 2010;
- On determining Ernst & Young LLP as audit organization carrying out the audit of the consolidated annual financial statements of Kazakhtelecom JSC for 2011.
- On introducing changes to the Code of corporate governance of Kazakhtelecom JSC;
- On approval of the Charter of Kazakhtelecom JSC in new wording;
- On introducing changes and amendments to the Provision on General shareholders' meeting of Kazakhtelecom JSC;
- On approval of the Provision on the Kazakhtelecom's JSC Board of Directors;
- On approval of the Policy of remuneration of independent members of the Board of Directors of Kazakhtelecom JSC.

## Composition of the Board of Directors (of Kazakhtelecom JSC as of 31.12.2010)

1. **Karibzhanov Aidan**, Chairman of the Board of Directors, representative of SWF «Samruk-Kazyna» JSC, the Company's shareholder;
2. **Yessekeyev Kuanyshbek**, Chairman of the Kazakhtelecom's JSC Management Board;
3. **Nurieva Aigul**, representative of Bodam B.V., the Company's shareholder;
4. **Sarsenov Adilbek**, representative of Bodam B.V., the Company's shareholder, Chairman of the Committee for strategic planning;
5. **Saudabaev Serik**, representative of SWF «Samruk-Kazyna» JSC, the Company's shareholder, member of the Committee for strategic planning;
6. **Akentyeva Natalya**, Independent Director, member of the Committee for audit, member of the Committee for appointments and remunerations;
7. **Kuchura Vitaliy**, Independent Director, member of the Committee for appointments and remunerations, Member of the Committee for strategic planning;
8. **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;
9. **Okaev Ernek**, Independent Director, Chairman of the Committee for appointments and remunerations, Member of the Committee for audit.

## Information about the members of the JSC Kazakhtelecom's Board of Directors

### ▶ AIDAN KARIBZHANOV

Date of birth:	October 10, 1971
Citizenship:	The Republic of Kazakhstan
Date of the first election to the Board of Directors:	September 4, 2009
Date of the current election to the Board of Directors:	September 4, 2009
Status:	The Chairman of the Board of Directors
Education:	
1989 – 1994	The Moscow State Institute of International Relations of the Ministry of Foreign Affairs of the Russian Federation, Moscow Specialization: international and economic relations Qualification: specialist in international economic relations with the knowledge of foreign language
2003	Investment and consulting company «Management Personnel», Almaty
Courses for training specialists in broker and dealer activity with securities in the Republic of Kazakhstan. The qualification certificate of the 1st category giving the right of access to operations on execution and registration of transactions with securities, issued by the Certification Commission of the National Bank of the Republic of Kazakhstan № D 00514 as of June 1, 2003. The qualification certificate of the 2nd category giving the right of access to operations on execution and registration of transactions with securities, issued by the Certification Commission of the National Bank of the Republic of Kazakhstan №D 00518 as of July 1, 2003.	
Places of employment and positions occupied over the last five years:	
27.02.2006 – 21.10.2008	<b>VISOR Capital JSC</b> Chairman of the Board of Directors
21.10.2008 – 13.12.2008	<b>Samruk Invest LLP</b> Acting Director General
06.03.2009 – 30.06.2011	<b>BTA Bank JSC</b> Member of the Board of Directors
07.07.2009 – 18.09.2010	<b>Kazpochta JSC</b> Chairman of the Board of Directors
01.06.2009 – 11.12.2010	<b>Development Bank of Kazakhstan JSC</b> Member of the Board of Directors
19.01.2010 – 24.05.2011	<b>Alliance Bank JSC</b> Chairman of the Board of Directors
27.11.2008 – 11.01.2012	<b>Sovereign Wealth Fund «Samruk-Kazyna» JSC</b> Managing Director; Deputy Chairman of the Management Board

## 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:	March 15, 2010
Status:	Member of the Board of Directors Chairman of the Management Board of Kazakhtelecom JSC
Education:	
1991 – 1995	The Kazakh State University named after Al-Farabi Qualification: applied mathematics Candidate of physical and 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	<b>The Agency of the Republic of Kazakhstan for Informatization and Communications</b> Chairman
15.03.2010 – till present	<b>Kazakhtelecom JSC</b> 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:	September 4, 2009
Status:	Member of the Board of Directors Representative of Kazakhtelecom's JSC shareholder - Bodam B.V. (1 842 725 ordinary voting shares)
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	<b>Credit Suisse</b> Advisor
22.04.2005 – 24.02.2009	<b>Midas Capital LLP</b> Director General
10.06.2005 – till present	<b>Bodam B.V.</b> Director
11.07.2008 – till present	<b>Alnair Capital Holding JSC</b> Managing Director
25.02.2009 – till present	<b>Alnair Capital LLP</b> 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:	September 20, 2010
Status:	Member of the Board of Directors Representative of Kazakhtelecom's JSC shareholder - Bodam B.V. Chairman of the Committee for Strategic Planning
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	<b>Kazakhstan Holding for Management of State Assets «Samruk» JSC</b> Director of the Telecommunication Assets Management Group
25.09.2008 – 30.07.2010 06.11.2008 – till present	<b>National Information and Communication Holding «Zerde» JSC</b> Chairman of the Management Board Member of the Board of Directors
06.11.2008 – 06.09.2010	<b>National Information Technologies JSC</b> Member of the Board of Directors
09.12.2008 – 06.09.2010	<b>National Company «Kazsatnet» JSC</b> Chairman of the Board of Directors
01.08.2010 – till present	<b>Amun Capital Advisors KZ LLP</b> Director for Telecommunication Assets Management
10.12.2010 – till present	<b>Television Broadcaster ERA</b> 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:	July 12, 2010
Status:	Member of the Board of Directors Representative of Kazakhtelecom's JSC shareholder – Sovereign Wealth Fund «Samruk-Kazyna» JSC (5 570 668 ordinary voting shares) Member of the Committee for Strategic Planning
Education:	
1999	The Almaty State University named after Abai Qualification: lawyer
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 17.04.2008 – 18.05.2010	<b>Kazakhtelecom JSC</b> Deputy Head of the Legal Department Corporate Secretary
17.06.2010 – till present	<b>Sovereign Wealth Fund «Samruk-Kazyna» JSC</b> Director for Telecommunication Assets Management
13.08.2010 – till present	<b>Kazpochta JSC</b> Member of the Board of Directors

## NATALYA AKENTYEVA

Date of birth:	January 2, 1974
Citizenship:	the Republic of Kazakhstan
Date of the first election to the Board of Directors:	March 12, 2010
Date of the current election to the Board of Directors:	March 12, 2010
Status:	Independent Director Member of the Committee for Audit Member of the Committee for Appointments and Remuneration
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/ International Economic Relations
1991 – 1995	The Kazakh State Academy of Management Finance and Credit Department
1998 – 2001	The Kazakh State Academy of Law Jurisprudence
Places of employment and positions occupied over the last five years:	
19.01.2003 – 07.08.2008	<b>ABN AMRO Bank Kazakhstan/RBC Kazakhstan</b> 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 – till present	<b>Ivolga-Holding LLP</b> Deputy Director General for Corporate Development

## 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:	November 6, 2009
Status:	Independent Director Member of the Committee for Appointments and Remuneration Member of the Committee for Strategic Planning
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 Telecommunication engineer
Places of employment and positions occupied over the last five years:	
10.10.2005 – till present	<b>ACME Investment Advisory Ltd (Great Britain) (Moscow, Russia)</b> 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:	September 4, 2009
Status:	Independent Director Chairman of the Committee for Audit Member of the Committee for Appointments and Remuneration Member of the Committee for Strategic Planning
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	<b>BDO Kazakhstanaudit</b> Partner
30.04.2008 – till present	<b>Air Astana JSC</b> 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	<b>The International Federation of Accountants, USA</b> Professional Organization Member of the Committee for Developing Nations
28.05.2009 – till present	<b>The advisory body for accounting and auditing issues of the Ministry of Finance of the Republic of Kazakhstan</b> Member of the advisory body on behalf of the professional organization
07.05.2003 – 17.09.2010	<b>PAO «The Chamber of Professional Accountants of the Republic of Kazakhstan»</b> Professional Organization Deputy Chairman, member of the Council

## 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:	September 4, 2009
Status:	Independent Director Chairman of the Committee for Appointments and Remuneration Member of the Committee for Audit
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	<b>Kazfintrade LLP</b> Director
08.08.2007 – till present	<b>Ecoton LLP</b> Director General
06.10.2005 – 01.10.2009 01.10.2009 – till present	<b>The Publishing House BIKO LLP</b> Director General Deputy Director General
01.10.2003 – 01.10.2009 01.10.2009 – 21.05.2010 21.05.2010 – till present	<b>The Publishing House BIKO LLP</b> Director General Deputy Director General Director General

In 2011 there were 4 Independent Directors in the composition of the Kazakhtelecom's JSC Board of Directors fully complying with the requirements of the legislation of the Republic of Kazakhstan applied to the notion «Independent Director».

Pursuant to the Law of the Republic of Kazakhstan «On joint stock companies», number of independent Directors in composition of the joint stock company's Board of Directors shall be not less than 30%. Kazakhtelecom JSC meets such a requirement since the percentage of Independent Directors in the company makes up 44%.

## Major issues considered by the Board of Directors in 2011

IN 2011 THE COMPANY'S BOARD OF DIRECTORS HELD 14 MEETINGS, INCLUDING 8 MEETINGS IN PRESENTIA AND 6 MEETINGS IN ABSENTIA. IN THE MEETINGS IN PRESENTIA THE BOARD OF DIRECTORS MADE DECISIONS ON 57 ISSUES, IN THE MEETINGS IN ABSENTIA – ON 31 ISSUES.

## THE LIST OF MAJOR ITEMS

### APPROVED BY THE COMPANY'S BOARD OF DIRECTORS IN 2011:

- Reports of members of the Management Board of Kazakhtelecom JSC on the performance results in 2010;
- Reports of the Committees of the Kazakhtelecom's Board JSC of Directors;
- Quarterly hearings of the Company' Management Board on execution of protocol assignments of the Kazakhtelecom JSC Board of Directors' meeting;
- Determination of the amount to be paid to the firm of auditors for audit services in 2011;
- On approval of the rules for development, agreement, approval, updating, execution and monitoring of execution of the Kazakhtelecom's JSC Development Plan;
- On approval of the map of individual key performance indicators with target values for Kazakhtelecom's JSC executives and Head of the Internal Audit Service for 2011;
- On preliminary approval of the audited consolidated financial statements of Kazakhtelecom JSC for 2010 prepared in accordance with the IFRS (International Financial Reporting Standards);
- The proposal for annual General shareholders' meeting of Kazakhtelecom JSC on the order and procedure of distributing the net income of Kazakhtelecom JSC for 2010 and on the size of dividends for 2010 calculated per ordinary share of Kazakhtelecom JSC;
- On convocation of annual General shareholders' meeting of Kazakhtelecom JSC;
- On approval of the Corporate Accounting Policy of Kazakhtelecom JSC;
- On approval of the Policy of providing sponsoring and/or charitable aid by Kazakhtelecom JSC;
- On annual financial reporting of the subsidiary companies of Kazakhtelecom JSC for 2010;
- On approval of the rules for outsourcing in Kazakhtelecom JSC;
- On arranging the transactions that Kazakhtelecom JSC is taking interest in;
- On approval of the action plan for improvement of the corporate governance system of Kazakhtelecom JSC for 2011;
- On designation of Ernst & Young LLP as the firm of auditors to audit the financial statement of ALTEL JSC and consolidated financial statements of NURSAT JSC in 2011;
- On approval of the map of stakeholders of Kazakhtelecom JSC;
- Personnel issues;
- Some issues of GSM Kazakhstan Kazakhtelecom OJSC LLP;
- On approval of the rules for procurement of goods, works and services in Kazakhtelecom JSC;
- On approval of the policy of settlement of conflicts of interests in Kazakhtelecom JSC;
- On selection of «Securities Registrar System» JSC as the registrar of Kazakhtelecom JSC (shares, bonds);
- On approval of the development strategy of the Internal Audit Service of Kazakhtelecom JSC for 2011–2013;
- On establishment of the Main Center of Telecommunication Network Management – an affiliate of Kazakhtelecom JSC.

## Committees of the Board of Directors of Kazakhtelecom JSC

COMMITTEE FOR AUDIT	COMMITTEE FOR APPOINTMENTS AND REMUNERATIONS	COMMITTEE FOR STRATEGIC PLANNING
<b>CHAIRMAN</b>	<b>CHAIRMAN</b>	<b>CHAIRMAN</b>
<b>LARIONOV D.</b> Independent Director of Kazakhtelecom JSC	<b>OKAEV E.</b> Independent Director of Kazakhtelecom JSC	<b>SARSENOV A.</b> shareholders' representative – Bodam B.V.
<b>MEMBERS</b>	<b>MEMBERS</b>	<b>MEMBERS</b>
<b>AKENTYEVA N., OKAEV E.</b> Independent Directors of Kazakhtelecom JSC	<b>AKENTYEVA N., KUCHURA V., LARIONOV D.</b> Independent Directors of Kazakhtelecom JSC	<b>KUCHURA V., LARIONOV D.</b> Independent Directors of Kazakhtelecom JSC <b>SAUDABAEV S.</b> shareholder's representative – SWF «Samruk-Kazyna» JSC, Director on management of communications assets of SWF «Samruk-Kazyna» JSC

The Committee for Audit acts in the Company shareholders' interests; thoroughly inspects audit process; regularly interacts with the Internal Audit Service and holds meetings with the external auditor.

In 2011 the Committee for Audit held 12 meetings, including 11 meetings in presentia and 1 meeting in absentia. The Committee considered 75 issues and made relevant recommendations to the Company's Board of Directors, in particular regarding the following main documents:

- The consolidated financial statement of Kazakhtelecom JSC for 2010;
- The reports on the activity of the Internal Audit Service;
- The annual audit plans of the Internal Audit Service;
- The report on implementation of the Kazakhtelecom's JSC Policy for informing about unethical/illegal actions in respect of interested persons («hot-line»);
- The Corporate Accounting Policy of Kazakhtelecom JSC;
- The Kazakhtelecom's JSC Corporate Social Responsibility Strategy for 2011–2020;
- The Kazakhtelecom's JSC Risk Management Report.

The Committee for Appointments and Remuneration develops recommendations to the Board of Directors on the issue of appointment to the Board of Directors – of heads of subsidiary and dependent organizations, other executives in accordance with the List of executive positions, and on the issues of the system of motivation and remuneration of the Company's employees and executives.

In 2011 the Committee for Appointments and Remuneration held 7 meetings in presentia. The Committee considered 20 issues and made relevant recommendations to the Company's Board of Directors, in particular regarding the following main issues:

- On approval of the planned schedule of meetings of the Committee for Appointments and Remuneration of the Kazakhtelecom's JSC Board of Directors for 2011;
- On considering candidates to be elected to executive positions in NURSAT JSC and ALTEL JSC;
- On evaluation of efficiency of the policy for remuneration of Kazakhtelecom's JSC executives;
- On approval of the Policy for remuneration of independent Directors of the Kazakhtelecom's JSC Board of Directors;
- On approval of new wording of the Agreement with Independent Directors of Kazakhtelecom JSC;
- On assessment of candidates to the position of Independent Director of the Kazakhtelecom's JSC Board of Directors;
- On consideration of the Personnel Policy of Kazakhtelecom JSC.

With a view to determining prioritized directions in the Company's activity and its development strategy, the Committee for Strategic Planning performs the tasks of determining and giving recommendations to the Board of Directors on determining prioritized directions in the Company's activity and its development strategy, including the issues on development of arrangements enhancing efficiency of the Company's activity on the long term basis.

In 2011 the Committee for Strategic Planning held 10 meetings in presentia. The Committee considered 32 issues, in particular:

- Approval of the Plan-schedule of holding meetings of the Committee for strategic planning of the Board of Directors of Kazakhtelecom JSC for 2011;
- Draft Long term strategy of the Group of companies of Kazakhtelecom JSC;
- Consideration of CAPEX budget statement;
- Updates to the Kazakhtelecom's JSC Development Plan for 2011–2015;
- Implementation of the Strategic Initiative Introduction Plan;
- Strategic investment projects (IT-projects, construction and equipping of Data Centers, IPTV, FTTH);
- Some issues of GSM Kazakhstan Kazakhtelecom OJSC LLP;
- Draft Strategy for Innovative Development of Kazakhtelecom JSC for 2012–2015.

Thus in the reporting period the Committees of the Kazakhtelecom's JSC Board of Directors accomplished all tasks and objectives stipulated in the Company's Corporate Governance Code, respective provisions on the committees, resolutions of the Company's Board of Directors, missions of the Board of Directors and operating plans of the committees for 2011.

## Information on remuneration of the Board of Directors' members

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

The amount of remunerations and compensations paid out to Independent Directors, are described in the agreement concluded with each Independent Director. The standard agreement with Independent Director was approved by the resolution № 38 of the General Shareholders' Meeting as of September 29, 2008.

On December 29, 2011, following the resolution of the General Shareholders' Meeting, protocol № 46, the Standard Agreement with Independent Director of Kazakhtelecom JSC in new wording as well as the Policy for remunerating Independent Directors of Kazakhtelecom's JSC Board of Directors were approved.

## The Management Board of Kazakhtelecom JSC

**THE MANAGEMENT BOARD IS THE COMPANY'S COLLEGIAL EXECUTIVE BODY MANAGING THE DAY-TO-DAY OPERATION OF THE COMPANY'S ACTIVITY.**

Activity and competences of the Management Board are regulated by the Charter and the Provision on the Management Board of the Company approved by the Board of Directors of the Company.

Personal composition of the Kazakhtelecom's JSC Management Board is determined by decision of the Board of Directors. The Management Board is comprised of 7 members – Chairman of the Management Board and other persons appointed by the Board of Directors.



# Mr. KUANYSHBEK YESSEKEYEV

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Chairman of the Management  
Board of Kazakhtelecom JSC.

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Year of birth: 1975

Elected to the Management Board on March 15, 2010.

Education: higher, the Kazakh State National University named after Al-Farabi (1996), specialty– applied mathematics. Candidate of Physics-mathematical science.

**P**rofessional experience: From 1998 to 2002 – Director of information technologies department at Kazakhoil CJSC, Republican State Enterprise Kazakhstan temir zholy. In 2002, he joined the civil service, supervised informatization issues in position of Department Director at the Ministries of finance and budget planning of the Republic of Kazakhstan. On May 13, 2004, he was appointed deputy Chairman of the Agency of the Republic of Kazakhstan for informatization and communication. From October 2006 to February 2007, he was acting Chairman of the Agency of the Republic of Kazakhstan for informatization and communication. From February 2007 to March 2010, he was Chairman of the Agency of the Republic of Kazakhstan for informatization and communication. On March 15, 2010, he was elected Chairman of the Management Board of Kazakhtelecom JSC.





**Mr. MARAT ABDILDABEKOV**

Chief Director on information technologies of Kazakhtelecom JSC.

Year of birth: 1967

Elected to the Management Board on June 8, 2007.

Education: higher, the Kazakh State University named after S.M.Kirov (1991).

Professional experience: engineer of the applied mathematics department of the Kazakh State University, First deputy Director general of «Maksat-Telesystem» JSC; deputy Director general on marketing, informatization and general issues, First deputy Director general of the Institute of information technologies, deputy Director of Information technologies department of Kazakhtelecom OJSC, Executive Director – Director of Information technologies Department of Kazakhtelecom JSC, Executive Director on information technologies – Director of Department for support of the operational activity management system of Kazakhtelecom JSC. In September 2007, he was appointed Chief Director on information technologies of Kazakhtelecom JSC.

Independent member of the Board of Directors of JSC National information technologies.

**Mr. ASKAR YESSERKEGENOV**

Chief Commercial Director of Kazakhtelecom JSC.

Year of birth: 1965

Elected to the Management Board on March 25, 2007.

Education: higher, the Moscow Electronic Technical Institute of communications (1987); the International Academy of Business (2004), Master of Business Administration.

Professional experience: engineer of scientific and research sector, trainee researcher at the Almaty institute of power engineering, postgraduate at the Moscow electronic technical institute for communications, Vice-president of «Lokart» firm (Moscow), Vice president of Kazpromelectronika JSC, deputy head of the Office of the Agency for enterprises reorganization under the Ministry of economy of the RK, First deputy Director general of the Long Distance Domestic and International telephone exchange, Deputy Director general of the Local Telecommunication Center Almatytelecom, Director general of the Corporate Sales Administration of Kazakhtelecom OJSC, Technical Director of Kaztranscom OJSC, Executive Director on technical development of Kazakhtelecom JSC. In September 2007, he was appointed Chief Commercial Director of Kazakhtelecom JSC.

He is holding the shares of Kazakhtelecom JSC.

**Mr. ALEXANDER LEZGOVKO**

Chief Technical Director of Kazakhtelecom JSC.

Year of birth: 1961

Elected to the Management Board on March 26, 2007.

Education: higher, the Almaty institute of power engineering (1983).

Professional experience: engineer of the Special construction, testing and commissioning department of the Ministry of communications of the Kazakh SSR, head of the Capital Construction Division of the Almaty oblast production and technical administration for communications, deputy Director general on construction of the Almaty oblast Administration for Telecommunications, Director of the Investment planning Department of Kazakhtelecom OJSC, First deputy Director general of the Local Telecommunication Center Almatytelecom – the Kazakhtelecom’s OJSC affiliated branch, Director general of the Local Telecommunication Center Almatytelecom – the Kazakhtelecom’s JSC affiliated branch, deputy Chief technical Director of Kazakhtelecom JSC. In September 2007, he was appointed Chief Technical Director of Kazakhtelecom JSC.

He is holding the shares of Kazakhtelecom JSC.

**Mr. BATYR MAKHANBETAZHIYEV**

Chief Director on strategic management of Kazakhtelecom JSC.

Year of birth: 1972

Elected to the Management Board on June 7, 2010.

Education: higher, the Moscow state university named after Lomonosov (1994), specialty – economic cybernetics.

Professional experience: worked in different positions at the Department of analysis of monetary policy of states, the Bank founders, was head of the Economic Analysis Division of the Interstate Central Asian Commonwealth and Development Bank, deputy Director of «Zheldorvodoteplosnabzheniye», subsidiary of the Republican State Enterprise Kazakhstan temir zholy, deputy Director of information technologies department of the Republican State Enterprise Kazakhstan temir zholy. From 2002 – deputy Director of Legal and Organizational Department of the Ministry of economy and budget planning of the RK, from 2003 – Director of informatization and innovations expenditures planning department of the Ministry of economy and budget planning of the RK, from 2004 – Director of Information Technologies Department of the Ministry of finance of the RK. In 2006, he was elected Chairman of the Management Board of the joint-stock company National information technologies and appointed Executive Secretary of the Agency of the Republic of Kazakhstan for informatization and communication in October 2007. From March 2010 – Chief administrative Director of Kazakhtelecom JSC, since June 2010 – Chief Director on strategic management of Kazakhtelecom JSC.

**Mr. ARNUR NURKATOV**

Chief Financial Director of Kazakhtelecom JSC.

Year of birth: 1967

Elected to the Management Board on September 11, 2006.

Education: higher, the Almaty institute of national economy (1990), the Almaty School of Management, ACCA (The Association of Chartered Certified Accountants), the Moscow Institute of professional accountants and auditors (2004), International business academy (2009), Master of Management, the Finance academy under the Government of the RF (2009), Master of Business Administration.

Professional experience: Chief accountant, Commercial Director of the Small Enterprise «Altai», Financial Director of the International stock trade house Bayan Aul JSC, Director of Zerger LLP. He has been working at Kazakhtelecom JSC since December 2000, held the position of Chief treasurer – Director of the Finance Department. In September 2007, he was appointed Chief Financial Director of Kazakhtelecom JSC.

Chairman of the Board of Directors of ALTEL JSC and of the Board of Directors of NURSAT JSC.

**Mr. DARYN TUYAKOV**

Chief Director – Head of Staff of Kazakhtelecom JSC.

Managing Director of Kazakhtelecom JSC on relations with governmental bodies.

Year of birth: 1969

Elected to the Management Board on July 24, 2009.

Education: higher, the Leningrad high military and political school of anti-aircraft defense named after Y. Andropov (1990), the Kazakh State University named after Al-Farabi (1997), the International Academy of Business (2007), Master of Business Administration.

Professional experience: command capacities at the Ministry of Defense of the USSR, as lead consultant at the Ministry of Justice of the RK. From 1993 to 1999, worked in commercial structures, from 1999 – in different positions in bodies of the Ministry of internal affairs of the RK. At Kazakhtelecom JSC, he has been working since 2002, occupied the positions of the head of the legal division of the Administration Telecom Komplekt, head of the legal service of the Corporate Sales Administration, Administrative Director of the Corporate Sales Administration, Deputy Director General – Commercial Director of the Local Telecommunications Center Astanatelecom. In May 2009, was appointed Managing Director of Kazakhtelecom JSC on relations with governmental bodies. In December 2011, he was appointed to the position of Chief Director – Head of Staff of Kazakhtelecom JSC.

## The order of determining remuneration to members of the Management Board

The terms and conditions of payment of wages and bonuses to members of the Management Board of Kazakhtelecom JSC are determined by the Provision on Management Board of Kazakhtelecom JSC and the Rules for payment of remuneration to the managerial personnel of Kazakhtelecom JSC at the end of a year approved by the relevant decisions of the Board of Directors of Kazakhtelecom JSC.

Pursuant to the aforementioned documents, the Board of Directors determines, following recommendations of the Committee for remunerations of the Board of Directors, the size of official salaries and terms of payment of Chairman and members of the Management Board.

## Material transactions of the Company

Pursuant to sub-item 23 item 1 article 33 of the Kazakhtelecom's JSC Charter as of September 29, 2008 (hereinafter referred to as «The Charter»), the decisions on arranging large transactions and the transactions that the Company is taking interest in are attributed to exclusive competence of the Company's Board of Directors.

Pursuant to item 3 article 42 of the Charter, the decision on conclusion of the transactions that the Company is taking interest in, with regard to the Company's subsidiary organization, is made by majority vote of the Company's Independent Directors.

In 2011 the Board of Directors made 6 decisions on the transactions it was interested in:

- The Agreement on carrying out the function of an agent responsible for receiving payment for telecommunications services provided by ALTEL JSC, the agreement on carrying out the functions of an agent responsible for receiving payment for telecommunications services provided by NURSAT JSC;
- The Agreement with NURSAT JSC on provision of telecommunications services;
- Transactions with Signum LLC on extension of the term of financial assistance;
- Transaction on sale of the share of participation of JSC Kazakhtelecom in the authorized capital of GSM Kazakhstan Kazakhtelecom OJSC LLP to the Holding Telia Sonera AB;
- The Agreement with LLC Online.kg on provision of payable services;
- Supplementary agreement to the Agreement on provision of telecommunications services and MoU with GSM Kazakhstan Kazakhtelecom JSC.

# Key performance indicators

Adequate evaluation that is critically important for stable development is always the result of laborious analysis and multiple check-up of your own statements. In the same way, it is important for a company to mark key moments, milestone events in order for the company to be able to correct and navigate its further movement.

*While moving, force is getting stronger gathering its might*

*Vergilius*

## FINANCE INDICATORS (MILLION TENGE)\*

	2011	2010	2009	2008	2007
Revenues from sale of services	173 344,0	152 731,7	143 966,0	138 449,9	127 762,1
EBITDA	66 015,3	53 896,6	56 500,1	34 105,2	45 074,4
Profitability EBITDA	38,1%	35,3%	39,2%	24,6%	35,3%
Net profit	50 166,8	34 219,6	27 317,9	31 390,5	32 970,2
Capital investment	43 641,0	34 078,0	42 201,9	57 949,4	61 311,7
<b>Efficiency indicator</b>					
ROACE	16,6	13,5	11,2	13,6	16,2
ARPU per one fixed line, KZT thousand/year	34,2	31,93	30,40	30,49	29,8
ARPU on broadband access for natural persons, KZT thousand /month	3,10	3,10	3,25	3,26	3,97
ARPU per mobile subscriber, KZT thousand /month	0,79	0,90	0,96	1,07	1,70
Number of employees, persons	29 510	29 855	30 325	30 282	30 933
Total revenues per employee, KZT thousand	5 874,1	5 115,8	4 747,4	4 572	4 130
Number of fixed lines per employee	133,8	127,4	119,6	110,1	98,9
<b>Information about assets</b>					
Total assets	421 696,2	370 562,3	365 452,4	334 893,1	305 452,3
Long term loans	59 679,8	57 971,2	61 869,8	70 700,8	68 392,7
Own capital	282 902,3	238 592,2	209 587,8	192 115,4	167 236,7

## TECHNICAL INDICATORS (MILLION TENGE)\*

	2011	2010	2009	2008	2007
Number of fixed lines	3 948 625	3 802 916	3 627 192	3 333 118	3 283 486
Level of digitization of local network, %	96	92,84	90,75	86,07	82,57
Number of mobile subscribers of subsidiary companies, persons	1 383 653	1 229 772	1 034 983	752 398	595 874
Total number of Internet users, persons	2 697 032	2 298 040	1 816 057	1 190 737	715 223
Including users of broadband data communications, persons	2 449 779	2 016 508	1 417 803	660 818	293 267

## INDUSTRIAL PERFORMANCE INDICATORS (MILLION TENGE)\*

	2011	2010	2009	2008	2007
Telephone density, number of fixed lines per 100 inhabitants	25,9	25,1	25	23,4	19,9
Maximum audience of the Internet users, thousand persons	8 715	4 321	3 160	2 327	2 125
Number of mobile subscribers, thousand	23 102,7	19 200	15 700	12 300	10 800

## MACROECONOMIC INDICATORS (MILLION TENGE)\*

	2011	2010	2009	2008	2007
Population of Kazakhstan, total thousand people	16 674,96	16 433,79	15 999,48	15 778,16	15 571,5
GDP, %	107,5	107,0	101,2	103	108,9
Consumer Price Index, %	107,4	107,8	106,2	109,5	118,8
KZT/USD exchange rate, average per year	146,62	147,35	147,5	120,3	122,55

\* The Company's finance indicators pursuant to IFRS

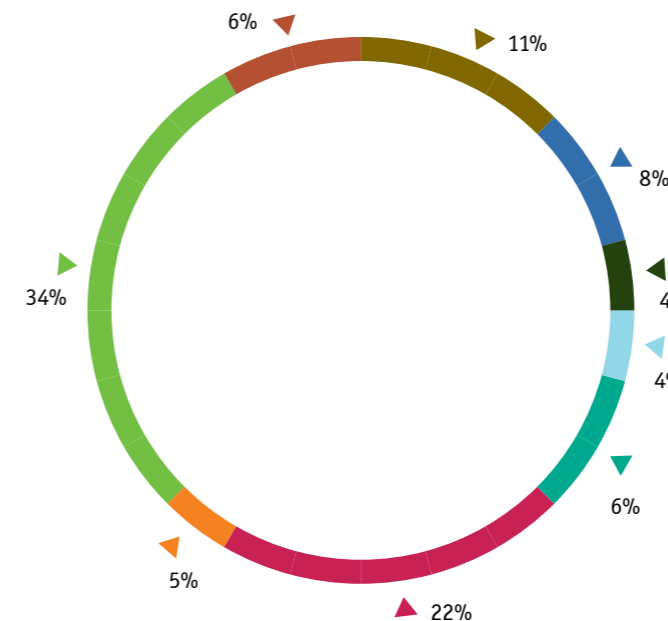
# Financial review

Each new day is a possibility of creating something new or improving the existing one. But in order to start the process of changes one must explicitly understand and see the entire picture of the current situation. It is important not only to wish and decide to make advances in innovations but also to have a rational approach to allocating available resources and possibilities for their embodiment.

*We must go on, go on in any case with life, which goes on always.*

*Emile Zola*

## Structure of revenues across the Group of companies of Kazakhtelecom JSC



IN 2011, THE REVENUES FROM SALE OF SERVICES: ACROSS THE GROUP OF COMPANIES OF KAZAKHTELECOM JSC TOTALED KZT 173 344,0 MLN, WHICH MAKES AN INCREASE OF

# 13,5%.

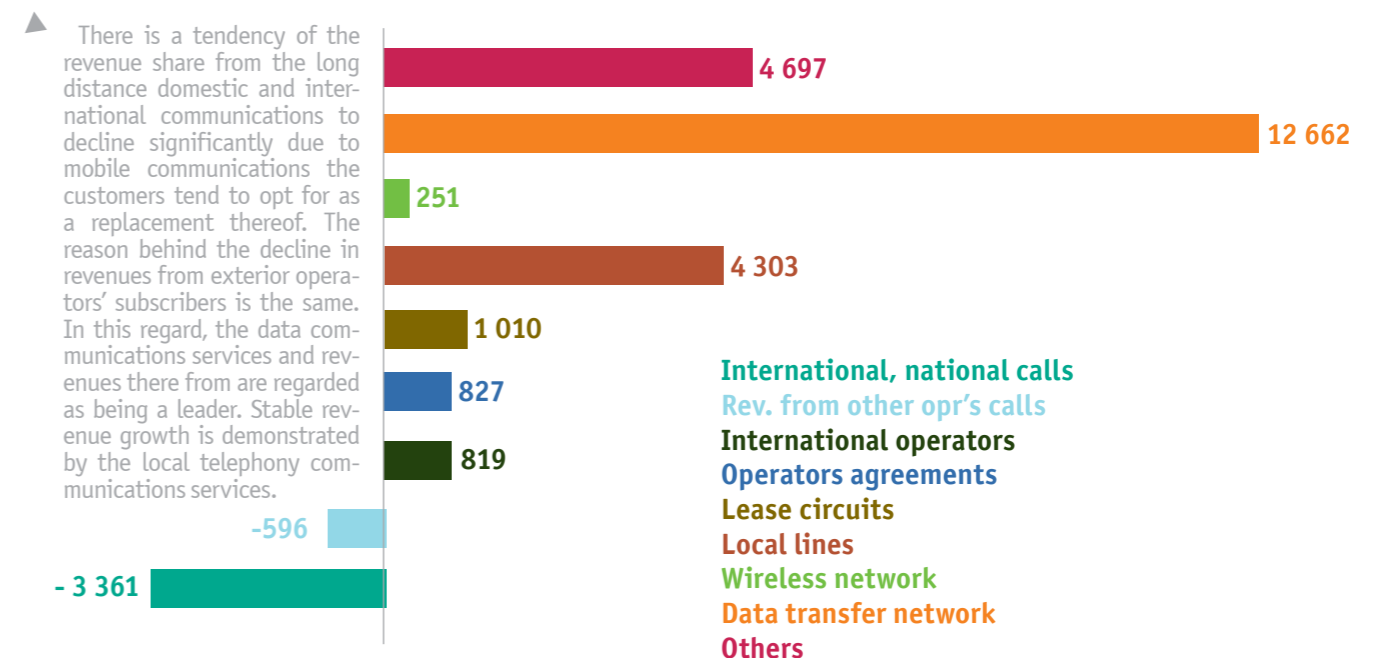
COMPARED TO 2010.

- Local lines
- Wireless network
- Data transfer network
- Revenue from others
- International, national calls
- Revenue from other operators calls, including mobile
- Revenue from international operators agreements
- Revenue from other operators agreements
- Revenue from Lease Circuits

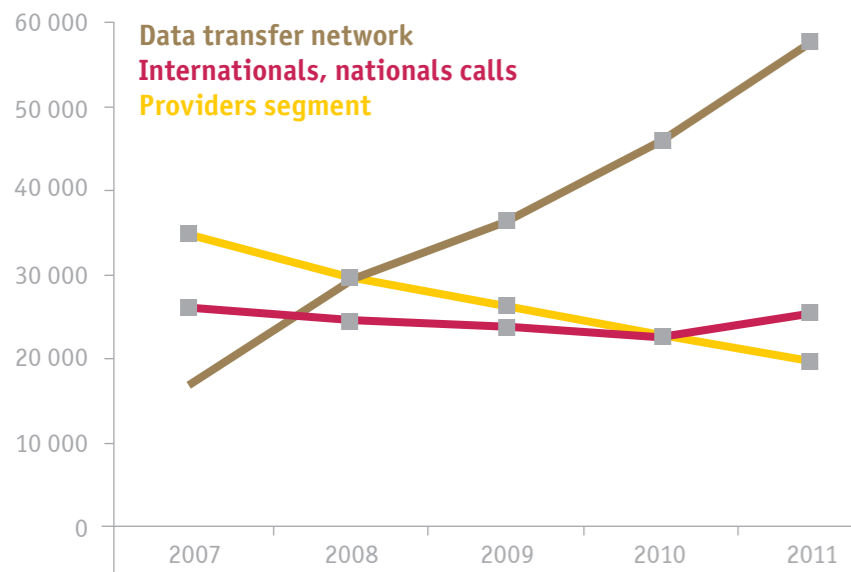
The largest share in the revenues structure in 2011 is taken by the revenues from:

- data communication services with the share in the general revenues structure of Kazakhtelecom JSC making up 34%;
- local telephone communication with the share in the general revenues structure making up 22%;
- LDDITC with the share in the general revenues structure making up 11%.

## Changes in the revenues structure in 2011 compared to 2010, in KZT mln



## Dynamic of the most significant revenue items over 5 years, in KZT mln

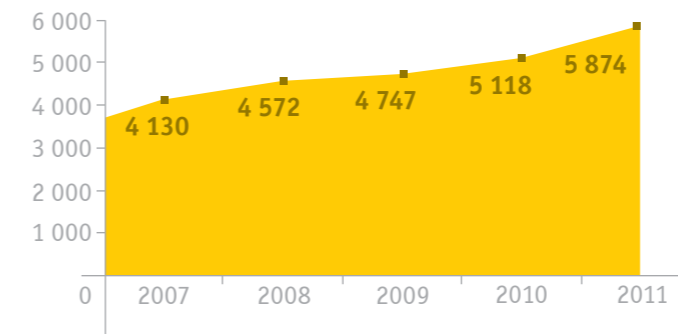


The data communications network is a segment showing the highest rate of growth caused by the following factors:

1. growth of demand for broadband data communications services;
2. increase of the population computerization level;
3. decrease of the information inequality level.

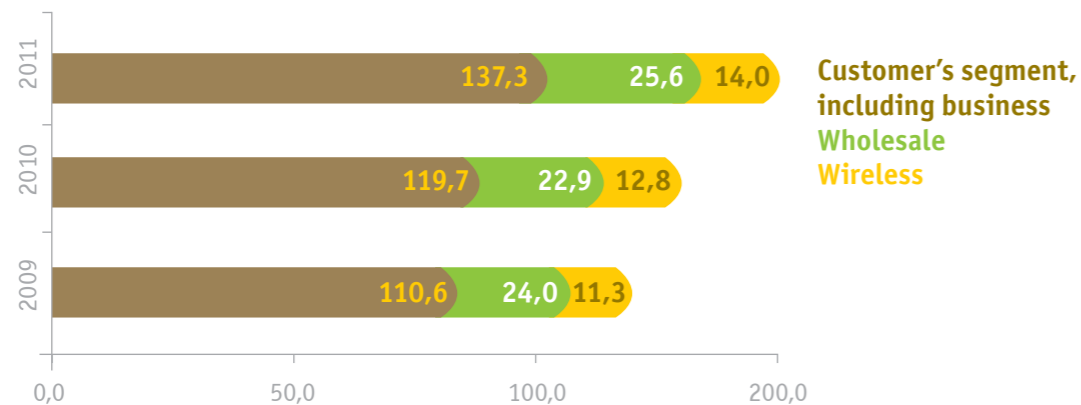
Development of advanced technologies does impact the level of consumption of voice telephony services making it lower. There is a small increase of the operators' segment that showed insignificant decline in previous years.

## Revenue per employee, KZT thousands



Over the last years there has been a positive dynamic in revenues per employee. As the demand from the population for telephone communications services is met, and the new technologies and products are rolled out, the number of fixed communication lines per employee also rises. In December 2011, international rating agency Fitch Ratings affirmed the long-term issuer default ratings (IDR) of the Company in foreign and national currency at «BB», short-term IDR in a foreign currency at «B» and national long-term rating at «A(kaz)». Forecast of long-term rating is «Stable».

## Relative weight of customers in total revenue, in KZT bln



As the diagram shows, Kazakhtelecom JSC has been restoring its position in the market for legal entities, with a small progress being made in the mobile segment. Despite the toughening of the competitive environment, we do hold our position with regard to the revenues from the operators' segment. To strengthen the competitive position in the operators segment, the Company will be pursuing a flexible tariff policy aimed at attracting operators.

TOTAL OPERATING EXPENDITURES ACROSS THE GROUP OF COMPANIES OF KAZAKHTELECOM JSC MADE UP KZT 156 727,4 MLN.

EARNINGS BEFORE INTERESTS, TAXES, AND AMORTIZATION EBITDA ACROSS THE COMPANY MADE UP

**KZT 66 015,3 MLN.**

NET PROFIT (NET INCOME) ACROSS THE COMPANY MADE UP KZT 50 166,8 MLN. THE RATIO OF NET PROFIT TO REVENUES FROM SALES ACROSS THE COMPANY MADE UP 28,9%.



# Business Review

Dynamic telecommunications market requires constant forward movement. We keep up with the times and change ourselves going down the road of innovations and technologies.

The processes of diversification and laborious work aimed at optimizing business processes and enhancing the quality of the services provided is regarded as being the most prioritized direction in the Company's development.

*To live means to keep moving forward.*

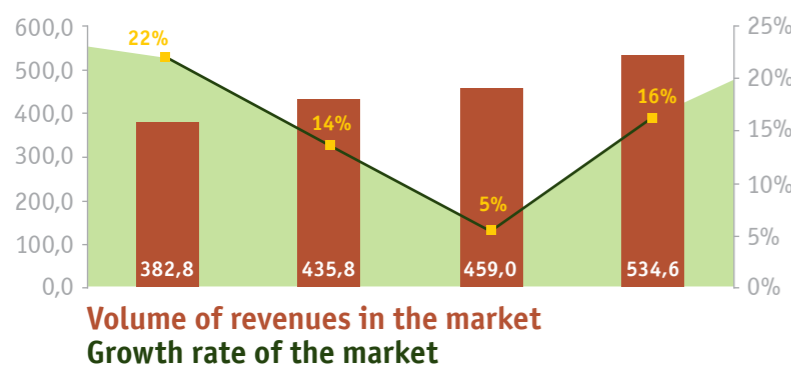
*Samuel Johnson*

## Review of the telecommunications market (based on the Company's internal data)

The market for telecommunications services grew in 2011 by 116,4% compared to 2010, with the consolidated volume of revenues of the market making up around KZT 534,6 bln. It has to be pointed out that the growth rate of the telecommunications market of RK is higher of the growth rate of GDP (7,5% in 2011) by 8,9%.

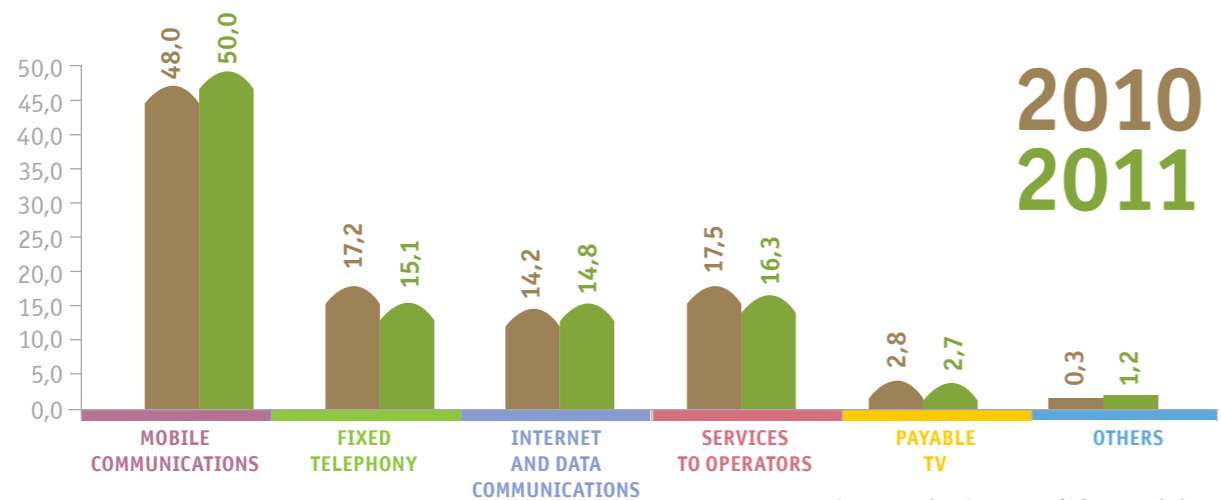
**GROWTH OF THE TELECOMMUNICATIONS MARKET OUTPACES THE GROWTH OF GDP BY 8,9%**

### Dynamic of the telecommunications market of RK in 2008–2011



The key drivers of growth of the telecommunications market in 2011 are the fixed and mobile data communications services as well as growing impact of VAS-services on formation of revenues in major segments of the market. And yet, the level of revenues from the market for fixed telephony which showed negative growth dynamic over the last three years remains unchanged.

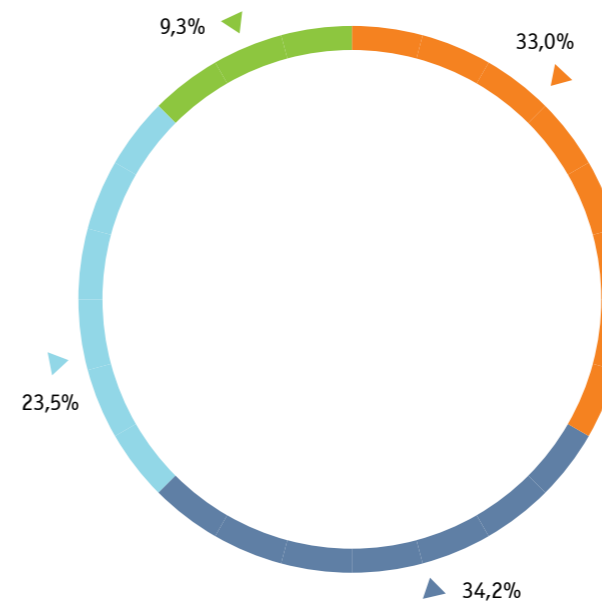
### Dynamic of the structure of revenues of the telecommunications market of the Republic of Kazakhstan across various services, 2010–2011



It has to be said that the year 2011 as well as 2010 saw the strengthening of the positions of mobile communications – from 48% in 2010 to 50% in 2011 (without the operators' services in the segment of cell communications), and the Internet and data communications services – from 14,2% in 2010 to 14,8% in 2011, with the revenue share from fixed communications continuing to decrease: in 2011, the contribution of this segment made up 15,1% against 17,2% in 2010.

## The Company's position in the telecommunications market

### Structure of the telecommunications market of RK across major operators, 2011



## THE LEADER OF THE TELECOMMUNICATIONS MARKET KAZAKHTELECOM JSC WITH THE MARKET SHARE OF

# 34,2%

GSM Kazakhstan  
Kazakhtelecom GK  
Beeline GK  
Others

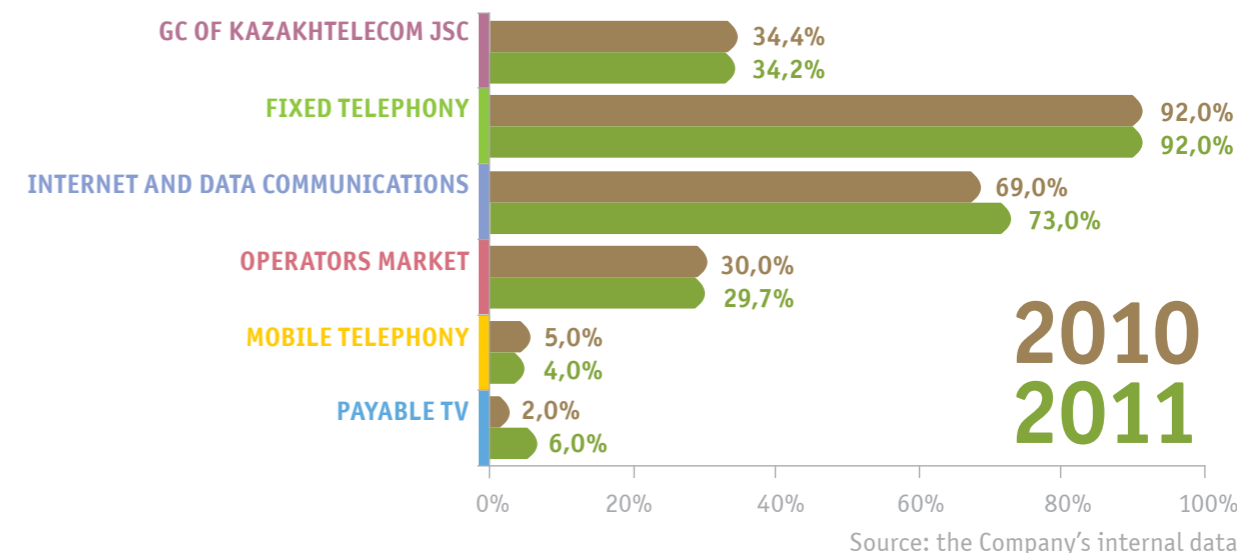
As a result of performance in 2011, the Group of companies of Kazakhtelecom JSC retained its leading positions on the volume of revenues with 34,2% (the share of Kazakhtelecom JSC made up 30,4% in 2011). GSM Kazakhstan LLP, cell operator, took the second position with the market share of 33%.

The Group of companies of Beeline became the third operator in the telecommunications market with the revenue share of the Group making up 23,5% of the total revenue of the market in 2011 (in 2010 – 23,1%). The other operators are far behind the leaders of the market with the aggregate share of these operators making up 9,3% and with the share of each of them not exceeding some percentage points.

In 2011, the Group of companies of Kazakhtelecom JSC took 34,2% of the market share. It has to be said that the Company increased its presence (the market share) in the segments of fixed telephony, data communications and Internet, payable TV, which is not the case with the mobile and operators' segments of the market.

In this connection, the increase of presence in the mobile and operators' segments of the market, in the segment of payable TV as well as the retention of the Company's position in the segments of fixed telephony, data communications and Internet, are determined as major strategic tasks of the Company for 2012.

### Dynamic of the Company's market share across the various telecommunications services, 2010–2011





**IN WHICH DIRECTION THE TELECOMMUNICATIONS MARKET OF KAZAKHSTAN IS MOVING (DEVELOPING)?**

**DEVELOPMENT OF FTTX NETWORKS AND USE OF IP-TECHNOLOGIES ON A MASS SCALE.**

CONSTRUCTION OF FIBER OPTICAL ACCESS NETWORKS BY ALTERNATIVE OPERATORS IS PROVIDING FOR CONVERGENT SERVICES AND PACKET OFFERS FROM THESE OPERATORS. THE PACE WITH WHICH ALL OPERATORS INCLUDING KAZAKHTELECOM JSC ARE SWITCHING TO FIBER-OPTICAL ACCESS NETWORKS IS ACCELERATED.

**DEVELOPMENT OF ADDITIONAL SERVICES BASED ON BROADBAND DATA COMMUNICATIONS, DEVELOPMENT OF SYSTEM INTEGRATION SERVICES, CONTENT AND APPLICATIONS.**

TODAY, THE SERVICES ON SYSTEM INTEGRATION PROVIDED GENERALLY BY NON-TELECOMMUNICATIONS OPERATORS TO LARGE SUBSCRIBERS ARE IN DEMAND. OPERATORS ARE SHIFTING TO PROVIDING CONTENT AND APPLICATION SERVICES ON THE BASIS OF BROADBAND DATA COMMUNICATIONS.

**SLOWDOWN IN THE GROWTH RATE OF THE MARKET FOR SERVICES TO OPERATORS.**

DESPITE THE FACT THAT THE MARKET SEGMENT FOR OPERATORS SERVICES (SERVICES TO OPERATORS) IS GROWING EVERY YEAR IN ABSOLUTE TERMS, THE GROWTH RATE OF REVENUES IS DECREASING FROM YEAR TO YEAR. THIS IS DUE TO BOTH THE INCREASE OF COMPETITIVENESS IN THE SEGMENT AND THE CHANGE OF THE DEMAND STRUCTURE: OPERATORS (PRIMARILY THE OPERATORS OF CELL COMMUNICATIONS) ARE STRIVING FOR CONSTRUCTION OF THEIR OWN BACKBONE INFRASTRUCTURE WHICH TENDS TO CUT DOWN THE DEMAND FOR CHANNEL LEASE SERVICES. MEANWHILE, THE DEMAND FOR WHOLESALE INTERNET-TRAFFIC IS GROWING WHICH COMPENSATES THE DECREASE IN REVENUES FROM CHANNELS LEASING.

**MOBILE SUBSTITUTION.**

ANNUAL INCREASE OF REVENUE SHARE FROM THIS TYPE OF SERVICES IN THE GENERAL STRUCTURE OF THE TELECOMMUNICATIONS MARKET IS INDICATIVE OF CELL COMMUNICATIONS STRENGTHENING ITS POSITION IN THE MARKET. WITH DEVELOPMENT OF MOBILE NETWORKS OF THIRD AND FORTH GENERATIONS THE MOBILE SUBSTITUTION MAY TOUCH UPON NOT ONLY TELEPHONY BUT ALSO ACCESS TO THE INTERNET SERVICES AS CELL COMMUNICATIONS NETWORKS WILL BE PROVIDING DATA COMMUNICATIONS RATES COMPARABLE WITH RATES (SPEEDS) IN FIXED NETWORKS.

In a whole, the Kazakhstan telecommunications market is more actively entering the stage of transformation of values of telecommunications services for consumers. Today, the Kazakhstan consumer like any consumer in the world is required not just access to telecommunications services. Consumer needs this access to be filled in with qualitative services or content. Thus, the urgency of the issues pertaining to the interaction between telecommunications operators, content and service-providers will significantly increase in the near future.

**Business portfolio**

Kazakhtelecom JSC constantly keeps track of changes in development of the telecommunications market offering to subscriber the state-of-the-art and qualitative services.

Each product of the Company is developed for specific target segments that take account of preferences of practically each subscriber in telecommunications services.

To date, Kazakhtelecom JSC, its subsidiary and dependent organizations offer the complete set of info communication services for all segments of the market.

**Local telephone communication**

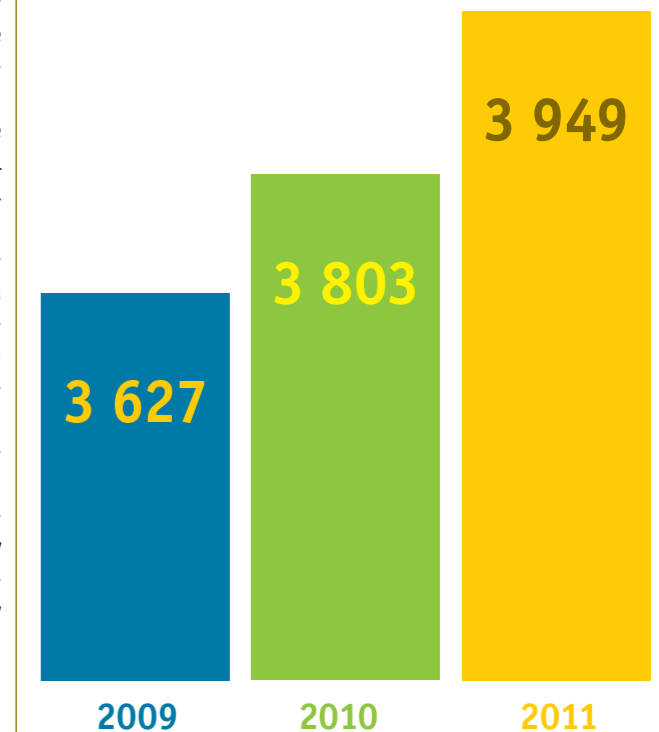
For the whole population of Kazakhstan and companies operating on the territory of Kazakhstan, the local telephone communication services, provided by the Group of Companies of Kazakhtelecom JSC, remain the principal means of communication and receipt of information as well as the effective tool of business activity. By using modern telephone line a subscriber can use the whole range of long distance domestic and international communications services, access to the Internet services, intellectual services and IP-TV services.

Our Company provides local telephony services in accordance with a customer's demands, namely, connection to a digital network and multi-service subscriber access network, connection of individual users and organizations on the basis of ISDN-technologies, connection of office exchanges by 2 megabit/s capacity digital bit streams with allocation of a required quantity of numbers and combining thereof into a uniform serial number.

To bring telephony services to difficult of access locations, wireless CDMA and Wi-Max technologies are widely applied. Along with traditional telephony services of Kazakhtelecom JSC, a consumer may choose local telephony services by using wireless CDMA («City») technology.

A DIVERSIFIED COMPANY MANAGING THE PORTFOLIO OF BUSINESSES IS EXCEPTIONALLY GOOD MODEL FOR MAKING CAPITAL INVESTMENT INTO THE MOST PROFITABLE SEGMENTS

Dynamic of change in the number of subscribers of fixed communications, in thousand units



**Long-distance domestic and international telephone communication services**

The Group of Kazakhtelecom's JSC companies provides every citizen and guest of the country with ample opportunities of communication with their relatives, friends and business partners at any time.

Subscribers may optionally use different types of services: by automatic telephone communication, by operator or by prepaid telephone cards «Tarlan+ unified» or «I-Card+».

To make long-distance domestic and international telephone communication services more available for population, the Group of Kazakhtelecom's JSC companies is taking appropriate steps to decrease tariffs and improve billing system.

## Internet access services

### BROADBAND INTERNET ACCESS SERVICE «MEGALINE».

Today Kazakhtelecom JSC is regarded as being the incontestable leader in the Internet access market possessing the most significant resources to access the Global Network in Kazakhstan. By introducing the broadband Internet access service «Megaline» to the market, the Company turned high-speed Internet access from elite to mass service. «Megaline» service is available to all subscribers of Kazakhtelecom JSC in all major cities and oblast centers of Kazakhstan.

«Megaline» service includes the following types of Internet access:

- «Megaline Home» (Internet for home) is provided on the basis of an ordinary telephone line using ADSL technology (at the rate of 8 Mbps);
- «Megaline Business» (Internet for office) is provided on the basis of dedicated connection technology and telephone line using ADSL technology (at the rate of up to 10 Mbps);
- «Megaline Wi-Fi» (Internet on the way) is the wireless Internet access on the basis of Wi-Fi technology.

Satisfying demands of our subscribers, the broadband Internet access services may be provided by ADSL on the basis of dedicated connection and on the basis of mobile solutions (WiMax, WLL, Wi-Fi).

### «WIMAX» – BROADBAND RADIO ACCESS SYSTEMS.

«WiMax» technology allows provision of the Internet access and data communication services without application of cable lines. Unlike traditional radio access services, this system operates outside the line of base station's sight despite of buildings, trees and weather conditions.

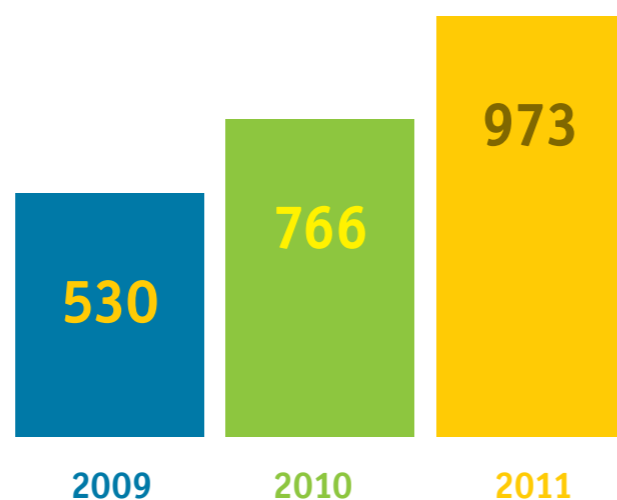
### «WLL» – WIRELESS LOCAL LOOP.

«WLL» is the technology of wireless fixed access which allows short-term organization of access to telephony and high-speed Internet services in those buildings and districts of a city where wireline resources are exhausted or limited.

### «MEGALINE WI-FI» – WIRELESS BROADBAND INTERNET ACCESS.

«Megaline Wi-Fi» service allows provision of wireless broadband Internet access services within Wi-Fi hot spots from laptops, palmtops and smart phones having Wi-Fi ports.

### Subscribers of fixed broadband access, thousand persons



### «ID NET» – THE BROADBAND INTERNET ACCESS SERVICE.

In 2011 Kazakhtelecom JSC continued implementation of its own Program for development of broadband access networks till 2015 (the Program). Main objective of the Program is the construction in all large cities of the country of broadband access networks of new generation with the use of FTTH and ETTH fiber optical technologies. These technologies enable to provide the complete range of «Triple Play» services.

In January 2010, the new service of high speed Internet access «iD Net» was introduced to the market under the umbrella brand «iD». The service enables provision of competitive solutions at the speed up to 2 Mbps to external resources, and up to 100 Mbps to internal resources of Kazakhtelecom JSC with speed threshold of 40 Gbps.

## Cellular communication services.

In addition to the standard cellular communication services, the Group of companies provides a wide range of value added services that comply with the current tendencies of mobile and data communication development:

- **MMS** is the system which allows sending and receiving of multimedia messages (pictures, melodies, video) by cell phone;
- **WAP** is the technology which allows access to the Internet resources by cell phone;
- **EDGE** is the digital technology of the high-speed Internet access service by cell phone;
- **GPRS** is the batch communication technology which allows users of cellular communication networks to exchange data with other devices in GSM network and external networks, including the Internet.

### Number of cellular communication subscribers (ALTEL JSC), thousand persons



**Private lines.** Development of Kazakhstan business is hardly imaginable without application of new information and communication technologies. Modern developments in the sphere of data communication allow the Company provision of the full range of telecommunication services to its customers, including communication of digital and voice traffic, multimedia data (video transmission and video conferencing), as well as support of all applied network protocols of data communication.

Implementation of the Metro Ethernet Project allowed introduction of «IP VPN» service to the market. This service enables to make corporate virtual networking more simple and available practically to any Kazakhstan company. Kazakhtelecom JSC complements the simplicity and universality of corporate IP networking with the guarantee of security, high degree of information protection and quality of service.

Kazakhtelecom JSC provides corporate customers with the **high-quality videoconferencing service «TelePresence»**, which allows organization of two-way and three-way video-communication between the Russian Federation and the Republic of Kazakhstan (Moscow – Almaty, Moscow – Astana, Moscow – Almaty – Astana) with the high effect of presence.

IN 2011 THE GROUP OF KAZAKHTELECOM'S JSC COMPANIES PROVIDED THE FOLLOWING CELLULAR COMMUNICATION SERVICES: «KCELL» AND «ACTIV» SERVICES OF GSM STANDARD, «PATHWORD» AND «DALACOM» SERVICES OF CDMA STANDARD AND JET SERVICE OF EV-DO BROADBAND MOBILE ACCESS.

**Intelligent services** of Kazakhtelecom JSC are the universal tools that enable any company to organize prompt acquisition and representation of any information by phone in automatic and semiautomatic mode, as well as to provide its customers with value added communication services. The most popular intelligent services are freephone, chargeable information service, televoting, voice portal services.

Continuing the work on diversification of its business, the Group of Kazakhtelecom's JSC companies develops **new information and communication services.**

Opening of the Internet Data Centers of Kazakhtelecom JSC allows provision of «iD Host» hosting services. These services are meant to provide resources of «iD Host» hosting site for physical layout of information at the server with continuous connection to the Internet. Kazakhtelecom JSC provides the following hosting services:

- **iD Shared** – a type of hosting whereby a variety of websites located at one web server use a single software. This is the least-cost type of hosting, suitable for small-scale projects with up to 1 000 visitors a day;
- **iD VPS** – a type of hosting whereby a user is provided with a virtual dedicated server. It is needed for deploying the medium sized web-portals requiring higher capacity resources, as opposed to «iD Shared», but not using a full capacity of a whole server;
- **iD Place** – hosting of a customer server at «iD Host» hosting site;
- **iD Server** – leasing a server at «iD Host» hosting site with provision of hosting site's resources.

Specially for its corporate customers the Company developed «iDirect» **universal satellite system**, which ensures continuous operation of voice and video services, as well as data communication applications in continuously changing conditions and with the different aims.

Kazakhtelecom JSC also provides «iD TV» interactive services. In contrast to traditional types of TV (broadcasting, cable and satellite), «iD TV» is the interactive service by means of which a user may optionally choose content and manage TV service at his/her own will. Kazakhtelecom JSC provides the following «iD TV» interactive services:

- **Watching TV channels** – digital broadcasting of channels. A user may subscribe to the standard package, which includes 71 TV channels. In addition there are special packages with different subjects («Music», «For children», «For housewives», «Entertainment», «Learning»);
- **Electronic TV listings** – listing of programs at available TV channels displayed at the screen. It contains the schedule of TV programs for next several days with short description of each program;
- **Video on demand** – a unique service, which allows ordering a film with further watching at TV screen immediately or at any convenient time. Digital quality of image, 3D sound, information on Directors and actors, rewind and stop options;
- **Virtual cinema** – a service for watching popular movies according to the timetable («virtual» analogue of multiplex cinema).

**Services to telecom operators.** Kazakhtelecom JSC provides all services to telecom operators in strict compliance with the applicable laws and principles of mutually beneficial partnership maintaining and developing factors of competitive edge, i.e. availability of required number of network resources for connection of operators' networks and transmission of all types of traffic; extensive telecommunication network constructed on the basis of new digital equipment with high carrying capacity ensuring provision of high-quality and reliable services to operators and their subscribers. Operation of the Telecommunication Network Management Center and operating units responsible for 24/7 servicing of communication lines and stations also plays a great role.

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

- connection of telecom operators' networks and departmental stations; as well as transit of traffic through the public telecommunication network of the Republic of Kazakhstan;
- organization of the Internet access for ISPs of the Republic of Kazakhstan;
- leasing of trunk and international digital communication channels for subscribers.

## International cooperation

The Company's international activity is based on provision of international telephony services, direct non-switched transit of digital flows through the territory of the Republic of Kazakhstan, as well as the «Internet-transit».

For provision of international telephony services Kazakhtelecom JSC currently possesses direct channels to exchange voice traffic with 41 international operators from 27 countries. Cooperation with the largest telecom operators, such as Rostelecom, Deutsche Telekom, France Telecom, Verizon Business, AT&T also enables to provide Kazakhstan subscribers with an access to all countries of the world including provision of both telephony and «ISDN» services.

As of the end of 2011, there were 9 973 international digital channels arranged for exchange of voice traffic in the Company.

Kazakhtelecom JSC provides the service of non-switched transit to ensure communication between networks of telecom operators of Kazakhstan's neighboring states. The majority of channels are organized between telecom operators of the Russian Federation and Central Asia republics.

Main users of the «Internet-transit» service are Central Asian operators interested in getting connection to the Internet-ports of Kazakhtelecom JSC to meet the demand of customers in their own countries. As for today, the Company is considered to be ISP of II level in the Central Asian region. Sales volume in this sector increased in 2011 in 1.7 times in comparison with 2010.

All services to telecom operators are provided in strict compliance with the legislature of the Republic of Kazakhstan, principles of equal subscriber access to the services and maximum satisfaction of demand for network resources. To ensure competitiveness of the Internet access services for ISPs of the Republic of Kazakhstan and lease of trunk digital communication channels, Kazakhtelecom JSC reduces tariffs, improves reliability and quality of its services on an annual basis.

To inform all interested persons about arrangements of Kazakhtelecom JSC aimed at improving cooperation relationships with telecom operators, statutory acts on the issues of cooperation in the process of connection of telecom operators to Kazakhtelecom's JSC telecommunication network, information on points of interconnect (POI), information on mutual development of joint ventures on provision of the broadband Internet access service under «Megaline» brand to subscribers of local telephony network's operators is published at the Central Corporate Portal of the Company in the section «For telecom operators».

The package proposal of the aforementioned services shall ensure a long-term increase of Kazakhtelecom's JSC revenues owing to its presence in such highly dynamic sectors as mobile communication, Internet access and data communication, payable TV and value added services. Moreover, the Company will continue to make use of its advantages of being a leader in the market of fixed telephony and operator services.

## Development of the telecommunication infrastructure

Today the telecommunications infrastructure is a foundation for the IT-infrastructure, a basis for a modern company's business communication providing for reliable, easy-to-use, secure and mobile services required for successful existence and dynamic development of any company.

Kazakhtelecom JSC has continued the implementation of a large-scale investment program aimed at introducing high technologies pursuant to the 2010–2014 National Program of forced industrial and innovative development of the Republic of Kazakhstan and also intended to bring the country to the leading world positions as to the level of telecommunications infrastructure development.

The Company's telecommunications networks modernization and development projects are based on using advanced telecommunications technologies and aimed at constructing a modern telecommunications network meeting the world standards for the quality and the range of services provided.

In 2011, the Kazakhtelecom's JSC capex amounted to KZT

**PENETRATION OF THE INFORMATION AND COMMUNICATION TECHNOLOGIES IN ALL SPHERES OF PEOPLE'S LIVES AND THE COUNTRY'S ECONOMY HAS BECOME AN OBJECTIVE REALITY.**

38 bln. with the telecommunications network extension, modernization and development projects making up 88,4% of the total capex of Kazakhtelecom JSC.

## Extension of the National Information Super Backbone on the basis of DWDM (Dense Wavelength Division Multiplexing) technology

In 2011, in order to extend connections to the external Internet ports, increase transit potential and develop broadband networks, Kazakhtelecom JSC continued implementing the project on extending bandwidth capacity of the National Information Super Backbone (NISB) by using DWDM equipment:

- ▶ **BANDWIDTH CAPACITY OF DWDM BACKBONE NETWORK WITH 16 LAMBDA'S OF 10 GBIT/S WHERE 8 LINES ARE FOR TRANSIT ORGANIZATION AND 8 LINES AT JOINTS WITH THE RUSSIAN FEDERATION WAS EXTENDED;**
- ▶ **TOTAL CAPACITY OF EXTERNAL INTERNATIONAL JOINTS WITH NEIGHBORING COUNTRIES INCREASED MORE THAN TWOFOLD;**
- ▶ **20 GBIT/S TRANSIT WAS ARRANGED IN SECTION RUSSIAN FEDERATION – KHORGOS;**
- ▶ **946,7 KM BACKBONE FOCL WAS CONSTRUCTED IN THE SECTION KOSTANAI – ESSIL – ULYTAU – ZHEKAZGAN – ZHARYK.**

## Local telecommunications network development

The local telecommunications network of the Company is represented by 5 302 switching points with 2 486 automatic switching points being operated in local telephone network (LTN) and 2 816 switching points in rural telephone network (RTN). For 2011, the increment totaled to 158 switching points generally due to the installation of remote units for multi-service access to subscribers.

2 450 or 98,55 % digital switching points are used in LTNs, 2 431 or 86,33 % – in RTNs. From the beginning 2011, the number of LTN's digital switching points increased by 255 due to the replacement of analogue exchanges by digital

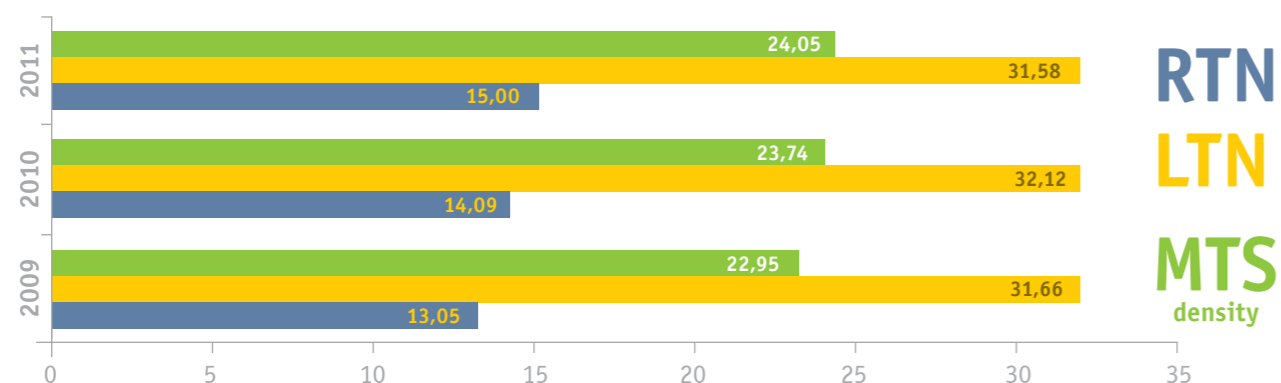
AS OF JANUARY 1, 2012 FIXED LINES TOTALED TO  
**3 948 625** UNITS

ones, RTN's switching points – by 196.

253 106 main telephone sets (MTS) were installed in 2011.

As of January 1, 2012 fixed lines totaled to 3 948 625 units including 2 830 612 units in LTN, 1 118 013 units in RTN. The density of telephones per 100 inhabitants made up 24,05 numbers including 31,58 numbers in LTN and 15,00 numbers in RTN.

## Density of telephones per 100 inhabitants



Implementation of the projects on upgrade and development of local and intrazone telecommunications networks in 2011 resulted in:

1. Putting into operation multiservice subscriber access, terminal equipment of CDMA-800 and CDMA-450 networks with total capacity of 131 235 numbers, and 110 390 broadband data communications ports.
2. Construction of as many as 1 013 kms of intrazone fiber-optical communications lines (FOCL), 672 kms of intrazone digital radio relay lines.

As of January 1, 2012 the length of fiber-optical communication lines in zone telecommunications networks (including connection lines) totals 3 112 km. As a result, 137 out of 183 regional centers and large settlements have been connected to the FOCL. The bandwidth capacity of zone transport networks provides at least 1 Gbit/s traffic.

## Construction of FTTH (Fiber to the Home) networks

With a view to meeting the growing demand for high-speed broadband access services and extending the spectrum of services provided the Company started, in 2011, constructing universal fiber-optical access network FTTH (Fiber to the Home).

Within the framework of implementation of the project in 2011:

- 1) fiber-optical subscriber access networks were constructed at 146 facilities in the cities of Astana, Almaty and oblast centers of the republic with the coverage of 3 718 apartment blocks, 2 755 villa constructions;

COMPANY STARTED, IN 2011, CONSTRUCTING UNIVERSAL FIBER-OPTICAL ACCESS NETWORK FTTH (FIBER TO THE HOME)

- 2) GPON equipment installation was completed and put into operation in the cities of Astana, Almaty, Aktau, Aktobe, Atyrau, Karaganda, Kokshetau, Kostanai, Kyzylorda, Pavlodar, Petropavlovsk, Taldykorgan, Taraz, Uralsk, Ust-Kamenogorsk, Shymkent, which make provisions for introducing the capacity of 170 962 subscriber ports.

## Upgrade and development of the rural telecommunications networks by using WLL CDMA technology

With the aim to develop rural telecommunications networks in a prompt and efficient way as well as meet the country's rural inhabitants' demand for communication services, in 2011, the Company continued implementing the project «On the upgrade and development of the rural telecommunications network by using WLL CDMA technology».

As of January 1, 2012 the CDMA-450 network was deployed across the Republic of Kazakhstan and covers over 5 484 rural settlements. The total number of installed base stations has exceeded 504.

In six regions of the country (Aktyubinskaya, Almatinskaya, Kostanaiskaya, Pavlodarskaya, Zhambylskaya, South-Kazakhstan oblasts) the existing base stations were upgraded up to EV-DO which enabled to provide rural subscribers with broadband access to the Internet.

## SIP platform development

Multimedia SIP-based telephone network (iD Phone) has been deployed in the cities of Almaty, Astana and all oblast centers and cities of the Republic of Kazakhstan. In 2011, SIP-telephony was extended by 22 000 numbers and 500 Business Trunking channels.

As of January 1, 2012 SIP-telephony network capacity exceeded 48 000 iD Phone numbers which were offered bundled «iD Phone» services including Hosted PBX services, Internet access, set of additional types of services managed through Web-portal.

## Organization of joints with international operators

Within the transit potential implementation project, in 2011, the Company carried out active work on upgrading existing joints with international telecom operators, specifically joints with China Telecom, Kyrgyztelecom and Elkat have been extended.

## Information Technologies (IT)

Main business success criteria consists in professional management, ability to ensure efficient personnel work, properly identify, design, implement and improve business-processes, carry out organizational and administrative work in an efficient way. In these conditions up-to-date information technologies and IT-based integrated information systems become an essential tool for achieving strategic objectives and sustainable growth of companies.

## THE ROLE OF IT AS BASIC CORPORATE GOVERNANCE TOOL OF COMPANIES AND INFOCOMMUNICATION BUSINESS PLATFORM IS INCREASING FROM YEAR TO YEAR.

In Kazakhtelecom JSC IT development is based on NGOSS recommendations which are addressed in TM Forum Framework concept describing business-processes, information flows, applications and architecture. Framework is bringing NGOSS to a new level by establishing integrated business-architecture for construction of a service-oriented entity, making business more flexible, speeding products to market and decreasing operating costs due to multiple use of components and processes.

In the reporting period functions of **Kazakhtelecom's JSC corporate information systems** and platforms were extended.

Billing systems and Oracle Siebel CRM have been integrated further. System operability, its availability for operators and reliability has been significantly enhanced.

The following opportunities are provided for the work with corporate clients:

- e-mails to clients regarding scheduled network repair works;
- sales plans implementation monitoring and forecast;
- automatic ARPU-based clients segmentation;
- order processing and placement process implementation.

It is worth mentioning that in 2011, the systems of billing, technical accounting and corporate data storage were integrated in full. All types of orders were filled on all types of services, integration with web-dealer application was carried out and scenarios of contact center operators' conversation with subsequent results analysis were automated.

Customer self-service capacities were extended by using web-applications (balance notice, personal account credit, service management). The system of automatic services activation/deactivation system with the account of client's balance was put in operation in Karagandinskaya oblast.

In 2011, overall integration of corporate governance systems providing centralized preparation of external and internal reporting was continued.

New operability, reports, indicators and service functions

of the Balanced Scorecard were worked out. More than 120 new reporting forms were made up in SAP and centralized corporate data storage systems. Analytic statements forms for the study of customers' churn, development and loyalty were introduced.

In the reporting period Networks Operation Centers of regional branches operated in compliance with the three-level personnel specialization model. Hardware-software complex for telecommunication infrastructure state control was introduced; data base of 1 600 thousand pairs of the Company's local distributing network was established; cable network state assessment metrics were worked out.

The automated network operation system processes on monthly basis 1,5 mln. emergency reports which automatically create in average 41 thousand trouble tickets making up approximately 90% of the total trouble tickets number

Registration of more than 270 types of equipment and data base of more than 12 000 network elements of SDH, PDH, PSTN, DWDM, IP, MPLS, Ethernet, xDS technologies was created in NRI Cramer system. The account of FTTH/ETTH optical access networks was introduced in geoinformation technical account system Smallworld PNI. Automated trouble shooting process in customer access network was optimized with the account of FTTH/ETTH optical networks construction.

Scheduled works on organization of additional protection of corporate Internet gate by using Check Point were carried out in the field of information security. The «Megaline» fraud protection project was implemented.

In the reporting period main areas were identified and the foundation for further development of **infocommunication business**, Kazakhtelecom's JSC key development driver, was laid.

IN 2011, REVENUES FROM ICT-SERVICES  
**INCREASED BY 49%**  
AGAINST 2010.

«KT Cloud Lab» LLP, a subsidiary of Kazakhtelecom JSC which will act as VAS operator by using Cloud Computing technology, was registered in «Alatau» Information Technologies Park. «Video monitoring of facilities' safety and control», «Cloud documents turnover», «Cloud archive», «Cloud invoices», «Cloud videoconference» and other applications will be implemented at the first stage. In 2012, at least five services are expected to be provided on industrial basis.

The growth of the Kazakhstan Internet encourages the Company to develop data centers and hosting services as one of the main areas of business.

Kazakhtelecom JSC started Data Centers construction back in 2008, first in the cities of Almaty and Astana and then more in 10 oblast centers. Now our Company is a leader in hosting services market. In 2011, revenues from ICT-services increased by 49% against 2010.

New area of Kazakhtelecom's JSC ICT-business, systemic IT integration, was established in the reporting period. An agreement with SWF «Samruk-Kazyna» JSC was signed within this area. The agreement provides for establishing at Kazakhtelecom's JSC premises sole systems integrator and provider of infocommunication services for the Fund's Companies Group. The actions plan was developed and approved with joint works being carried out under particular projects.



## Subsidiary companies

An ancient parable says that it is easy to break one twig, but when there are many of them it is a more difficult task. Joint efforts directed to appropriate aims will definitely lead to accomplishing of the tasks.

*People together can do the things that they unable to do alone. The unity of minds and hands, concentration of their powers may become almost omnipotent.*

*D. Webster*

IN 2011, SUBSIDIARY AND DEPENDENT ORGANIZATIONS CONTINUED THEIR ACTIVITIES IN THE MARKET FOR INFO-COMMUNICATIONS SERVICES FOLLOWING **THE STRATEGIC OBJECTIVES OF THE GROUP** OF COMPANIES OF KAZAKHTELECOM JSC (GROUP). USING SYNERGY AND COOPERATION (INTERACTION) POTENTIAL WITHIN THE FRAMEWORK OF THE GROUP, THE SUBSIDIARY COMPANIES STRENGTHENED THEIR MARKET POSITIONS BY ENHANCING (EXTENDING) THE RANGE AND QUALITY OF THE SERVICES PROVIDED.

### Structure of the group of companies of Kazakhtelecom JSC



Within the framework of implementation of key strategic tasks of increasing the Group's value on the long term basis, in 2001, the Company carried on developing subsidiary and dependent organizations, optimizing the group's structure in order to fit in the best way the prospect of development of telecommunications market and technologies.

- with a view to introducing mobile communication of fourth generation in the Republic of Kazakhstan, the Company took the decision to start implementing, jointly with ALTEL JSC, a large strategic project on construction of LTE network;
- within the framework of the actions aimed at restructuring the NURSAT'S JSC business, the major driver of the company's development was singled out, which is the concentration of the company's efforts on development of satellite segment;
- to strengthen position in the market for corporate info-communication services, the Company took the decision on restructuring of Kepter telecom LLP by renaming it to KT Cloud Lab LLP and by converting it into the Center for providing services with added value (VAS-services), and on its participation in Special Economic Zone «The Park of Information Technologies».

### CELL COMMUNICATIONS COMPANIES

100%

#### ALTEL JSC

Mobile communication of CDMA-800 standard



- ▶ THE FIRST AND THE ONLY OPERATOR OF CDMA 2000-1X MOBILE COMMUNICATION STANDARD IN THE REPUBLIC OF KAZAKHSTAN
- ▶ JOINTLY WITH KAZAKHTELECOM JSC ENGAGED IN IMPLEMENTATION OF THE PROJECT ON PROVISION OF THE BROADBAND RADIO ACCESS SERVICES BY USING 3G MOBILE TECHNOLOGY EV-DO ON CDMA-2000 NETWORKS (UNDER «JET» TRADEMARK)
- ▶ BY THE YEAR-END 2011, THE SUBSCRIBER BASE OF ALTEL JSC EXCEEDED **1 MILLION 383 THOUSAND SUBSCRIBERS**
- ▶ SERVICE INCOME AMOUNTED TO KZT 13,97 BILLION WITH THE GROWTH BY 9 % AS AGAINST 2010
- ▶ THE GOALS FOR 2012:
  - growth of the subscriber base of CDMA-2000-1x network up to 1 388 thousand subscribers;
  - participation in implementation of the project on construction of LTE network jointly with Kazakhtelecom JSC.

49%

#### GSM KAZAKHSTAN KAZAKHTELECOM OJSC, LLP

Mobile communication of GSM-900 standard



- ▶ THE AGREEMENT ON SALE OF KAZAKHTELECOM'S JSC SHARE OF PARTICIPATION IN GSM KAZAKHSTAN KAZAKHTELECOM JSC, LLP WAS SIGNED IN DECEMBER 2011

### COMPANIES OF THE CORPORATE MARKET AND MASS DATA COMMUNICATION MARKET

77,08%

#### NURSAT JSC



- ▶ A commercial telecom operator, which provides the wide range of services: satellite services, telephony services (fixed telephony and IP telephony), the Internet access services
- ▶ Service income in 2011 exceeded KZT 3 billion
- ▶ The goals for 2012:
  - development of satellite network, telephony network and the Internet access network;
  - introduction and development of Sky Edge II satellite platform.

100%

#### SIGNUM LLC



- ▶ A technical center of Kazakhtelecom JSC in the territory of the Russian Federation (Moscow) engaged in connection and servicing of IPLC and IP VPN customers
- ▶ Jointly with Kazakhtelecom JSC engaged in provision of «Telepresence» video conferencing service in Moscow studio with connection to Astana and Almaty studios

## WIRELESS RADIO ACCESS COMPANIES

100%

VOSTOKTELECOM  
LLP

- A technical resource of Kazakhtelecom JSC for carrying out a socially significant task on development of rural communication and achievement of goals on installation of telephone communication in rural settlements
- The Company puts in operation and maintains base stations to provide rural inhabitants with access to voice, data and video communication services on the basis of modern CDMA-450 technology
- By the year-end 2011, CDMA-450 base station network included 504 base stations in 14 oblasts of the Republic of Kazakhstan and number of installed EV-DO cards amounted to 216
- The goals for 2012:
  - Installation of 100 base stations and 401 EV-DO cards

100%

RADIO TELL  
LLP

- A technical resource of Kazakhtelecom JSC for provision of the broadband radio access services

100%

KT CLOUD LAB  
LLP

- A specialized service company of Kazakhtelecom JSC for maintaining wireless and several wireline networks of Kazakhtelecom JSC in Astana (WiMAX and WiFi wireless networks, pay phone networks, emergency recovery works at the line and cable system, selling of Tarlan and smart cards)
- The goals for 2012:
  - Establishment of the centre for provision of VAS on commercial basis

100%

ONLINE.KG  
LLC

- An operational company in Bishkek (fixed wireless access)

# Share of Kazakhstan content in procurements

As a national company we must take care not only of our development but also of widespread support of domestic manufacturers. Who, as not we, must be an example for Kazakhstan companies. As in any other case, only by helping each other, we will be able to pave our way to the bright future.

*Meditative life is often cheerless. We must act more, think less and not be just an outside witness of our lives.*

*Sebastien-Roch  
Nicolas de Chamfort*

## KAZAKHSTAN CONTENT PROCUREMENT MONITORING AS DOMESTIC MANUFACTURERS SUPPORT MEASURE

The Company's Kazakhstan content activities were carried out within the 2009–2011 Program of increasing Kazakhstan content in total procurements of the Company approved by decision of the Management Board of Kazakhtelecom JSC in June 2009.

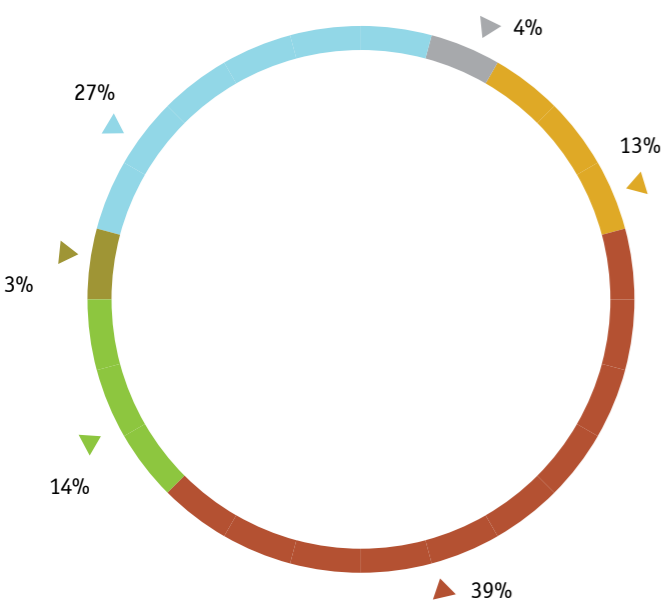
To provide the potential suppliers with information on intended procurement of goods and services, the Company places, on a regular basis, on the Kazakhtelecom's JSC web portal the plans for procurement in the forthcoming period, the information on the ongoing tenders and their results.

The Company carries out on a regular basis the monitoring of indicators of the Kazakhstan content in procurement it made by concluding agreement in accordance with the Instruction on procedure for making up and submitting reports on procurement.

The approved 2011 Plan of Procurement of Goods, Works and Services encompasses all strategic areas of focus of Kazakhtelecom's JSC investment policy aimed at supplying the Kazakhstan market with new advanced technologies and upgrading existing telecommunications networks.

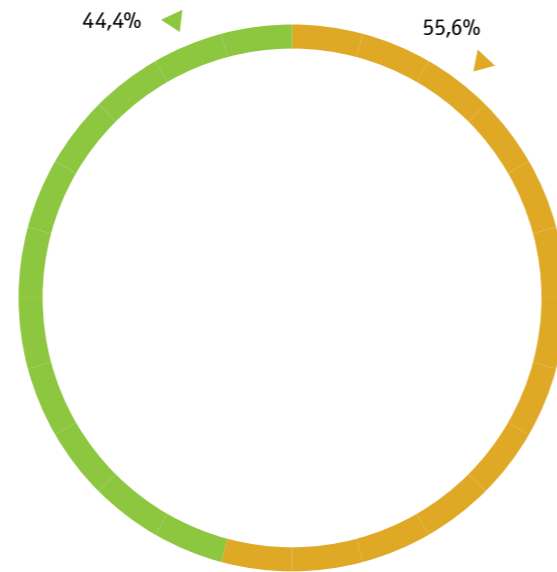
In 2011, more than 11 thousand agreements amounting to KZT 61,7 bln. were concluded with Kazakhstan content making up 55,6 %.

### Kazakhstan content in procurements of the Group of companies of Kazakhtelecom JSC in 2011



Kazakhstan goods  
Imported goods  
Kazakhstan content in works  
Imported works  
Kazakhstan content in services  
Imported services

## Share of the Kazakhstan content in procurement of goods, works, and services of Kazakhtelecom JSC in 2011



### Imported goods, works, and services Kazakhstan content

Inter alia, the goods procurements made up KZT 31,6 bln. with Kazakhstan content of KZT 8,6 bln., or 27,4%, the works procurements made up KZT 11,4 bln. with Kazakhstan content of KZT 9,6 bln., or 85%, the services procurements made up KZT 18,8 bln. with Kazakhstan content of KZT 16,1 bln., or 85,6%. Furthermore, share of goods in total procurements of the Company has made up 51,2%, share of works – 18,4%, share of services – 30,4%.

The Company's subsidiaries concluded more than 690 agreements amounting to KZT 7,6 bln. with Kazakhstan content making up 45% (goods in the amount of KZT 4,2 bln. (where share of the Kazakhstan content – 9,5%), works – KZT 163 mln. (share of the Kazakhstan content – 75,7%), services – KZT 3,2 bln. (share of the Kazakhstan content – 89,4%).

In total, the Group of companies of Kazakhtelecom JSC concluded, in 2011, more than 11,7 thousand agreements in the amount of KZT 69,4 bln. with the Kazakhstan content making up 54,3% (goods in the amount of KZT 35,8 bln. (where share of the Kazakhstan content – 25,1%), works – KZT 11,5 bln. (share of the Kazakhstan content – 84,7%), services – KZT 22 bln. (share of the Kazakhstan content – 86%).

Pursuant to target indicators of the Long-term development strategy of Kazakhtelecom's JSC Group up to 2020 the Company's task is to provide share of the Kazakhstan content in procurements by 2015 in the range of 60,0%, and by 2020 – 70,0% accordingly.

With the aim to provide the mentioned indicators the cooperation with Russian and foreign companies is under way to establish at «Alatau» Information Technologies Park the manufacture of import-substituting telecommunications equipment that will enable to significantly increase the level of the Kazakhstan content in total procurements.

# Quality Management System

Nothing is ideal in this world, all creations might be changed for better. Any improvement shall be weighed and thoroughly elaborated over and over again. That's why it is important to systemize all processes connected with this area of Company's activity.

*Everything might be done better than before.*

*Henry Ford*



## QUALITY MANAGEMENT SYSTEM - A SYSTEM APPROACH TO MANAGEMENT

Improvement of the quality management system (QMS) on the basis of ISO 9001 international standards is significant factor of dynamic development of the Company, strengthening its positions in the telecommunications market of the Republic.

In 2011, a new Quality Policy of Kazakhtelecom JSC providing for strategic objectives and their achievement techniques was approved.

To increase the efficiency of the Company's QMS and to obtain synergy effect from applying the principles of quality management, the Company carried out the work on unification of system documents of the Company's Central Administration Office and subsidiary companies (21 subsidiaries).

To ensure effective planning and management of the Company's processes, the process effectiveness is analysed in QMS automated databases: «Automated QMS» database and «Audit of QMS» database. Planned internal audits of QMS and their results are formed and approved in these automated databases.

Based on the results of the work that has been executed, on the 7th of September 2011, Kazakhtelecom JSC was awarded a unique certificate acknowledging the compliance of its QMS with the ISO 9001–2009 standard, with the field of appliance being «Organization of telecommunications services».

At the moment the QMS is aimed at achieving constant improvement measured by satisfaction of Kazakhtelecom's JSC customers, shareholders and employees.

The following is analyzed to attain these objectives:

- level of the established quality objectives achievement;
- results of the scheduled actions performance;
- recommendations of appraising bodies and external QMS auditors;
- feedback from customers;
- results of the monitoring of the key processes performance indicators.

The analysis results are applied to plan measures aimed at improving the resource efficiency and processes results, and personnel involvement.

The Company's executives resolved to focus the quality management system improvement on ensuring interconnection of strategic objectives with business-processes enhancement and, in the midterm perspective, implement the integrated management system in Kazakhtelecom's JSC Group on the basis of ISO 9001, ISO 14001, OHSAS 18001 standards requirements.



# HR-management

Professional staff is the big-ticket item of any company. Any employee of the Company is a specialist in his/her area of expertise having his/her own peculiar temper and his/her own view of solving the tasks. The cross point of individuality with professionalism and responsibility is the starting point for creative development and, as a result, is the key to prosperity of the Company in whole.

*A man is created for action.  
Not to act and not to exist is one and the same for a man.*

*Voltaire*

In 2011, the Personnel Policy of Kazakhtelecom JSC was revised and submitted to the Company's Board of Directors for approval. This revised version is based on the process approach allowing reallocation of the areas of responsibility in the Personnel Policy's processes to the real process owners. It structures the full scope of works/projects implemented within HR-management process. The Personnel Policy also includes applicable key performance indicators (KPIs) used for formation of corresponding statements, and new KPIs proposed for monitoring and control of the Personnel Policy's processes.

In 2011, the Company continued to implement major projects aimed at strengthening and development of human assets and intellectual potential. Professional growth and motivation of employees, as well as improvement of the Company's workforce are among the main areas of Kazakhtelecom's JSC strategic development.

The Company established conditions for **competition-based recruitment of personnel** with development of testing of professional knowledge and questionnaire survey of competences, as well as psychological testing with further feedback. The program of psychological testing of the Company's service-personnel was introduced in 2011. Basic test tasks of the Company are composed by internal experts. They are updated and expanded on the regular basis and their capacity is also used in other HR-processes. Adaptation of new employees is supported by resources of the internal corporate portal.

The Company continues to implement **the project on setting up the performance assessment system for the Company's employees**. The software for organization of end-to-end data monitoring system with the option of integration with the Balanced Scorecard within top-down cascading of objectives is being implemented in the Company. The project is of strategic importance for the Company in whole. It introduces changes to the corporate values and corporate governance system. The key element of the project is the possibility to set individual goals (KPIs) for each employee. Moreover, in 2011 the Company's management was assessed on the basis of «360-degree» performance evaluation method.

**Launching of the internal corporate portal (intranet site) my.telecom.kz** is the key focus in implementation of the Company's Personnel Policy in terms of social and labour relations, formation of personnel feedback bank, management of information flows and knowledge management. This project was assigned with status of the corporate HR-project for 2010–2011. The portal is a site for corporate communication, exchange of opinions and information field within the Company.

As of the year-end 2011, **the virtual Knowledge Centre of Kazakhtelecom JSC** was launched on the Company's portal as one of the priorities in implementation of the Personnel Policy. At present the Company works under recording of **corporate webinars** (virtual workshops, trainings, presentations with involvement of the Company's top management as lecturers), which are increasingly popular in today's education system. Video lectures will be posted on the internal corporate portal with different degrees of access for users of the portal. Such lectures involve not only

**THE PERSONNEL POLICY OF THE COMPANY FORMS A BASIS FOR ORGANIZATION OF THE HUMAN ASSET MANAGEMENT SYSTEM AND SERVES AS A BENCHMARK FOR MANAGERS WHEN CONSIDERING THE VARIOUS ASPECTS OF MANAGEMENT AND DECISION-MAKING IN REGARD TO EMPLOYEES.**

online study of training materials, but also lively discussions with the option to post comments and grades, and ask all arisen questions and get answers.

During 2011 the Company held 15 major corporate contests, theme weeks devoted to different holidays and elements of corporate culture (e.g. Week of Politeness). Taking into account strategic importance of the Company's innovation activity, the need to form innovative potential of the Company and «bank of projects and ideas», the contest called **«Best Innovation Project – 2011»** was held on the portal my.telecom.kz on the initiative of the Chairman of the Company's Management Board. In future this contest will be organized on an annual basis. **Online communication of Company's top management on the internal corporate portal with employees throughout the Company** is carried out as an important element of corporate culture and a tool of feedback.

Starting from 2011, the Company is taking part in projects of the Fund **for formation of consolidated personnel reserve and long-term training**. The Company held trainings and calibrating sessions among management for taking executive positions. Works on preparation and implementation of the TOP-50 program (a training program for the Company's top-managers and reservists stipulated by the Comprehensive Program of the ICT Academy's Administration) were started. Furthermore, 17 candidates for long-term education and training were selected according to the results of professional knowledge tests and predefined selection criteria (preferably a university degree in ICT, work experience in the Company not less than 3 years, intermediate level of English, personal achievements).

**Within development of electronic personnel management in the Company**, HR-processes' modules, which allow automatic collection of statistical data on personnel, were introduced.

Kazakhtelecom JSC introduced the **system of electronic opinion polls** with participation of all employees throughout the Company, including its subsidiaries (85–90% of staff participates annually). **The opinion poll of personnel satisfaction** is also regularly held. According to the results of the last such poll, the degree of personnel satisfaction and satisfaction by the Company's management is on the medium level.

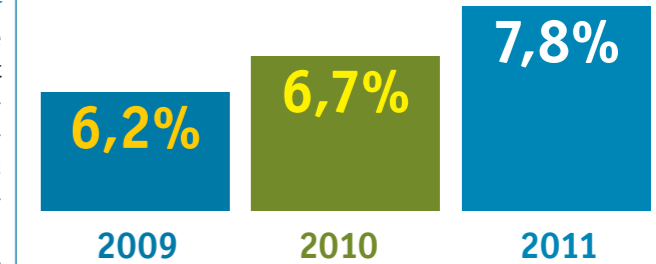
An individual branch of **research and development of the Company's intellectual potential** is functioning in the structure of the ICT Academy's Administration for the first time. In particular, the tasks on research of current conditions of HR-management and analysis of workforce capacity in terms of conformity with the Company's goals and objectives and tasks on estimation of predictable situation in near future were set by the Company.

Within VII annual international HR conference held under the auspices of SWF «Samruk-Kazyna» JSC, the Company alongside with such corporate training centres as Samruk-Kazyna's Corporate University, International Business Academy, Evola, Baitau Partners, Prime Bridge, Thunderbird Worldwide Kazakhstan, Hay Group, represented its corporate university - ICT Academy's Administration – as a full-fledged corporate university which successfully joined the largest training centers in Kazakhstan. It provides services in all areas of workforce capacity management involving core disciplines, including those in ICT industry.

**Personnel structure and key HR indicators**

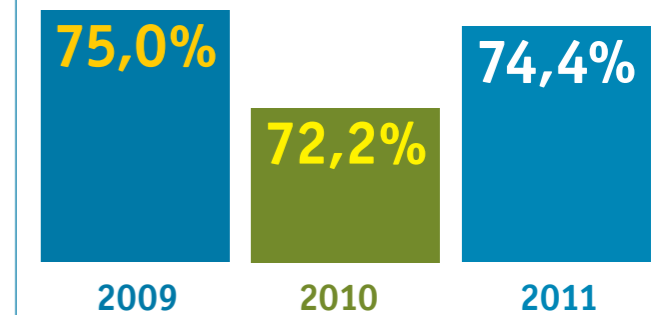
The key HR-indicators of the Company are stable. The Company's personnel turnover doesn't exceed planned indicators.

**Personnel turnover, 2009–2011**



Moreover, turnover of the management (6,5%) and operating personnel (8,5) is featured as stable. Employee loyalty ratio has been fixed at 76,8% level. The level of the personnel's satisfaction, as the main KPI representing effectiveness of regulation of social and labour relations and feedback tools, is defined as medium satisfaction (74,4% in the range from 61% to 79%) and is close to the upper limit.

**The level of personnel's satisfaction, 2009–2011**





# Corporate social responsibility

Socially responsible policy is the key component of modern successful business.  
Telecommunications play a great role in the live of modern society  
and they are socially-oriented a priori.

*Movement is the storeroom for our lives.*

*Plutarch*

Kazakhtelecom JSC aims to ensure sustainable development of its business, focusing not only on economic, but also on the social component, which includes the commitment of business to society as a whole, as well as to its customers and employees.

Being the leading telecommunication company in the country, Kazakhtelecom JSC simultaneously with business projects takes an active part in implementation of socially important tasks concerning development of rural communications, support of educational programs, Internet access availability at schools, elimination of «digital divide», and life quality improvement by making telecommunication services more affordable.

The program of the Ministry of Education and Science of the Republic of Kazakhstan on connecting public schools to the Internet is a special one among social projects annually participated by Kazakhtelecom JSC.

As of January 01, 2012, the Company provided as much as 7 435 (99,7%) out of 7 459 public schools of the Republic with telephone communication; 7 162 schools (96%) were connected to the Internet (not taking into account third-party providers), including 3 721 (49,9 %) schools having broadband access to the Internet.

In 2011, the Company connected 44 educational organizations in the cities of Astana, Almaty and Karaganda region to the Internet at speeds up to 10 Mbps, as a part of implementation of the pilot part of the project of the Ministry of Education and Science of the Republic of Kazakhstan on the system of electronic education «e-learning».

In order to raise the level of telecommunication services' availability, Kazakhtelecom JSC provides a wide range of

## CORPORATE SOCIAL RESPONSIBILITY IS THE OPPORTUNITY TO ACHIEVE HARMONY OF THE COMPANY'S BUSINESS INTERESTS AND INTERESTS OF SOCIETY AS A WHOLE

high-quality services at affordable prices which have been regularly declining. Tariff policy activities during the reporting period were oriented to the Company's position with regard to social responsibility.

From February 02, 2011 billing units for telephone traffic transfer (transit) from operators of local fixed communication to operators of mobile communication were reduced to 1 second.

From March 01, 2011 tariffs for transfer of long-distance (intraareal) traffic were reduced by 34%, and tariffs for connections at the level of automatic trunk exchanges were reduced by 38%.

From September 01, 2011 tariffs of «Tarlan» cards for international calls were reduced by 59% and for calls to mobile networks – by 11–67%.

As a part of the program on raising the level of availability of the broadband Internet access services, the Company is developing new tariff plans affordable for various categories of population and is improving current characteristics of tariff plans for new types of services.

### In the segment of individuals:

#### FROM JANUARY 01, 2011

#### UNDER «MEGALINE HIT/LIGHT/BOX» TARIFF PLANS

the speed of access to internal resources through inbound channels was increased up to 2 Mbps and through outbound channels – up to 1 Mbps (for the cities of Almaty and Astana), through inbound/outbound channels (for all other regions) – up to 512 Kbps. Traffic threshold was increased up to 15 Gb and speed of access to external resources under these tariff plans was increased up to 1 Mbps for subscribers of Almaty and Astana. Unlimited billing plan was introduced for subscribers of «Megaline Start» tariff plan and new «Megaline Turbo Plus» tariff plan was introduced for subscribers of Almaty and Astana. The Company also introduced new tariff plans for «iD Net» service.

#### FROM JULY 01, 2011

#### THE FOLLOWING ACTIONS WERE TAKEN UNDER «MEGALINE HIT» TARIFF PLAN:

- capacity of traffic transfer to external resources was increased in 2-4 times and to internal resources – in 2 times;
- traffic threshold was increased from 15 to 30 Gb;
- speed of traffic after exceeding the threshold was increased from 128 to 256 Kbps.

#### FROM AUGUST 01, 2011

#### THE FOLLOWING ACTIONS WERE TAKEN UNDER «MEGALINE TURBO/TURBO PLUS» TARIFF PLAN:

- monthly fee was reduced by 21%;
- traffic threshold was increased from 20 to 40 Gb;
- speed of traffic after exceeding the threshold was increased from 128 to 256 Kbps (from July 01, 2011).

#### FROM SEPTEMBER 01, 2011:

#### «MEGALINE DRIVE» «MEGALINE HIT»

- new «Megaline Drive» tariff plan (unlimited night) with characteristics identical to «Megaline Turbo Plus» tariff plan was introduced;
- 0.75 digression factor was applied to monthly fees under «Megaline Hit» tariff plan in those settlements where the lack of technical feasibility of providing services with specified parameters was observed.

#### FROM OCTOBER 01, 2011:

#### «MEGALINE HIT/LIGHT OPTIMA» «ID NET DRIVE»

- «Megaline Hit/Light Optima» – a new unlimited tariff plan was introduced with monthly fees by 12–17% lower than monthly fees of «Megaline Hit» tariff plan;
- «iD Net Drive» – a new unlimited tariff plan with parameters identical to «Megaline Drive» tariff plan was introduced.

#### FROM NOVEMBER 01, 2011

#### «ID NET» SERVICE BECAME AVAILABLE FOR «INDIVIDUAL ENTREPRENEURS» CATEGORY.

### In the segment of legal entities:

#### FROM APRIL 01, 2011

#### «UNLIMITED TRAFFIC»

carrying capacity of «Unlimited Traffic» tariff plan was increased without changing monthly fees. This is equivalent to reduction of tariffs from 39 to 72%.

#### FROM JULY 01, 2011

#### IP VPN

carrying capacity of the regional/national IP VPN network services was increased in 2 times without changing monthly fees.

## THE COMPANY PAYS SPECIAL ATTENTION TO AVAILABILITY OF THE INTERNET SERVICES AT SCHOOLS.

In particular, certain tariff plans for the broadband Internet access services for schools have been formed on the basis of more preferential terms than those offered to other legal entities.

A special discount system was approved for tariff plans offered to schools which located in remote and hard-to-reach rural areas where broadband services are provided through the satellite network.

The Internet access for other schools is available under «Mektep» tariff plan, which provides for differentiation of generated traffic as internal and external one, and billing of traffic to the internal resources of Kazakhtelecom JSC is zero-rated.

To improve availability of the broadband Internet access services for schools, from August 01, 2011 the capacity of traffic transfer to internal resources under «Mektep Unlimited» tariff plan was increased up to 2 Mbps without changing monthly fees.

In order to create conditions for increasing availability of services for subscribers of alternative operators in the inter-operator segment, from June 01, 2011 monthly fees under «Unlimited for telecom operators» tariff plan were reduced from 42% to 49%. Moreover, from August 01, 2011 monthly fees under «Limited for telecom operators» tariff plan were reduced from 16% to 33%.

## Sponsorship and charity

The principles and main areas of sponsorship activities are stated in the Sponsorship and Charity Policy of Kazakhtelecom JSC approved by the resolution of the Board of Directors Protocol № 6 as of 10.06.2011. According to the principles of this Policy, the Company annually allocates 1% of its consolidated net profit for provision of sponsorship and charity support.

The Company pays great attention to the development and support of activities in the field of sports, culture, education, healthcare, and environmental protection.

For example, in 2011 the Company allocated KZT 84 605 thousand for sponsorship assistance of sports and education on the basis of the resolution of the Company's Board of Directors. The Company provided sponsorship assistance to the Social Foundation of Education «Development of E-Learning» for organization of the conference and exhibition «Digital Communications Kazakhstan – 2011», and to the Incorporation of legal entities in the form of association «Kazakhstan Boxing Federation» for logistics support of the national team of the Republic of Kazakhstan in the 2nd season of the World Series of Boxing.

Furthermore, according to the resolution of the Board of Directors of SWF «Samruk-Kazyna» JSC, the Company is the official sponsor of the national volleyball teams of Kazakhstan. In this regard, The Public Association «Volleyball Federation of the Republic of Kazakhstan» was provided with the sponsorship assistance for purchase of vehicles and equipment required for trainings in the process of preparation of the national volleyball team's players.

## Social support of employees and retirees

### SOCIAL SECURITY OF PERSONNEL AND RETIREES OF THE COMPANY PURSUANT TO THE COLLECTIVE AGREEMENT HAS BEEN A LONG-STANDING TRADITION OF KAZAKHTELECOM JSC.

Kazakhtelecom JSC cooperates with two trade unions which represent interests of the Company's employees:

REPUBLICAN PUBLIC ASSOCIATION «TRADE UNION OF THE TELECOMMUNICATIONS WORKERS OF KAZAKHSTAN»;

UNION OF LEGAL ENTITIES «ASSOCIATION OF TRADE UNIONS OF INFORMATIZATION AND TELECOMMUNICATIONS WORKERS»

In February 2011, with a view to improve social package and create favorable conditions for social protection of employees, new 2011–2013 Collective Agreements were revised and concluded with trade unions. The Collective Agreement is concluded following the principles of social partnership, mutual trust and respect, differentiation of rights and responsibilities of parties on behalf of which it is concluded.

The Collective Agreements' guarantees and benefits are focused on forming attractive social package for employees and their family members, providing additional benefits and assistance to retirees, improving health care, housing conditions of the Company's employees, ensuring safe working conditions.

The Company carries out activities on voluntary medical insurance of employees. Pursuant to the Collective Agreement, Kazakhtelecom JSC provides social allowances and benefits.

Today, Kazakhtelecom JSC provides social support to about 8 500 retirees. Provisions have been made for subsistence allowance, charity dinners to the professional holiday of telecommunications workers and the International Day for the Elderly.

Funds are allocated, on an annual basis, to encourage veterans of the Great Patriotic War and homefront workers registered with the Company. Moreover, provisions have been made for charity support to needful retirees registered with the Company in different life situations (robbery, fire, complex surgery, long period illness, etc.). The Company organizes jubilee congratulation, by providing charity support, for retired veterans.

To carry out mass cultural, sports, health-improving and other activities, the Company transfers, on a monthly basis, 0,2% of the salary budget to trade unions.

Every quarter, the Company makes central remittance to trade unions for purchasing sanatorium and resort vouchers by the Company's employees. Funds are annually allocated for purchasing summer camp vouchers for children of the Company's employees. The Company's employees are provided with material assistance in case of marriage registration and baby birth.

With the aim of providing health life style of employees, the Company makes arrangements for employees' recovery by means of therapeutic exercises, fitness centers, sports leagues, etc.

The Company's intra-corporate social responsibility is focused, among other things, on improvement of employees' housing conditions by developing social policy of Kazakhtelecom JSC in the field of provision of the Company's employees with special-purpose loans.

In order to strengthen leading positions in Kazakhstan and international telecommunications markets, the Company has been establishing a long-term objective of high-level human resources.

Different trainings, encompassing the most significant activities of the Company, are carried out with a view of ongoing improving knowledge and skills, qualification and competence of employees. Aspiration of the Company's employees towards improvement of their educational level is supported by providing them with paid academic leaves.

Master Program of Kazakhtelecom JSC was introduced for the first time to provide the Company's affiliated branches with specialists, who have mastered professional post-graduate programs, and make the intended use of personnel training funds. The program is implemented at the

premises of the Almaty University of Power Engineering and Communication in the field of radio engineering, electronics, and telecommunications. The trainees are represented by the Company's employees. Furthermore, priority is given to students who have studied under the Company's quota and showed GPA.

The Company, as an enterprise of knowledge-intensive industries, requires technically competent specialists to service the telecommunications equipment, promote the whole spectrum of services provided. Significant funds are annually provided for in the Company's budget for training these specialists.

In 2011, there were 5 312 people who studied at full-time courses and 1 024 people who studied at distance courses in the ICT Academy's Administration, 4 390 people who studied on the basis of the regional centres of human resources development and 2 124 people who studied in other training centres of the Republic of Kazakhstan, CIS and other foreign countries. Moreover, 20 312 people were involved in ongoing on-site training.

The number of students studying under Kazakhtelecom's JSC quota in 2010–2011 totaled to 254, including 141 (55,5%) small town and rural inhabitants.

The Company pays great attention to environmental activity, preserving favorable environment, efficient use of natural resources by constant improving existing and introducing new technologies.

Replacement of obsolete technologies and equipment by resource-saving and eco-friendly ones is a crucial criterion of the projects.

The Company adopted Energy Saving Program which provides for legal, organizational, research, operational, technical and economic activities aimed at efficient use of energy resources and drawing renewable energy sources into economic circulation.

Healthcare and safe working conditions is a part of the corporate social program of the Company. The Company worked out the Health and Safety Management System which ensured ongoing systematic supervision, analysis and monitoring of labour protection conditions and safety measures.

In 2011, pursuant to the Labour Code of the Republic of Kazakhstan, a number of activities were carried out, particularly:

- training of executives, specialists and those who are in charge of the Health and Safety Management System;
- medical examination of employees;
- assessment of workplaces;
- provision of specific category employees with work clothes, safe shoes, and personal protective equipment.

Labour protection, working and convenience conditions were inspected. The winners received cash bonuses and certificates of merit.



# Risks Management

Sometimes we have to make the first step and go straight on when all others are hesitating over doing so. And in this case, we shall reasonably and deliberately approach this issue with thinking over all possible options. Thus, we shall confidently move ahead even in the most difficult situations.

*Live requires movement.*

*Aristotle*

The Company's CRMS provides for normative and methodological risks management documentation with roles and responsibilities being assigned to the Company's executives, and constant risks monitoring and control.

The Company's risks are represented in the Risks Register which is approved by the Management Board and updated on regular basis. Each of the Register risks is subject to evaluation as to the level of their 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 which is a body under the Management Board. The Committee takes decisions on the Company's key risks management issues.

According to the Risks Management Policy approved by the Board of Directors, the CRMS is aimed at achieving a balance between the maximum use of opportunities, with a view to get benefits, and the prevention of the Company's losses beyond acceptable level.

The Company's strategic risks are represented in the Long-term Group Development Strategy till 2020 approved by the Board of Directors.

Midterm Kazakhtelecom's JSC Group Development Plan for 2011–2015 (hereinafter – Development Plan) contains target values of the Key Performance Indicators (KPI).

Kazakhtelecom JSC pays special attention to evaluation and control of strategic, financial, operating and other risks influencing the achievement of strategic objectives represented in the Long-Term Strategy, and the implementation of target KPI values of the Development Plan.

The Company monitors on regular basis crucial changes in the best world risks management standards for real economy sector companies. Kazakhtelecom JSC shares experience with the leading telecommunications companies which translate into practice the up-to-date risks management standards, e.g. the group of ISO 31000 standards. Kazakhtelecom's JSC risks management practices not only comply with the world risks management standards and best risks management practices of the leading telecommunications companies but also to the full extent take into account the specifics of Kazakhtelecom's JSC activity.

**KAZAKHTELECOM JSC INTRODUCED THE CORPORATE RISKS MANAGEMENT SYSTEM (CRMS) WHICH IS THE UNDERLYING CONDITION FOR ATTAINING STRATEGIC AND OPERATING OBJECTIVES OF THE COMPANY.**

Within the corporate risks management system, each of the risks identified and approved a set of measures aimed both at eliminating risks causes and minimizing consequences in the events of risks.

Responsibilities for each of the risks management measures are allocated among executive officers. The measures performance is monitored and controlled on regular basis.

The risks register, including risks assessment data and management-related measures being carried out, is subject to compulsory revising and updating. The work on amending the Company's strategic objectives and development plans is carried out respectively along with risks management updating.

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

In 2012, the Company will start introducing the model of risks' influence on strategic objectives and KPI of Kazakhtelecom's JSC Group. This work will enable to analyze risks in detail and reasonably guarantee that the Group's strategic objectives will have been achieved due to the introduction of amendments, on timely basis, to the Development Plan with the account of risks.



# Interaction with investors and analysts

Our society puts every possible effort to achieve maximum informational transparency and build an efficient dialogue with investment community as we think that successful development recipe consists in cooperation and going forward.

*The point of our life is perpetual motion*

*Yakub Kolas*

Increasing requirements to the information disclosure level aimed at ensuring maximum activities' transparency force to build trustful communications with investors and make provisions for development on a regular basis of the Company's investor relations (IR) business-processes development.

Pursuant to the Investor Relations Concept and the Provision on Investor Relations in Kazakhtelecom JSC, the Company actively develops IR with the aim to establishing and maintaining close relationships with investment community, ensuring a high transparency level and constant corporate governance improving.

Within the investor relations, in 2011, the Company:

- organized a meeting with investors and analysts on the results of the Company's operation for 6 months 2011 and a conference-call with investors and analysts on the results of 9 months 2011. Prepared and uploaded a presentation for investors on the corporate portal of the Company;
- updated the section for investors and shareholders of the corporate portal (subsections called «Investor calendar», «Analysts», «Presentation for investors» have been added and updated on regular basis).

In April 2011, on the 2010 results Kazakhtelecom JSC was awarded with a diploma «For striving to transparency» pursuant to the Rules on Annual Rewarding Listing Companies of the Kazakhstan Stock Exchange.

## KAZAKHTELECOM'S JSC ENTRANCE TO FINANCIAL MARKETS SPECIFICALLY INITIAL PUBLIC OFFERING, DEPOSITARY RECEIPTS PLACEMENT, LOAN RESOURCES ATTRACTION IN THE INTERNAL AND EXTERNAL EQUITY MARKETS FACILITATE TO RAISING THE INTEREST OF KAZAKHSTANI AND FOREIGN INVESTMENT COMMUNITIES TO THE COMPANY'S ACTIVITIES.

The Company will continue to put maximum efforts for increasing informational transparency and building an efficient dialogue with investment community.

Due to the IR activities, positive dynamics of the Company's financial indicators, credit ratings' acknowledgment, as well as further development plans, the market value of the Company's shares increased: for 2011, the cost of ordinary shares increased by 6%, preferred – by 103% (more than by two times):



# Outlook for the Company's development

Every new stage is a one more step in the development of society. Each of these steps, even a small one, broadens the range of our knowledge and opportunities making us closer to the set goals.

THE MARKET VALUE OF THE COMPANY'S SHARES INCREASED:

FOR 2011, THE COST OF ORDINARY SHARES INCREASED BY 6%

**PREFERRED – BY 103%**  
(MORE THAN BY TWO TIMES):

Shares of Kazakhtelecom JSC	Placed, items	Cost per share, tenge		Changes for 2011, %
		by the end 2010	by the end 2011	
Ordinary shares	10 922 876	18 980	20 116	6%
Preferred shares	1 213 653	8 881	18 000	103%

*There is no fog without exit.  
The key is to hold your own and move ahead.*

*Romen Rolan*



The Company's key middle-term target is successful competitive development in the telecommunications market aimed at more complete satisfaction of consumers' needs in communication services.

At the present time the Company has a powerful up-to-date communication network and encompasses all target markets of infocommunication services consumers. High-capacity network of Kazakhtelecom JSC is a foundation, which enables the Company to be successful and strengthen positions of a high-tech provider in the market of Kazakhstan as well as enter the international telecommunications market.

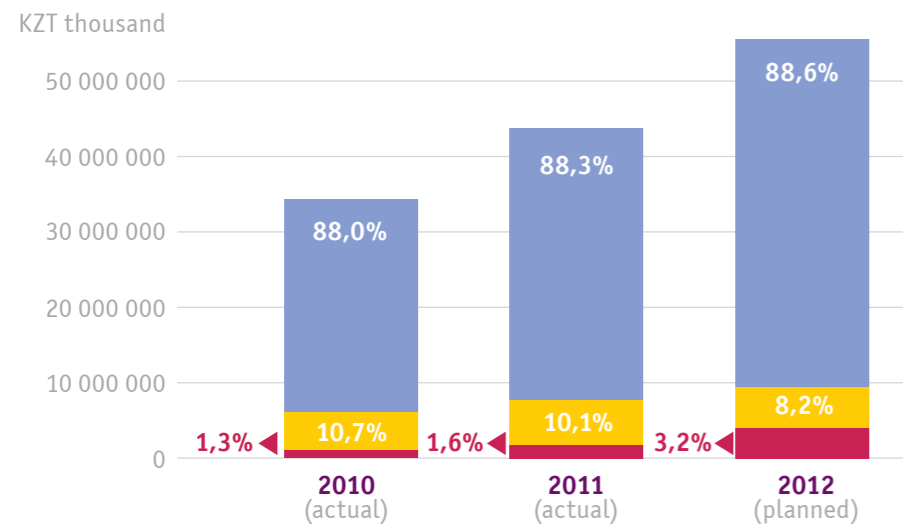
Implementation of revenue-generating projects, which increase the Company's value, is a focal area of Kazakhtelecom's JSC investment policy. It is also planned to implement, along with projects aimed at extension, modernization and development of the telecommunications networks, innovative technologies projects, which will enable to extend the telecommunications market of the Republic of Kazakhstan and the spectrum of services provided.

**SINGLE CORPORATE POLICY, INTRODUCTION OF ADVANCED TECHNOLOGIES AND MODERN FORMS OF DOING BUSINESS ENABLE THE COMPANY TO STRONGLY RETAIN LEADING POSITIONS IN THE KAZAKHSTAN TELECOMMUNICATIONS MARKET**



# Business plans for 2012

## The Investment Program of the Group of companies of Kazakhtelecom JSC



Main strategic goals for the forthcoming period are determined in the Long-term Development Strategy of Kazakhtelecom's JSC Group up to 2020. Business development in key strategic areas of focus will enable the Company to be a single operator providing the whole spectrum of high-quality services to its clients according to their needs.

Development and evolvement of the telecommunication industry, along with the Republic as a whole, has been in full swing. We have very good perspectives which we can not let be not developed since exactly we have been laying the foundation for future generations.

*The great thing in the world is not so much where we stand, as in what direction we are moving.*

*Oliver Wendell Holmes*

## For 2012, the Group is setting ambitious goals, the main ones of which are:

### Retaining leadership in the fixed market:

In view of this, the Company will aim its activity in the forthcoming period at implementing the following main projects:

- extension of backbone networks to meet increasing needs of transmission of all services' traffic;
- development of networks on the basis of FTTH, by providing fiber to the home, to meet the growing demand for high-speed broadband access and extend the spectrum of services provided. In addition to 100% coverage of apartment buildings in Astana, Almaty and all regional centres, the project provides for FTTH network connection for corporate customers, including public institutions, schools, healthcare organizations and mobile operators of the Republic. The Company plans to increase network capacity up to 142 thousand of GPON subscriber ports;
- development of «Triple Play» services activation/deactivation mechanisms to increase «iD Net» service connection speed. The supposed tariffs mean connection of subscribers at average speed of 10 Mbps to external traffic and up to 30 Mbps to internal traffic;
- further development of networks on the basis of xDSL technology and development of wireless access to the Internet in rural area on the basis of CDMA/EVDO technology;
- introduction of MaxPatrol system in Megaline core to improve security of broadband subscribers;
- introduction of informational portal for the Board of Directors' members, mobile versions of Balanced score card portals and internal portal of the Company's employees my.telecom.kz to support the sale of new products by launching management automation system Oracle Siebel CRM in all regions.

### Strengthening in the mobile market

Within 2012 the Company plans to construct pilot zones of mobile data communication network by using LTE technology, which ensures coverage of the cities of Almaty and Astana. Introduction of LTE technology will allow converging of fixed and mobile communication.

Kazakhtelecom JSC plans to strengthen its positions in the mobile communication market of the Republic of Kazakhstan being the first carrier which provides LTE-based Internet services.

### Gaining leadership in the content and applications market

This area is closely connected with strengthening and developing fixed and mobile access subscriber base and ensures additional services, first of all, for the Company's subscribers.

Development of existing content services on the basis of IP TV and VoD, «iD TV» service will be aimed primarily at improving services quality and filling in the platforms with attractive content, such as HD TV channels.

«Cloud computing» services, such as Microsoft® Hosted Exchange (corporate email, documents turnover), Microsoft® SharePoint Hosting (creation of corporate portal with HR elements, with possibility of integrating external and internal information systems), are planned to be introduced till the end of 2012.

### Developing in the corporate infocommunication services market

The extension of commercial hosting platforms across Kazakhstan as well as the increase of the virtual hosting platforms' capacity is slated, within development of infocommunication technologies (ICT) in 2012, with the aim to provide the spectrum of «iD Host» services.

In this regard, chain of commercial Internet Data Centers of Kazakhtelecom JSC will be developed further in 2012. It is planned, in order to provide «Cloud computing» and «iD Host» services, to launch additional centers in the cities of Almaty, Astana and Akkol, complete the construction of 1 000 sq.m Data Center in the city of Pavlodar. This Center will be commercial data processing center of the highest capacity in Central Asia equivalent to TIER3 level of reliability.

It is planned to introduce single MS Active Directory service within affiliated branches to improve information security of the Company.

Business orientation of information technologies and fast growth of ICT revenues is significant strategic priority for Kazakhtelecom JSC.

### Strengthening in the wholesale telecommunications market

Measures on developing the Company's transit potential are planned to include development of the primary backbone data communication network, extension of traffic routes, border joints with foreign providers and channel capacity of DWDM system.

In 2012, modernization of existing and construction of new joints with international operators will be continued. Specifically, Kazakhtelecom intends to organize a joint with Turkmenistan and another one with China Telecom nearby Dostyk settlement as well as construct two additional joints with Russian Federation operators.

Market tariffs for services of voice traffic transit, Internet access and transport network channels lease are expected to be set for Kazakhstan operators.

Implementation of the set tasks will enable the Company to retain a status of the leading operator in the fixed market and enter mobile market as well as create conditions for increasing the Company's profitability by attracting new subscribers and introducing new services in the market of Kazakhstan.

# Glossary

<b>ADSL</b>	Asymmetric Digital Subscriber Line, modem technology that transforms standard telephone analogue lines into high speed lines. ADSL connection requires two ADSL modems - for provider and for end user. These two modems are connected by conventional telephone cable. Connection speed can vary depending on the distance to «last mile»: the farther from provider the less maximum data communications speed.
<b>ARPU</b>	Average Revenue Per User.
<b>CDMA</b>	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.
<b>DWDM</b>	Dense Wave Division Multiplexing is the most reliable technology for supporting infrastructure of mutiservice and mobile networks, provides sharp increase of the network bandwidth capacity, and implements wide range of absolutely new communications services.
<b>Ethernet</b>	transport technology of access network that supports data, voice, video and all types of communication (copper, optics). The technology enables, without replacing equipment, to change access speed in a wide range.
<b>EV-DO</b>	Evolution Data Optimized, high speed data communication technology used in cellular networks of CDMA standard.
<b>ETTH (Ethernet To The Home)</b>	one of the ways of constant Internet connection by using Fast Ethernet protocol. Broadband ETTH enables consumers to get connected to the network at 100 Mbit/sec or 1 Gbit/sec with consistent high quality connection.
<b>FTTH</b>	Fiber To The Home.
<b>GPON (Gigabit passive optical network)</b>	is the technology which ensures excellent quality of services, availability of multiple services, high speed and cost saving.
<b>Hosting</b>	service of installing customer's equipment on provider's premises for connecting to high bandwidth communication channels (colocation).
<b>IP/MPLS</b>	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».
<b>LTE</b>	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.
<b>NGOSS</b>	New Generation Operations Systems and Software.

# Reference for shareholders

<b>SIP</b>	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.
<b>SIP-telephony</b>	new generation telephony for which at least 64 Kbit/s access to the Internet is required. SIP-telephony is used for making calls at any place where high speed access to the Internet is available. It enables the same network subscribers to make free calls. In addition, public telecommunication network, including long distance domestic and international communication, is available.
<b>WLL</b>	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.
<b>VoD (Video on Demand)</b>	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.
<b>xDSL (digital subscriber line)</b>	high speed digital transmission via copper subscriber line.

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fax: +7 (727) 2587 512

#### Information about the auditor of the Company

Ernst & Young is the external auditor of Kazakhtelecom JSC starting from 2007. The 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.

**Mail address:** 77/7, Al-Farabi ave., Almaty, 050060, Republic of Kazakhstan  
Tel.: +7 (727) 2585 960  
Fax: +7 (727) 2585 961  
E-mail: [almaty@kz.ey.com](mailto:almaty@kz.ey.com)  
<http://www.ey.com/kz>

#### Information about the Company's registrar

**Full name:** «Registrar system of securities» Joint-stock Company.

Since December 12, 2011 «Registrar system of securities» JSC is a new registrar of Kazakhtelecom JSC due to voluntary winding-up of the former registrar («Register-Service» JSC).

**License number:** License № 0406200345, as of March 10, 2005 for maintaining security holders register system issued by the Agency of the RK for regulation and surveillance of financial market and financial organizations.

**Mail address:** 8a, Microdistrict Astana, Almaty, 050036 Republic of Kazakhstan  
tel. +7 (727) 226-11-64, 226-13-32  
fax: +7 (727) 226-11-76

Information about affiliated branches of «Registrar system of securities» JSC is represented on Kazakhtelecom's JSC corporate website (section for Investors and Shareholders/ Information Disclosure) and on the registrar's site (<http://rszb.kz/filialy>).



# Consolidated Financial Statements

What can reflect current situation more precisely than information in figures? Possessing such information one can unhesitatingly make decisions, plan further actions, make calculations and analysis. Sometimes to have a clear view of the situation is the most important thing, isn't it?

*If you found your Way, you wouldn't stagnate.*

*Laozi*



**Kazakhtelecom JSC**  
Consolidated Financial Statements

*For the year ended December 31, 2011  
with Independent Auditors' Report*

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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 2011, 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 the Group as at 31 December 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Ernst & Young LLP*


**Aisulu Narbayeva**  
Auditor  
Auditor Qualification Certificate No. 0000137 dated 21 October 1994


**Evgeny Zhemaletdinov**  
General Director  
Ernst & Young LLP  
State Audit License for audit activities on the territory of the Republic of Kazakhstan: series MΦЮ-2, No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

15 March 2012

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2011

In thousands of Tenge	Notes	2011	2010
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	227,346,757	216,627,854
Intangible assets	8	10,907,805	12,471,910
Advances paid for non-current assets	9	494,446	489,868
Investments in an associate	10	—	53,785,831
Deferred tax asset	33	179,464	158,951
Other non-current assets	12	8,721,087	6,331,438
<b>Current assets</b>			
Inventories	13	4,257,621	5,155,291
Trade accounts receivable	14	16,018,529	11,180,975
Prepayments	15	483,810	585,413
Income tax prepaid		170,171	395,498
Other financial assets	16	535,686	379,868
Other current assets	17	6,475,695	4,975,909
Cash and short-term deposits	18	87,715,687	58,023,486
Assets classified as held for sale	34	58,389,446	—
		174,046,645	80,696,440
<b>TOTAL ASSETS</b>		<b>421,696,204</b>	<b>370,562,292</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Issued capital	19	12,136,529	12,136,529
Treasury shares	19	(2,652,860)	(2,652,860)
Currency translation reserve	19	(15,997)	(9,921)
Other capital reserve	19	1,820,479	1,820,479
Retained earnings		271,629,837	227,330,496
		282,917,988	238,624,723
<b>Non-controlling interests</b>		<b>(15,722)</b>	<b>(32,558)</b>
<b>Total equity</b>		<b>282,902,266</b>	<b>238,592,165</b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(continued)

In thousands of Tenge	Notes	2011	2010
<b>Non-current liabilities</b>			
Borrowings	20	59,679,768	57,971,162
Finance lease liabilities	21	8,664,865	8,352,825
Deferred tax liability	33	11,319,543	12,531,442
Employee benefit liability	22	5,125,779	4,359,779
Debt component of preferred shares	19	1,099,620	1,099,620
Other non-current liabilities	23	4,598,899	3,873,216
		90,488,474	88,188,044
<b>Current liabilities</b>			
Borrowings	20	14,539,739	9,153,943
Current portion of finance lease liabilities	21	7,237,279	7,338,972
Current portion of employee benefit liability	22	330,013	289,262
Accounts payable	24	15,850,980	17,717,657
Advances received		2,643,992	2,371,086
Income tax payable		71,948	—
Other current liabilities	25	7,631,513	6,911,163
		48,305,464	43,782,083
		138,793,938	131,970,127
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>421,696,204</b>	<b>370,562,292</b>

The accompanying notes on pages 8 to 54 are an integral part of these consolidated financial statements.

Chief Financial Director

Nurkatov A. A.

Chief Accountant

Baishumurova G. Zh.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2011

In thousands of Tenge	Notes	2011	2010*
<b>Continuing operations</b>			
Revenue	26	167,769,419	147,505,233
Compensation for provision of universal services in rural areas	27	5,574,617	5,226,471
		173,344,036	152,731,704
Cost of revenue	28	(124,077,903)	(111,018,306)
<b>Gross profit</b>		<b>49,266,133</b>	<b>41,713,398</b>
General and administrative expenses	29	(18,824,616)	(20,162,045)
Selling expenses	30	(4,567,717)	(4,346,038)
<b>Operating profit</b>		<b>25,873,800</b>	<b>17,205,315</b>
Finance costs	32	(9,257,214)	(9,430,941)
Finance income	32	3,298,105	2,180,401
Foreign exchange (loss) / gain, net		(160,858)	558,879
Loss from disposal of property, plant and equipment		(279,099)	(410,524)
Other income		1,783,468	1,659,366
<b>Profit before tax from continuing operations</b>		<b>21,258,202</b>	<b>11,762,496</b>
Income tax expense	33	(4,098,165)	(4,974,452)
<b>Profit for the year from continuing operations</b>		<b>17,160,037</b>	<b>6,788,044</b>
<b>Discontinued operations</b>			
Profit after tax for the year from discontinued operations	34	33,023,615	26,883,184
<b>Profit for the year</b>		<b>50,183,652</b>	<b>33,671,228</b>
Attributable to:			
<b>Owners of the parent</b>		<b>50,166,816</b>	<b>34,219,652</b>
Non-controlling interests		16,836	(548,424)
<b>Other comprehensive income</b>			
Exchange differences on translation of foreign operations		(6,076)	(7,211)
Income tax effect		—	—
<b>Other comprehensive loss for the year, net of tax</b>		<b>(6,076)</b>	<b>(7,211)</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>50,177,576</b>	<b>33,664,017</b>
Attributable to:			
Owners of the parent		50,160,740	34,212,441
Non-controlling interest		16,836	(548,424)
		50,177,576	33,664,017

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(continued)

In thousands of Tenge	Notes	2011	2010*
<b>Earnings per share</b>			
Basic and diluted, profit for the year attributable to owners of the parent	19	4,440	3,032
<b>Earnings per share for continuing operations</b>			
Basic and diluted, profit for the year from continuing operations attributable to owners of the parent	19	1,524	658

Earnings per share for continuing operations

Basic and diluted, profit for the year from continuing operations attributable to owners of the parent

The accompanying notes on pages 8 to 54 are an integral part of these consolidated financial statements.

Chief Financial Director

Nurkatov A. A.

Chief Accountant

Baishumurova G. Zh.



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2011

In thousands of Tenge	Attributable to owners of the parent						Non-controlling interests	Total equity
	Issued capital	Treasury shares	Foreign currency translation reserve	Other capital reserves	Retained earnings	Total		
	19		19	19				
At January 1, 2010	12.136.529	(2.652.860)	(2.710)	1.820.479	197.770.507	209.071.945	515.866	209.587.811
Profit for the year	—	—	—	—	34.219.652	34.219.652	(548.424)	33.671.228
Other comprehensive income	—	—	(7.211)	—	—	(7.211)	—	(7.211)
Total comprehensive income	—	—	(7.211)	—	34.219.652	34.212.441	(548.424)	33.664.017
Dividends (Note 19)	—	—	—	—	(4.659.663)	(4.659.663)	—	(4.659.663)
At December 31, 2010	12.136.529	(2.652.860)	(9.921)	1.820.479	227.330.496	238.624.723	(32.558)	238.592.165
Profit for the year	—	—	—	—	50.166.816	50.166.816	16.836	50.183.652
Other comprehensive income	—	—	(6.076)	—	—	(6.076)	—	(6.076)
Total comprehensive income	—	—	(6.076)	—	50.166.816	50.160.740	16.836	50.177.576
Dividends (Note 19)	—	—	—	—	(5.867.475)	(5.867.475)	—	(5.867.475)
At December 31, 2011	12.136.529	(2.652.860)	(15.997)	1.820.479	271.629.837	282.917.988	(15.722)	282.902.266

The accompanying notes on pages 8 to 54 are an integral part of these consolidated financial statements.

Chief Financial Director

Nurkatov A. A.

Chief Accountant

Baishumurova G. Zh.

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2011

In thousands of Tenge	Notes	2011	2010*
<b>Operating activities</b>			
Profit before tax from continuing operations		21.258.202	11.762.496
Profit before tax from discontinued operations	34	33.023.615	26.883.184
Profit before tax		54.281.817	38.645.680
Adjustments for:			
Depreciation of property, plant and equipment	7	35.608.785	32.876.310
Amortization and impairment of intangibles assets	8	4.532.751	3.897.234
Share of profit of an associate (discontinued operations)	34	(33.023.615)	(26.038.892)
Change in deferred revenues		13.611	200.155
Change in employee benefit liability		806.751	1.023.571
Unrealized foreign exchange gain		223.190	(433.132)
Provision for doubtful debts	29	(207.367)	2.177.142
Provision for obsolete and slow moving inventories	29	415.781	582.260
Finance costs	32	9.257.214	9.430.941
Finance revenue	32	(3.298.105)	(2.180.401)
Gain on disposal of subsidiary		—	(178.320)
Loss from disposal of property, plant and equipment		279.099	410.524
<b>Working capital adjustments:</b>			
Increase in trade accounts receivable		(4.568.639)	(1.109.013)
Decrease in inventories		481.889	509.633
(Increase) / decrease in other current and non-current assets		(686.641)	2.612.882
Decrease / (increase) in prepayments		106.942	(142.745)
Increase in accounts payable		128.060	3.081.724
Increase in advances received		272.906	453.173
Increase in other current liabilities		761.506	1.458.575
<b>Cash generated from operations</b>		65.385.935	67.277.301
Dividends paid		(5.829.934)	(4.659.663)
Income taxes paid		(5.046.772)	(4.717.643)
Interest paid		(7.117.471)	(7.256.636)
Interest received		1.627.878	778.786
<b>Net cash flows from operating activities</b>		49.019.636	51.422.145

CONSOLIDATED CASH FLOW STATEMENT  
(continued)

In thousands of Tenge	Notes	2011	2010*
<b>Investing activities</b>			
Purchase of property, plant and equipment		(34.818.856)	(33.988.962)
Purchase of intangible assets		(2.925.595)	(1.583.211)
Proceeds from sale of property, plant and equipment		1.118.089	125.621
Dividends received from an associate		28.420.000	23.026.851
Proceeds from sale of subsidiary	34	—	10.957.895
Long-term loans to employees		(2.969.828)	(733.434)
<b>Net cash flows used in investing activities</b>		<b>(11.176.190)</b>	<b>(2.195.240)</b>
<b>Financing activities</b>			
Proceeds from borrowings		8.560.587	3.380.641
Repayment of borrowings		(9.166.805)	(8.934.306)
Repayment of finance lease liabilities		(7.609.006)	(7.358.963)
<b>Net cash flows used in financing activities</b>		<b>(8.215.224)</b>	<b>(12.912.628)</b>
Net increase in cash and cash equivalents		29.628.222	36.314.277
Effects of exchange rate changes on cash and cash equivalents		63.979	(21.431)
Cash and cash equivalents at January 1		58.023.486	21.730.640
<b>Cash and cash equivalents at December 31</b>	18	<b>87.715.687</b>	58.023.486

\* Certain amounts shown here do not correspond to the 2010 financial statements and reflect adjustments made as detailed in *Note 34*.

Non-cash transactions are disclosed in *Note 35*.

The accompanying notes on pages 8 to 54 are an integral part of these consolidated financial statements.

Chief Financial Director

Nurkatov A. A.

Chief Accountant

Baishumurova G. Zh.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
For the year ended December 31, 2011

**1. CORPORATE INFORMATION**

Kazakhtelecom JSC (the “Company” or “Kazakhtelecom”) was established in June 1994 by the decree of the Cabinet of Ministers of the Republic of Kazakhstan as a national joint stock company and in February 1996 it was reorganized as an open joint stock company (joint stock company from March 2004).

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 as of December 31, 2011 and 2010. The following lists the shareholders of the Company’s stock:

	2011	2010
Samruk-Kazyna	<b>51,0%</b>	51,0%
Bodam B. V.	<b>16,9%</b>	16,9%
ADR (The Bank of New York is a depositor)	<b>12,7%</b>	13,4%
Deran Services Limited	<b>9,6%</b>	9,6%
Kazkommertsbank	<b>3,1%</b>	—
LLP Optimus	—	3,0%
Other	<b>6,7%</b>	6,1%
	<b>100%</b>	100%

The Company is included in the register of natural monopolists in relation to transit traffic services provided to telecommunication operators, public switch telecommunication network (“PSTN”) connection services provided to third party telecommunication operators, and leasing of phone channels to telecommunication operators for connection to PSTN.

The Company and its subsidiaries listed in *Note 5* (together the “Group”) have a significant share of the fixed line communication market, including local, long-distance intercity and international telecommunication services (including CIS and non-CIS countries); and provides also rent of lines, data transfer services and wireless communication services.

These financial statements present, on a consolidated basis, the financial performance for the year ended December 31, 2011 and financial position as at that date for the Group.

The consolidated financial statements were authorised for issue on March 15, 2012 by Management of the Company.

**2. BASIS OF PREPARATION**

These 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.

The consolidated financial statements are presented in Kazakhstan Tenge (“Tenge”) and all values are rounded to the nearest thousand Tenge, except when otherwise indicated.

**Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2011.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends and are eliminated in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of subsidiary, without a loss 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 recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *New and amended standards and interpretations*

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011:

- IAS 24 Related Party Disclosures (amendment) effective 1 January 2011
- IAS 32 Financial Instruments: Presentation (amendment) effective 1 February 2010
- IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment) effective 1 January 2011
- Improvements to IFRSs (May 2010)

The adoption of the standards or interpretations is described below:

#### *IAS 24 Related Party Transactions (Amendment)*

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

#### *IAS 32 Financial Instruments: Presentation (Amendment)*

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have these type of instruments.

#### *IFRIC 14 Prepayments*

#### *of a Minimum Funding Requirement (Amendment)*

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Group is not subject to minimum funding requirements in Kazakhstan, therefore the amendment of the interpretation has no effect on the financial position nor performance of the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

#### *Improvements to IFRSs*

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group.

- IFRS 3 Business Combinations: The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.
- IFRS 7 Financial Instruments — Disclosures: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The Group reflects the revised disclosure requirements in *Note 37*.
- IAS 1 Presentation of Financial Statements: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The Group presents the analysis of each component of other comprehensive income in the consolidated statement of changes in equity.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))
- IFRS 3 Business Combinations (Un-replaced and voluntarily replaced share-based payment awards)
- IAS 27 Consolidated and Separate Financial Statements
- IAS 34 Interim Financial Statements

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRIC 13 Customer Loyalty Programmes (determining the fair value of award credits)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

#### *Standards issued but not yet effective*

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

#### *IAS 1 Financial Statement Presentation – 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, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

#### *IAS 12 Income Taxes – Recovery of Underlying Assets*

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

### *IAS 19 Employee Benefits (Amendment)*

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group is currently assessing the full impact of the amendments. The amendments become effective for annual periods beginning on or after 1 January 2013.

### *IAS 27 Separate Financial Statements (as revised in 2011)*

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

### *IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)*

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

### *IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements*

The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

### *IFRS 9 Financial Instruments: Classification and Measurement*

IFRS 9 as issued reflects the first phase of the IASB's 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 is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

### *IFRS 10 Consolidated Financial Statements*

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

This standard becomes effective for annual periods beginning on or after 1 January 2013.

### *IFRS 11 Joint Arrangements*

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers.

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The Group does not have any joint arrangements, and expects no effect of the adoption of the standard on its financial statements. This standard becomes effective for annual periods beginning on or after 1 January 2013.

### *IFRS 12 Disclosure of Involvement with Other Entities*

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

### *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 Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

### *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. Tenge is the currency of the primary economic environment in which the Company and its major subsidiaries operate. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions 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 functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the income statement.

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.

Weighted average currency exchange rates established by the Kazakhstan Stock Exchange ("KASE") are used as official currency exchange rates in the Republic of Kazakhstan.

The following table summarises the foreign currency exchange rates for Tenge:

	<b>December 31, 2011</b>	December 31, 2010
US Dollar	<b>148,40</b>	147,40
Euro	<b>191,72</b>	195,23
South Korean Won	<b>0,13</b>	0,13
Russian Ruble	<b>4,61</b>	4,84

The functional currency of the foreign operation of 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 income statements 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### **Non-current assets held for sale and discontinued operations**

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. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition 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.

In the statement of comprehensive income, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the statement of comprehensive income.

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

### **Investment in an associate**

The Group's investment in its associate is accounted for using the equity method. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The income statement reflects the Group's share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The Group's share of profit of an associate is shown on the face of the income statement. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the 'share of profit of an associate' in the income statement.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

### **Property, plant and equipment**

Plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant 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 plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the income statement 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
Premises	10-20
Telecommunication equipment	3-20
Other	3-20

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate. The Group reassessed remaining useful lives of some equipment in 2010, refer to *Note 4* for details.

### **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 income statement in 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, plant 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 are 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 income statement in the year 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 estimated 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. The amortisation expense for intangible assets with finite lives is recognised in the income statement in the expense category 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 income statement when the asset is derecognised.

Intangible assets consist primarily of telecommunication licenses, trademarks and software. Telecommunication licenses and trademarks are amortized on a straight-line basis within the estimated useful lives of 20 years for licenses and 7-9 years for trademarks. Other intangible assets are amortized on a straight-line basis over their estimated useful lives, generally from 5 to 14 years.

### **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 and 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. Where 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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded 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 CGU's to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations including impairment on inventories are recognised in the income statement in those expense categories consistent with the function of the impaired asset, except for property previously revalued where 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 as to whether there is any indication that previously recognised impairment losses may no longer exist or may 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 income statement unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of specific assets:

### *Associates*

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the "Share of profit of an associate" in the income statement.

### **Financial assets**

#### *Initial recognition and measurement*

Financial assets within the scope of IAS 39 are classified as loans and receivables or held-to-maturity investments, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case financial assets recorded at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits, 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 amortised cost using the effective interest rate method (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 in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs for loans and in cost of sales or other operating expenses for receivables.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### *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 it to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs.

### *Cash and short-term deposits*

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

### **Impairment of financial assets**

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that 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 and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

### *Financial assets carried at amortised cost*

For financial assets carried at amortised cost the Group first assesses whether objective evidence of 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, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the 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 assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current 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 recognised in the income statement. 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. The interest income is recorded as part of finance income in the income statement. 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 recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

### **Financial liabilities**

#### *Initial recognition and measurement*

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, or loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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The Group's financial liabilities include trade and other payables, borrowings, financial guarantee contracts, and liability component of preferred shares.

### *Subsequent measurement*

The measurement of financial liabilities depends on their classification as described below:

### *Borrowings*

All loans and borrowings are initially recognised at fair value and directly attributable transaction costs, and have not been designated "as at fair value through profit or loss".

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the income statement.

### *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 amortization.

### *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 income statement. 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 of financial assets and liabilities***

#### *Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- 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 and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### *Financial liabilities*

A financial liability is derecognised 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

### ***Offsetting of financial instruments***

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if,

- There is a currently enforceable legal right to offset the recognised amounts
- There is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### ***Fair value of financial instruments***

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include

- Using recent arm's length market transactions;
- Reference to the current fair value of another instrument that is substantially the same
- A discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in *Note 37*.

### ***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 inception date, whether the 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, even if that right is not explicitly specified in an arrangement.

For arrangements entered into prior to January 1, 2005, the date of inception is deemed to be January 1, 2005 in accordance with the transitional requirements of IFRIC 4.

### *Group as a lessee*

Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, 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 income statement.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Operating lease payments are recognised as an operating expense in the income statement 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 the 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 bases 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. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statements 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, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

#### *Asset retirement obligation (decommissioning)*

Site restoration provisions are made in respect of the estimated future costs of closure and restoration and for environmental rehabilitation costs (which include the dismantling and demolition of infrastructure (mainly base stations and platforms for the base stations, and radio relay towers), removal of residual materials and remediation of disturbed areas) in the accounting period when the related environmental disturbance occurs. The provision is discounted and the unwinding of the discount is expensed as incurred and recognized in the income statement 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 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.

#### *Defined contribution scheme*

The Group withholds up to 10% from the salary of its employees as the employees' contribution 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 scheme*

In accordance with the Collective Agreement the Company provides certain long-term and retirement benefits to certain employees (the "Defined Benefit Scheme").

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 Group recognises actuarial gains and losses arising from the reassessment of the employee benefit liability in the period they are identified and recognises benefit costs and obligations based on estimates determined in accordance with IAS 19 "Employee benefits".

The obligation and cost of benefits under the Defined Benefit Scheme are determined using the projected unit credit method. This method considers each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The cost of providing benefits is

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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charged to the income statement, so as to attribute the total benefit cost over the service lives of employees in accordance with the benefit formula of the plan. This obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest on government bonds where the currency and terms of these bonds are consistent with the currency and estimated terms of the defined benefit obligation.

The defined benefit scheme is unfunded.

### **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 income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in equity.

### **Dividends**

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are approved before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

### **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 phone 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 should be 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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 income statement in equal amounts over the expected useful life of the related asset.

Compensation related to income is presented separately in the income statement 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 or expense is recorded using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through 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 income statement.

### *Dividends*

Revenue is recognised when the Group's right to receive the payment is established.

### **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 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 income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

#### *Deferred tax*

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

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 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 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 tax assets is reviewed at each reporting 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 tax assets are reassessed at each reporting 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 tax assets and liabilities are measured at the tax rates that are expected to apply in 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 and loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred 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.

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS, 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 date. 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 the 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, plant and equipment and intangible assets*

The Group assesses the remaining useful lives of items of property, plant 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, plant and equipment and intangible assets and on depreciation and amortization expenses recognized in profit or loss. In 2010, following the analysis of technological obsolescence, the Group reassessed the remaining useful lives of certain telecommunication equipment from 3-15 years to 1-2 years and of the software from 3-15 years to 0-3 years. The change in the remaining useful life resulted in an increase of depreciation and amortization expense for the year ended December 31, 2010 of 7,743,905 thousand Tenge.

#### *Discontinued operations*

In 2011 the Group announced its intention to sell its 49% share in GSM Kazakhstan OAO 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 December 31, 2011 for the following reasons:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

- On December 21, 2011, Kazakhtelecom JSC concluded an agreement to sell its ownership in GSM Kazakhstan OAO Kazakhtelecom LLP to Sonera Holding B.V., a subsidiary of Swedish mobile operator Telia Sonera AB. GSM Kazakhstan OAO Kazakhtelecom LLP was the separate reportable operations segment of the Group.
- On February 1, 2012, the Group completed the sale for consideration of 1,519 million US Dollars (equivalent to 225,738,590 thousand Tenge).
- In 2009 the Board of Directors announced its decision to dispose Mobile Telecom-Service LLP, the subsidiary. The Board considered the subsidiary met the criteria to be classified as held for sale as of December 31, 2010 for the following reasons:
- On December 14, 2009, Kazakhtelecom concluded an agreement to sell its ownership in Mobile Telecom-Service LLP to Tele2 Sverige AB, a Swedish mobile operator. Mobile Telecom-Service LLP was the separate reportable operations segment of the Group.
- On March 17, 2010 the Group completed the sale of Mobile Telecom-Service LLP for consideration of 76,000 thousand US Dollars (equivalent to 11,175,800 thousand Tenge). The gain on sale amounted to 178,320 thousand Tenge.

For more details on the discontinued operation refer to *Note 34*.

### *Impairment of non-financial assets*

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs, are further explained in *Note 8*.

### *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 financial statements. As of December 31, 2011, allowances for doubtful accounts have been created in the amount of 8,501,925 thousand Tenge (2010: 9,269,210 thousand Tenge) (*Notes 12, 14, 15 and 17*).

### *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 December 31, 2011 average customer relationship period is assessed as 13 years for fixed telephony customers, 4 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 Group uses actuarial valuation method for measurement of the present value of defined employee benefit liability and related current service cost. This involves the use of demographic assumptions about the future characteristics of current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, etc.) as well as financial assumptions (discount rate, future salary increases). Due to the long term nature of these benefits, such estimates are subject to significant uncertainty. The employee benefit liability at December 31, 2011 is disclosed in *Note 22*.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

### *Deferred tax assets*

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of recognized deferred tax assets on accumulated tax losses at December 31, 2011 is 807,887 thousand Tenge (2010: 624,476 thousand Tenge) and the unrecognized deferred tax assets on accumulated tax losses at December 31, 2011 amounting to 3,950 thousand Tenge (2010: 67,991 thousand Tenge). Further details are contained in *Note 33*.

## 5. CONSOLIDATION

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

	Country of residence	Percentage ownership	
		2011	2010
Altel JSC	Kazakhstan	100,00%	100,00%
Nursat JSC	Kazakhstan	77,08%	77,08%
Radiotell 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%
Association of internet –traffic exchange center	Kazakhstan	100,00%	100,00%
Online.kg JSC	Kyrgyzstan	100,00%	100,00%

## 6. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on the organizational structure of the Group. The Group has four reportable operating segments as follows:

- Provision of wireline telecommunication services as represented by Kazakhtelecom business unit.
- Provision of mobile telecommunication services in CDMA standard as represented by Altel business unit.
- Provision of wireless satellite telecommunication services, including data transfer services as represented by Nursat business unit.
- Provision of mobile telecommunication services in GSM standard as represented by GSM Kazakhstan business unit (discontinued operation).

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 an arm's length basis in a manner similar to transactions with third parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(continued)

Year ended December 31, 2011

In thousands of Tenge	Wireline telecommu- nications	CDMA mobile telecommu- nications	Wireless telecommu- nications	GSM mobile telecommu- nications (disc. operation)	Other	Eliminations And adjustments	Group
<b>Revenue</b>							
External customers	159.630.937	12.196.738	1.509.407	—	6.954	—	173.344.036
Inter-segment	1.919.855	1.776.026	1.525.832	—	3.620.593	(8.842.306)	1) —
<b>Total revenue</b>	<b>161.550.792</b>	<b>13.972.764</b>	<b>3.035.239</b>	<b>—</b>	<b>3.627.547</b>	<b>(8.842.306)</b>	<b>173.344.036</b>
<b>Results</b>							
Depreciation and amortization	(35.301.699)	(1.611.993)	(662.353)	—	(721.678)	—	(38.297.723)
Impairment (Note 8)	—	(1.843.813)	—	—	—	—	(1.843.813)
Finance costs	(8.945.078)	(75.315)	(118.571)	—	(58.432)	(59.818)	2) (9.257.214)
Finance income	3.295.257	13.329	68	—	85	(10.634)	2) 3.298.105
Income tax	(3.231.245)	(901.202)	18.089	—	16.193	—	(4.098.165)
<b>Segment profit / (loss)</b>	<b>21.401.243</b>	<b>(198.881)</b>	<b>76.998</b>	<b>—</b>	<b>49.294</b>	<b>(70.452)</b>	<b>3) 21.258.202</b>
<b>Operating assets</b>	<b>361.402.556</b>	<b>17.372.787</b>	<b>4.822.950</b>	<b>58.389.446</b>	<b>6.088.551</b>	<b>(26.380.086)</b>	<b>421.696.204</b>
<b>Operating liabilities</b>	<b>128.107.493</b>	<b>6.666.680</b>	<b>2.842.563</b>	<b>—</b>	<b>3.038.784</b>	<b>(1.861.582)</b>	<b>138.793.938</b>
<b>Other disclosures</b>							
Assets classified as held for sale	—	—	—	58.389.446	—	—	58.389.446
Capital expenditure	40.204.937	4.455.543	544.844	—	5.528.135	—	50.733.459 4)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(continued)

Year ended December 31, 2010

In thousands of Tenge	Wireline telecommu- nications	CDMA mobile telecommu- nications	Wireless telecommu- nications	GSM mobile telecommu- nications	Other	Eliminations and adjustments	Group
<b>Revenue</b>							
External customers	139.709.910	11.002.109	2.004.271	—	15.414	—	152.731.704
Inter-segment	1.715.152	1.784.222	810.820	—	2.375.750	(6.685.944)	1) —
<b>Total revenue</b>	<b>141.425.062</b>	<b>12.786.331</b>	<b>2.815.091</b>	<b>—</b>	<b>2.391.164</b>	<b>(6.685.944)</b>	<b>152.731.704</b>
<b>Results</b>							
Depreciation and amortization	(32.699.913)	(1.456.355)	(1.979.421)	—	(555.630)	—	(36.691.319)
Finance costs	(9.358.401)	(31.333)	(119.500)	—	(3.862)	82.155	2) (9.430.941)
Finance income	2.156.047	40.207	41.550	—	24.752	(82.155)	2) 2.180.401
Income tax	(6.042.273)	543.644	492.902	—	31.275	—	(4.974.452)
<b>Segment profit / (loss)</b>	<b>11.471.868</b>	<b>2.422.850</b>	<b>(1.630.733)</b>	<b>—</b>	<b>13.325</b>	<b>(514.814)</b>	<b>3) 11.762.496</b>
<b>Operating assets</b>	<b>316.271.672</b>	<b>15.466.963</b>	<b>5.496.310</b>	<b>53.785.831</b>	<b>5.398.697</b>	<b>(25.857.181)</b>	<b>370.562.292</b>
<b>Operating liabilities</b>	<b>124.094.973</b>	<b>3.956.618</b>	<b>3.585.551</b>	<b>—</b>	<b>2.459.621</b>	<b>(2.126.636)</b>	<b>131.970.127</b>
<b>Other disclosures</b>							
Investments in an associate (Note 10)	—	—	—	53.785.831	—	—	53.785.831
Capital expenditure	38.724.901	1.828.944	253.518	—	1.345.552	—	42.152.915 4)

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, plant and equipment and intangible assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(continued)

**Reconciliation of profit**

In thousands of Tenge	31 December 2011	31 December 2010
<b>Segment profit</b>	<b>21.328.654</b>	12.277.310
Other	(70.452)	(514.814)
<b>Group profit</b>	<b>21.258.202</b>	11.762.496

**Reconciliation of assets:**

In thousands of Tenge	31 December 2011	31 December 2010
<b>Segment operating assets</b>	<b>448.076.290</b>	396.419.473
Elimination of the Company's investments in subsidiaries	(23.915.296)	(23.837.046)
Elimination of intergroup balances of accounts receivable and payable	(2.464.790)	(2.020.135)
<b>Group operating assets</b>	<b>421.696.204</b>	370.562.292

**Reconciliation of liabilities:**

In thousands of Tenge	31 December 2011	31 December 2010
<b>Segment operating liabilities</b>	<b>140.655.520</b>	134.096.763
Deferred tax liabilities	603.208	(106.501)
Elimination of intergroup balances of accounts receivable and payable	(2.464.790)	(2.020.135)
<b>Group operating liabilities</b>	<b>138.793.938</b>	131.970.127

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(continued)

**7. PROPERTY, PLANT AND EQUIPMENT**

The movements in property, plant and equipment for the year ended December 31, 2011 were as follows:

In thousands of Tenge	Land	Buildings and premises	Equipment	Other	Construction in progress	Total
<b>Cost:</b>						
At January 1, 2010	604.085	28.954.417	277.271.980	10.579.104	24.458.446	341.868.032
Additions	37.306	217.083	22.069.787	797.047	17.141.460	40.262.683
Internal transfers	20.715	2.637.635	11.302.637	169.003	(14.129.990)	—
Disposals	(3.362)	(312.089)	(4.707.891)	(325.247)	—	(5.348.589)
Transfers to intangible assets	—	—	—	—	(1.321.346)	(1.321.346)
At December 31, 2010	658.744	31.497.046	305.936.513	11.219.907	26.148.570	375.460.780
Additions	18.388	266.391	26.025.642	1.379.178	20.130.282	47.819.881
Internal transfers	(13.916)	2.200.428	16.138.086	144.127	(18.468.725)	—
Disposals	(10.573)	(126.034)	(3.740.540)	(269.451)	(24.321)	(4.170.919)
Transfers to intangible assets	—	—	—	—	(589.995)	(589.995)
<b>At December 31, 2011</b>	<b>652.643</b>	<b>33.837.831</b>	<b>344.359.701</b>	<b>12.473.761</b>	<b>27.195.811</b>	<b>418.519.747</b>
<b>Accumulated depreciation and impairment:</b>						
At January 1, 2010	—	6.426.772	117.135.868	5.959.830	24.321	129.546.791
Depreciation expense	—	1.217.092	30.488.336	1.170.882	—	32.876.310
Disposals	—	(81.880)	(3.213.879)	(294.416)	—	(3.590.175)
At December 31, 2010	—	7.561.984	144.410.325	6.836.296	24.321	158.832.926
Depreciation expense	—	1.191.069	33.180.284	1.148.267	89.165	35.608.785
Disposals	—	(32.346)	(2.962.883)	(249.171)	(24.321)	(3.268.721)
<b>At December 31, 2011</b>	<b>—</b>	<b>8.720.707</b>	<b>174.627.726</b>	<b>7.735.392</b>	<b>89.165</b>	<b>191.172.990</b>
<b>Net book value:</b>						
At January 1, 2010	604.085	22.527.645	160.136.112	4.619.274	24.434.125	212.321.241
At December 31, 2010	658.744	23.935.062	161.526.188	4.383.611	26.124.249	216.627.854
<b>At December 31, 2011</b>	<b>652.643</b>	<b>25.117.124</b>	<b>169.731.975</b>	<b>4.738.369</b>	<b>27.106.646</b>	<b>227.346.757</b>

Construction in progress primarily represents construction of network and telecommunication equipment under installation.

At December 31, 2011, certain items of property, plant and equipment with a net carrying amount of 8,611,210 thousand Tenge (2010: 7,625,754 thousand Tenge) were pledged as security for some of the Group's borrowings (Note 20).

Borrowing costs of 16,613 thousand Tenge on loans obtained to finance the construction of property and equipment were capitalized during 2011 at an average capitalization rate of 6.18% (2010: 46,293 thousand Tenge at an average capitalization rate of 5.32%).

At December 31, 2011, the carrying value of equipment held under finance leases and included in property, plant and equipment amounted to 22,244,663 thousand Tenge (2010: 20,241,901 thousand Tenge). Additions during the year include 7,596,073 thousand Tenge (2010: 4,175,774 thousand Tenge) of property, plant and equipment held under finance leases. Leased assets are pledged as security for the related finance leases.

As at December 31, 2011 property, plant and equipment amounting to 58,951,625 thousand Tenge, were fully amortized (2010: 49,134,335 thousand Tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(continued)

**8. INTANGIBLE ASSETS**

The movements of intangible assets for the year ended December 31, 2011 were as follows:

In thousands of Tenge	Licenses and trademarks	Software	Other	Total
<b>Cost:</b>				
At January 1, 2010	13.774.610	11.139.673	1.791.441	26.705.724
Additions	249.235	1.640.696	303	1.890.234
Transfers from construction in progress	159.490	1.161.856	—	1.321.346
Disposals	(981)	(465.818)	—	(466.799)
Internal movements	306.591	(145.283)	(161.308)	—
<b>At December 31, 2010</b>	<b>14.488.945</b>	<b>13.331.124</b>	<b>1.630.436</b>	<b>29.450.505</b>
Additions	403.394	2.521.999	201	2.925.594
Transfers from construction in progress	404.474	185.521	—	589.995
Disposals	(36.671)	(672.216)	—	(708.887)
Internal movements	22.377	(22.377)	—	—
<b>At December 31, 2011</b>	<b>15.282.519</b>	<b>15.344.051</b>	<b>1.630.637</b>	<b>32.257.207</b>
<b>Accumulated amortization and impairment:</b>				
At January 1, 2010	6.631.247	6.120.849	955.786	13.707.882
Amortization expense	1.402.190	2.056.986	438.058	3.897.234
Disposals	(981)	(625.540)	—	(626.521)
<b>At December 31, 2010</b>	<b>8.032.456</b>	<b>7.552.295</b>	<b>1.393.844</b>	<b>16.978.595</b>
Amortization expense	650.913	2.019.705	70.273	2.740.891
Impairment	1.843.813	—	—	1.843.813
Disposals	(36.209)	(177.688)	—	(213.897)
<b>At December 31, 2011</b>	<b>10.490.973</b>	<b>9.394.312</b>	<b>1.464.117</b>	<b>21.349.402</b>
<b>Net book value:</b>				
At January 1, 2010	7.143.363	5.018.824	835.655	12.997.842
At December 31, 2010	6.456.489	5.778.829	236.592	12.471.910
<b>At December 31, 2011</b>	<b>4.791.546</b>	<b>5.949.739</b>	<b>166.520</b>	<b>10.907.805</b>

Licenses include those acquired through business combinations.

In 2011, the impairment loss of 1,843,813 thousand Tenge represented the write down of certain license in the CDMA mobile services segment to the recoverable amount. This was recognized in the consolidated income statement in the line item, "Cost of revenue". The recoverable amount was determined at the level of the CGU – Altel JSC, a subsidiary of the Group, and was based on value in use calculation using cash flow projections from financial budgets of the CGU. In determining value in use for the CGU, the cash flows were discounted at a rate of 11.61% on a pre-tax basis. The growth rate used to extrapolate the cash flows of the CGU beyond the five-year period was negative and equaled (5%). The declining growth rate reflects Management's estimate of the long-term average declining growth rate for CDMA mobile market in Kazakhstan due to more advanced mobile services standards and technologies available in the market.

As at December 31, 2011 intangible assets (mainly software) amounting to 4,454,057 thousand Tenge were fully amortized (2010: 4,432,580 thousand Tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(continued)

**9. ADVANCES PAID FOR NON-CURRENT ASSETS**

At December 31, 2011 and 2010 advances paid for non-current assets comprised advances to contractors for the construction and supply of property, plant, and equipment (mainly telecommunication equipment).

**10. INVESTMENTS IN AN ASSOCIATE**

At December 31, 2011 the Group had a 49% interest (2010: 49%) in LLP GSM Kazakhstan OAO 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.

The movements in the investments in the associate were as follows:

In thousands of Tenge	2011	2010
Balance at January 1	53.785.831	48.130.939
Share in the associate's net profit	33.023.615	26.038.892
Dividends declared	(28.420.000)	(20.384.000)
Discontinued operations (Note 34)	(58.389.446)	—
<b>Balance at December 31</b>	<b>—</b>	<b>53.785.831</b>

The following table illustrates summarised financial information of the Group's investment in GSM Kazakhstan:

In thousands of Tenge	2011	2010
<b>Share of the associate's statement of financial position:</b>		
Current assets	8.979.344	7.766.923
Non-current assets	61.525.953	59.685.441
Current liabilities	(9.917.802)	(11.091.260)
Non-current liabilities	(2.198.049)	(2.575.273)
<b>Equity</b>	<b>58.389.446</b>	<b>53.785.831</b>
<b>Share of the associate's revenue and profit:</b>		
Revenue	87.605.255	73.229.187
Profits	33.023.615	26.038.892

Amounts due to and from the associate at December 31, 2011 and 2010 and transactions with the associate for the years then ended are disclosed in the Note 36.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**11. INVESTMENT PROPERTY**

The movements in investment property were as follows for the year ended December 31, 2011:

In thousands of Tenge	2011	2010
<b>Cost:</b>		
At January 1	1.264.668	1.264.668
<b>At December 31</b>	<b>1.264.668</b>	1.264.668
<b>Accumulated depreciation and impairment:</b>		
At January 1	(1.264.668)	(1.264.668)
<b>At December 31</b>	<b>(1.264.668)</b>	(1.264.668)
<b>Carrying amount:</b>		
At January 1	—	—
At December 31	—	—

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 December 31, 2011 and 2010 as it is unlikely that the Group will receive reimbursement for its construction costs either through sale of the office building or rent payments. However, these assumptions may change in the future. Management assessed fair value of the investment property as 1,663,992 thousand Tenge as of December 31, 2011.

**12. OTHER NON-CURRENT ASSETS**

Other non-current assets comprised the following at December 31, 2011:

In thousands of Tenge	2011	2010
Deferred connection costs	2.550.412	1.883.243
Long-term VAT recoverable	864.067	929.704
Long-term trade receivables	8.945.989	8.474.830
Long-term loans to employees	1.091.813	655.522
Long-term guarantee deposits placed	803.096	—
Other	150.913	73.342
	<b>14.406.290</b>	12.016.641
Less: Impairment allowance	(5.685.203)	(5.685.203)
	<b>8.721.087</b>	6.331.438

Long-term trade receivables as of December 31, 2011 represent receivables from Mobile Telecom-Service LLP, the former subsidiary of the Group (Note 34). The receivables were discounted at origination using the interest rate of 10% representing the market interest rate.

Long-term loans to employees are given for 1-10 years year term and are interest-free. The long term loans were discounted at the origination using market interest rates.

Long-term guarantee deposits placed represent deposits placed as a security for some of the Group's borrowings. Average interest rate for deposits was 4.55% per annum (Note 20).

At December 31, 2011 and 2010, other non-current assets were denominated in Tenge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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The movements in the impairment allowance were as follows for the years ended December 31:

In thousands of Tenge	2011	2010
Impairment allowance at the beginning of the year	(5.685.203)	—
Charge for the year (Note 34)	—	(5.685.203)
Impairment allowance at the end of the year	<b>(5.685.203)</b>	(5.685.203)

The allowance was created against receivable from Mobile Telecom-Service LLP and charged to the results from discontinued operations in 2010 (Note 34).

**13. INVENTORIES**

Inventories comprised the following at December 31, 2011:

In thousands of Tenge	2011	2010
Spare parts	1.544.174	1.770.902
Cable materials	1.333.844	1.415.802
Other materials and supplies	1.264.062	1.307.577
Fuel	656.177	828.662
Goods for resale	459.455	530.115
	<b>5.257.712</b>	5.853.058
Less: Allowance for obsolete and slow-moving inventories	(1.000.091)	(697.767)
	<b>4.257.621</b>	5.155.291

The movements in the allowance for obsolete and slow-moving inventories were as follows for the years ended December 31:

In thousands of Tenge	2011	2010
Allowance for obsolete and slow-moving inventories at the beginning of the year	(697.767)	(144.394)
Charge for the year	(415.781)	(582.260)
Write-offs	113.457	28.887
Allowance for obsolete and slow-moving inventories at the end of the year	<b>(1.000.091)</b>	(697.767)

**14. TRADE ACCOUNTS RECEIVABLE**

Trade accounts receivable comprised the following at December 31, 2011:

In thousands of Tenge	2011	2010
Trade receivables	18.586.034	14.507.776
Less: Allowance for doubtful debts	(2.567.505)	(3.326.801)
	<b>16.018.529</b>	11.180.975

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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The movements in the allowance for doubtful debts were as follows for the years ended December 31:

In thousands of Tenge	2011	2010
Allowance for doubtful debts at the beginning of the year	<b>(3.326.801)</b>	(1.412.060)
Recovery of / (provision) for the year	<b>268.915</b>	(2.143.476)
Write-offs	<b>490.381</b>	228.735
Allowance for doubtful debts at the end of the year	<b>(2.567.505)</b>	(3.326.801)

As at December 31, the ageing analysis of trade receivables is as follows:

In thousands of Tenge	Total	Past due but not impaired					>360 days
		Neither past due nor impaired	<30 days	30-90 days	90-120 days	120-360 days	
<b>2011</b>	<b>16.018.529</b>	<b>13.689.618</b>	<b>1.743.175</b>	<b>442.185</b>	<b>66.296</b>	<b>77.255</b>	—
2010	11.180.975	9.533.774	1.105.708	316.730	99.650	125.113	—

At December 31, the Group's trade accounts receivable were denominated in various currencies as follows:

In thousands of Tenge	2011	2010
Tenge	<b>14.856.812</b>	8.470.406
US Dollars	<b>994.606</b>	2.710.569
Other	<b>167.111</b>	—
	<b>16.018.529</b>	11.180.975

## 15. PREPAYMENTS

Prepayments comprised the following at December 31, 2011:

In thousands of Tenge	2011	2010
Prepayments	<b>493.840</b>	623.632
Less: Impairment allowance	<b>(10.030)</b>	(38.219)
	<b>483.810</b>	585.413

The movements in the impairment allowance were as follows for the years ended December 31:

In thousands of Tenge	2011	2010
Impairment allowance at the beginning of the year	<b>(38.219)</b>	(54.131)
Recovery for the year	<b>5.339</b>	116
Write-offs	<b>22.850</b>	15.796
Impairment allowance at the end of the year	<b>(10.030)</b>	(38.219)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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## 16. OTHER FINANCIAL ASSETS

Other financial assets comprised of bank deposits at December 31, 2011 and 2010.

Bank deposits with maturities from 3 to 12 months were opened in a local bank and were earning interest at the weighted average rate of 10.5% per annum.

As at December 31, 2011 Group's other financial assets were denominated in US dollars in the amount of 303,117 thousand Tenge (2010: 377,311 thousand Tenge) and Tenge in the amount of 232,569 thousand Tenge (2010: 2,557 thousand Tenge).

## 17. OTHER CURRENT ASSETS

Other current assets comprised the following at December 31, 2011:

In thousands of Tenge	2011	2010
VAT recoverable	<b>1.238.448</b>	991.868
Due from employees	<b>1.120.281</b>	847.220
Prepaid taxes other than income tax	<b>793.485</b>	594.803
Deferred expenses	<b>1.527.761</b>	1.098.617
Other receivables	<b>688.630</b>	509.282
Other	<b>1.346.277</b>	1.153.106
	<b>6.714.882</b>	5.194.896
Less: Impairment allowance	<b>(239.187)</b>	(218.987)
	<b>6.475.695</b>	4.975.909

The movements in the allowance for doubtful debts were as follows for the years ended December 31:

In thousands of Tenge	2011	2010
Allowance at the beginning of the year	<b>(218.987)</b>	(289.650)
Charge for the year	<b>(66.887)</b>	(33.782)
Write-offs	<b>46.687</b>	104.445
Allowance at the end of the year	<b>(239.187)</b>	(218.987)

At December 31, 2011 and 2010 other current assets were primarily denominated in Tenge.

## 18. CASH AND SHORT-TERM DEPOSITS

Cash and short-term deposits comprised the following at December 31, 2011:

In thousands of Tenge	2011	2010
Cash in current bank accounts	<b>68.136.616</b>	44.258.361
Short-term deposits	<b>19.534.679</b>	13.723.039
Cash on hand	<b>44.392</b>	42.086
	<b>87.715.687</b>	58.023.486

Cash in current bank accounts earn interest at the weighted average rate of 2.6%. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the weighted average short-term deposit rate of 5.7% per annum (2010: 4.7% per annum).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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At December 31, 2011 cash and cash equivalents were denominated in various currencies as follows:

In thousands of Tenge	2011	2010
Tenge	<b>71.061.978</b>	41.141.381
US Dollars	<b>16.547.360</b>	15.783.734
Euro	<b>65.756</b>	188.849
Russian Rubles	<b>39.086</b>	906.610
Other	<b>1.507</b>	2.912
	<b>87.715.687</b>	58.023.486

## 19. EQUITY

Authorised share capital (number of shares)

	2011	2010
Ordinary shares	<b>10.922.876</b>	10.922.876
Preferred non-voting shares	<b>1.213.653</b>	1.213.653
	<b>12.136.529</b>	12.136.529

Issued and paid shares

	Number of shares		Thousands of Tenge		
	Ordinary shares	Preferred non-voting shares	Ordinary shares	Preferred non-voting shares	Total issued
As at January 1, 2010	10.922.876	1.213.653	10.922.876	1.213.653	12.136.529
As at December 31, 2010	10.922.876	1.213.653	10.922.876	1.213.653	12.136.529
<b>As at December 31, 2011</b>	<b>10.922.876</b>	<b>1.213.653</b>	<b>10.922.876</b>	<b>1.213.653</b>	<b>12.136.529</b>

Treasury shares

	Number of shares		Thousands of Tenge	
	Ordinary shares	Preferred non-voting shares	Ordinary shares	Preferred non-voting shares
As at January 1, 2010	—	810.459	—	(2.652.860)
As at December 31, 2010	—	810.459	—	(2.652.860)
<b>As at December 31, 2011</b>	<b>—</b>	<b>810.459</b>	<b>—</b>	<b>(2.652.860)</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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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 1,099,620 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 pay a non-discretionary dividend of 300 Tenge per share in accordance with the Company's charter documents and are considered to be compound financial instruments, and accordingly the liability and equity components are presented separately in the consolidated statement of financial position. Prescribed dividends in the amount of 120,957 thousand Tenge were accrued in 2011 and 2010 (Note 32). This dividend represents the interest with the effective rate of 11% on the debt component and is expensed in the income statement. Present value of non-discounted future cash flows represents the liability component in liabilities.

According to the decision made at the annual general shareholders meeting held on May 31, 2011, the Company declared additional dividends on preferred shares in the amount of 92,223 thousand Tenge and dividends on ordinary shares in the amount of 5,775,252 thousand Tenge (2010: 49,226 thousand Tenge and 4,610,437 thousand Tenge, respectively).

Dividends per share (ordinary and preferred) for 2011: 529 Tenge (2010: 422 Tenge).

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.

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.

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 dilutive potential ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

In thousands of Tenge	2011	2010
Net profit attributable to ordinary owners of the parent from continuing operations	<b>17.143.201</b>	7.336.468
Net profit attributable to ordinary owners of the parent from a discontinued operation	<b>33.023.615</b>	26.883.184
Net profit attributable to ordinary owners of the parent for basic and diluted earnings	<b>50.166.816</b>	34.219.652
Interest on debt component of preferred shares	<b>120.957</b>	120.957
Net profit attributable to ordinary and preferred owners of the parent for basic and diluted earnings	<b>50.287.773</b>	34.340.609
Weighted average number of all shares outstanding for basic and diluted earnings per share	<b>11.326.070</b>	11.326.070
Basic and diluted earnings per share, Tenge	<b>4.440</b>	3.032



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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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 34*), 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:

In thousands of Tenge	2011	2010
Net profit attributable to ordinary owners of the parent from a discontinued operation for basic and diluted earnings per share calculations	<b>33.023.615</b>	26.883.184

On 8 November 2010, the Kazakhstan Stock Exchange has enacted a requirement for disclosure of the 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 December 31, 2011, that measure was 24,790 Tenge (2010: 20,590 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 December 31, 2011 that measure was 2,248 Tenge (2010: 1,933 Tenge).

## 20. BORROWINGS

Borrowings comprised the following at December 31, 2011:

In thousands of Tenge	2011	2010
Fixed interest rate borrowings	<b>15.884.874</b>	10.943.004
Weighted average interest rate	<b>6,27%</b>	5,76%
Variable interest rate borrowings	<b>58.334.633</b>	56.182.101
Weighted average interest rate	<b>8,24%</b>	8,52%

At December 31, 2011 borrowings were denominated in various currencies as follows:

In thousands of Tenge	2011	2010
Tenge, payments indexed to exchange rate Tenge / US Dollar	<b>46.591.485</b>	46.358.023
US Dollar	<b>19.862.228</b>	17.400.670
Tenge	<b>5.809.870</b>	544.668
Won	<b>1.562.259</b>	1.705.709
EURO	<b>392.626</b>	1.115.077
Other	<b>1.039</b>	958
	<b>74.219.507</b>	67.125.105

Borrowings are repayable as follows:

In thousands of Tenge	2011	2010
Current portion	<b>14.539.739</b>	9.153.943
Maturity between 1 and 2 years	<b>12.051.018</b>	10.428.169
Maturity between 2 and 5 years	<b>27.427.478</b>	21.905.927
Maturity over 5 years	<b>20.201.272</b>	25.637.066
Total long-term portion	<b>59.679.768</b>	57.971.162

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At December 31, 2011, certain items of property, plant and equipment with a net carrying amount of 8,611,210 thousand Tenge were pledged as security for some of the Group's borrowings (2010: 7,625,754 thousand Tenge) (*Note 7*).

At December 31, 2011, long-term guarantee deposits in amount of 803,096 thousand Tenge were placed in banks as a security for some of the Group's borrowings (*Note 12*).

At December 31, 2011 and 2010, Group's borrowings of 1,562,259 thousand Tenge and 1,691,528 thousand Tenge, respectively, were guaranteed by the Government of the Republic of Kazakhstan (*Note 36*).

## 21. LEASES

### Finance leases

The Group has finance leases for various items of property, plant 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:

In thousands of Tenge	2011		2010	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Within one year	<b>8.951.380</b>	<b>7.237.279</b>	8.877.523	7.338.972
After one year but not more than five years	<b>10.110.527</b>	<b>8.664.865</b>	9.435.956	8.352.825
After five years	—	—	—	—
Less: amounts representing interest charges	<b>(3.159.763)</b>	—	(2.621.682)	—
<b>Present value of minimum lease payments</b>	<b>15.902.144</b>	<b>15.902.144</b>	15.691.797	15.691.797
Less: amounts due for settlement within 12 months		<b>(7.237.279)</b>		(7.338.972)
Amounts due for settlement after 12 months		<b>8.664.865</b>		8.352.825

The amounts representing interest are based on effective interest rates from 11.3% to 15%.

### Operating leases

The Group has entered into commercial leases on certain property, plant 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 38*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**22. EMPLOYEE BENEFIT LIABILITY**

**State Contribution Scheme**

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 and contributes 10% from the salaries of its employees as the employee contribution to their cumulative pension funds. These amounts are expensed when they are incurred.

**Defined Benefit Scheme**

Employee benefit liability under this scheme are payable in accordance with a labour union agreement concluded between the Company and its employees.

The Defined Benefit Scheme is unfunded.

The total liability for the Company's Defined Benefit Scheme comprised the following at December 31, 2011:

In thousands of Tenge	2011	2010
Present value of defined benefit liability	<b>5.455.792</b>	4.649.041

A reconciliation of the present value of the defined benefit liability with specified payments is as follows for the years ended December 31:

In thousands of Tenge	2011	2010
Total liability at the beginning of the year	<b>4.649.041</b>	3.625.470
Current service cost	<b>270.577</b>	248.379
Interest cost	<b>452.352</b>	341.882
Benefits paid during the year	<b>(779.865)</b>	(613.381)
Actuarial loss recognised during the year	<b>863.687</b>	1.046.691
Total liability at the end of the year	<b>5.455.792</b>	4.649.041
Liability falling due within one year	<b>330.013</b>	289.262
Liability falling due after one year	<b>5.125.779</b>	4.359.779

Actuarial loss recognised for the year ended December 31, 2011 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, interest cost, and actuarial loss in the aggregate amount of 1,586,616 thousand Tenge were recorded in the cost of revenue and general and administrative expenses within personnel costs (2010: 1,636,952 thousand Tenge) (Note 31).

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 actual 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:

	2011	2010
Discount rate	<b>9,42%</b>	9,73%
The expected rate of future annual minimum salary increase	<b>9,40%</b>	9,00%

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**23. OTHER NON-CURRENT LIABILITIES**

Other non-current liabilities comprised the following at December 31, 2011:

In thousands of Tenge	2011	2010
Deferred connection revenue	<b>4.147.152</b>	2.986.328
Asset retirement obligations	<b>217.542</b>	196.161
Guarantees issued	<b>112.754</b>	393.858
Other	<b>121.451</b>	296.869
	<b>4.598.899</b>	3.873.216

In August 2009 and September 2008 the Group guaranteed an obligation of Skif City LLP, its lessor, unrelated party under loan agreements amounting to 51,425 thousand US Dollars and 66,677 thousand US Dollars, respectively. A fair value of the guarantees issued was calculated based on a market price for similar instruments.

Provision for asset retirement obligations has been recognized for cost of restoring sites and premises to their original condition.

**24. ACCOUNTS PAYABLE**

Accounts payable comprised the following at December 31, 2011:

In thousands of Tenge	2011	2010
Accounts payable for services	<b>8.275.905</b>	7.964.869
Accounts payable for property, plant and equipment	<b>7.043.577</b>	9.038.314
Accounts payable for inventory	<b>531.498</b>	714.474
	<b>15.850.980</b>	17.717.657

At December 31, 2011 and 2010 accounts payable were not interest bearing.

At December 31, 2011 accounts payable were denominated in various currencies as follows:

In thousands of Tenge	2011	2010
Tenge	<b>13.471.463</b>	13.719.769
US Dollars	<b>2.087.568</b>	3.577.043
Euro	<b>27.645</b>	75.669
Other	<b>264.304</b>	345.176
	<b>15.850.980</b>	17.717.657

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**25. OTHER CURRENT LIABILITIES**

Other current liabilities comprised the following at December 31, 2011:

In thousands of Tenge	2011	2010
Due to employees	1.973.489	1.648.996
Taxes payable other than income tax	1.869.985	1.597.212
Deferred connection revenue	1.796.010	1.846.910
Payable to pension funds	610.177	455.914
Dividends payable	469.823	421.764
Guarantees issued	281.105	469.890
Other	630.924	470.477
	<b>7.631.513</b>	6.911.163

At December 31, 2011 and 2010 other current liabilities were not interest bearing and were primarily denominated in Tenge.

**26. REVENUE**

Revenue for the year ended December 31, 2011 comprised the following:

In thousands of Tenge	2011	2010
Rendering of wireline and wireless phone services	73.700.254	73.452.884
Data transfer services	58.744.803	46.082.658
Interconnect	14.859.100	13.212.331
Rent of lines	10.712.082	9.701.593
Other	9.753.180	5.055.767
	<b>167.769.419</b>	147.505.233

**27. COMPENSATION FOR PROVISION OF UNIVERSAL SERVICES IN RURAL AREAS**

According to the Resolution of the Government of the Republic of Kazakhstan #1039, dated October 7, 2004 "On the approval of subsidies for telecommunication operators losses connected with the provision of universal telecommunication services in rural areas", beginning from 4th quarter of 2004, the Group has started receiving 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 December 31, 2011 totalled 5,574,617 thousand Tenge (2010: 5,226,471 thousand Tenge).

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**28. COST OF REVENUE**

Cost of services provided for the year ended December 31, 2011 comprised the following:

In thousands of Tenge	2011	2010
Depreciation and amortization	39.655.503	35.838.816
Personnel costs (Note 31)	39.016.754	34.770.529
Repair and maintenance	13.757.500	12.643.297
Interconnect	12.808.615	13.010.139
Rent of channels	4.889.586	4.696.092
Fees for the right to provide telecom services	1.993.931	1.945.901
Security and safety	1.979.563	1.823.351
Rental of equipment	1.449.771	1.386.170
Fees for use of frequency range	661.130	615.929
Other	7.865.550	4.288.082
	<b>124.077.903</b>	111.018.306

**29. GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative expenses for the year ended December 31, 2011 comprised the following:

In thousands of Tenge	2011	2010
Personnel costs (Note 31)	10.563.454	9.991.702
Taxes other than income tax	2.242.439	1.928.700
Consulting services	1.297.831	902.771
Bank fees	661.799	615.770
(Recovery of) / bad debt expense (Notes 14, 15 and 17)	(207.367)	2.177.142
Depreciation and amortization	486.033	852.503
Provision for obsolete inventory (Note 13)	415.781	582.260
Materials	392.947	366.953
Business trips	320.610	264.073
Repair and maintenance	254.048	192.813
Trainings	236.764	139.334
Rental of equipment	146.942	148.286
Security and safety	112.321	152.362
Other	1.901.014	1.847.376
	<b>18.824.616</b>	20.162.045

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**30. SELLING EXPENSES**

Selling expenses for the year ended December 31, 2011 comprised the following:

In thousands of Tenge	2011	2010
Marketing and advertising	<b>2.598.686</b>	2.426.960
Dealers commission	<b>1.566.200</b>	1.437.576
Other	<b>402.831</b>	481.502
	<b>4.567.717</b>	4.346.038

**31. PERSONNEL COSTS**

Personnel costs for the year ended December 31, 2011 comprised the following:

In thousands of Tenge	2011	2010
Payroll	<b>43.692.201</b>	39.280.206
Payroll related taxes	<b>4.301.391</b>	3.845.073
Employee benefits expense (Note 22)	<b>1.586.616</b>	1.636.952
	<b>49.580.208</b>	44.762.231

Split of personnel costs between cost of revenue and general and administrative expenses is presented in Notes 28 and 29, respectively.

**32. FINANCE COSTS / INCOME**

Finance costs and income for the year ended December 31, 2011 comprised the following:

In thousands of Tenge	2011	2010
<b>Finance costs:</b>		
Interest on borrowings	<b>5.351.025</b>	6.272.078
Interest payable under finance leases	<b>1.981.016</b>	2.133.966
Discounting of long-term loans to employees	<b>1.518.159</b>	738.515
Interest on debt component of preferred shares (Note 19)	<b>120.957</b>	120.957
Discounting of other non-current assets (Note 12)	<b>286.057</b>	165.425
	<b>9.257.214</b>	9.430.941
<b>Finance income:</b>		
Income on current accounts	<b>1.083.984</b>	525.308
Interest income on bank deposits	<b>979.209</b>	890.782
Interest income on guarantees issued	<b>507.646</b>	341.068
Amortization of discount on long-term loans to employees	<b>318.933</b>	205.135
Amortization of discount on long-term trade receivables (Note 12)	<b>408.333</b>	218.108
	<b>3.298.105</b>	2.180.401

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(continued)

**33. INCOME TAX**

Income tax expense comprised the following for the year ended December 31, 2011:

In thousands of Tenge	2011	2010
Current income tax charge	<b>5.330.577</b>	4.891.295
Deferred tax benefit relating to origination and reversal of temporary differences	<b>(1.232.412)</b>	(2.757.628)
Deferred tax charge resulting from change in tax rate	—	2.840.785
	<b>4.098.165</b>	4.974.452

A reconciliation of income tax expense applicable to profit before income tax at the statutory income tax rate of 20% (2010: 20%) to current income tax expense was as follows for the year ended December 31, 2011:

In thousands of Tenge	2011	2010
Accounting profit before tax from continuing operations	<b>21.258.202</b>	11.762.496
Gain before tax from discontinued operations	<b>33.023.615</b>	26.883.184
<b>Accounting profit before income tax</b>	<b>54.281.817</b>	38.645.680
At statutory income tax rate of 20%	<b>10.856.363</b>	7.729.136
Non-taxable share of profit of an associate	<b>(6.499.465)</b>	(5.207.778)
Change in unrecognized deferred tax assets	<b>(64.041)</b>	(702.408)
Change in opening deferred tax resulting from change in tax rate	—	2.840.785
(Non-taxable gain) / non-deductible expenses	<b>(194.692)</b>	314.717
<b>Total income tax expense</b>	<b>4.098.165</b>	4.974.452

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(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 December 31, 2011:

In thousands of Tenge	December 31, 2010	Consolidated profit and loss for 2011	December 31, 2011
<b>Deferred tax assets</b>			
Tax losses carry-forward	624.476	183.411	<b>807.887</b>
Deferred income	369.588	(4.676)	<b>364.912</b>
Employee benefits obligations	929.408	161.750	<b>1.091.158</b>
Bad debt allowance	1.305.345	(118.280)	<b>1.187.065</b>
Intangible assets	366.996	247.213	<b>614.209</b>
Discount on non-current assets	—	1.038.793	<b>1.038.793</b>
Other	392.179	(196.831)	<b>195.348</b>
Less: deferred tax assets offset with deferred tax liabilities	(3.829.041)	(1.290.867)	<b>(5.119.908)</b>
<b>Deferred tax assets</b>	<b>158.951</b>	<b>20.513</b>	<b>179.464</b>
<b>Deferred tax liabilities</b>			
Property, plant and equipment	16.050.266	(145.276)	<b>15.904.990</b>
Intangible assets	310.217	224.244	<b>534.461</b>
Less: deferred tax assets offset with deferred tax liabilities	(3.829.041)	(1.290.867)	<b>(5.119.908)</b>
<b>Deferred tax liabilities</b>	<b>12.531.442</b>	<b>(1.211.899)</b>	<b>11.319.543</b>
Deferred tax benefit		(1.232.412)	
<b>Net deferred tax liabilities</b>	<b>12.372.491</b>		<b>11.140.079</b>
<b>Reflected in the statement of financial position as follows:</b>			
Deferred tax assets	158.951	—	<b>179.464</b>
Deferred tax liability	(12.531.442)	—	<b>(11.319.543)</b>
<b>Deferred tax liability, net</b>	<b>(12.372.491)</b>	<b>—</b>	<b>(11.140.079)</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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In thousands of Tenge	December 31, 2009, as stated in non-current liabilities	December 31, 2009, as stated in liabilities of the disposal group	Consolidated profit and loss for 2010			December 31, 2010, as stated in non-current liabilities
			Origination or reversal of temporary difference	Effect of tax rate change	Derecognized at disposal of discontinued operation	
<b>Deferred tax assets</b>						
Tax losses carry-forward	—	13.875	624.476	—	(13.875)	<b>624.476</b>
Deferred income	306.420	—	1.247	61.921	—	<b>369.588</b>
Employee benefits obligations	578.553	—	204.315	146.540	—	<b>929.408</b>
Bad debt allowance	321.790	—	940.091	43.464	—	<b>1.305.345</b>
Intangible assets	56.976	—	134.597	175.423	—	<b>366.996</b>
Other	124.039	—	268.140	—	—	<b>392.179</b>
Less: deferred tax assets offset with deferred tax liabilities	(1.387.778)	(13.875)	(2.013.915)	(427.348)	13.875	<b>(3.829.041)</b>
<b>Deferred tax assets</b>	<b>—</b>	<b>—</b>	<b>158.951</b>	<b>—</b>	<b>—</b>	<b>158.951</b>
<b>Deferred tax liabilities</b>						
Property, plant and equipment	13.008.198	12.048	(226.065)	3.268.133	(12.048)	<b>16.050.266</b>
Intangible assets	668.914	2.260.152	(358.697)	—	(2.260.152)	<b>310.217</b>
Less: deferred tax assets offset with deferred tax liabilities	(1.387.778)	(13.875)	(2.013.915)	(427.348)	13.875	<b>(3.829.041)</b>
<b>Deferred tax liabilities</b>	<b>12.289.334</b>	<b>2.258.325</b>	<b>(2.598.677)</b>	<b>2.840.785</b>	<b>(2.258.325)</b>	<b>12.531.442</b>
Deferred tax (benefit) / expense	—		(2.757.628)	2.840.785	—	
<b>Net deferred tax liabilities</b>	<b>12.289.334</b>					<b>12.372.491</b>
Reflected in the statement of financial position as follows:						
Deferred tax assets	—					<b>158.951</b>
Deferred tax liability – continuing operations	(12.289.334)					<b>(12.531.442)</b>
Deferred tax liability – discontinued operations (Note 34)	(2.258.325)					<b>—</b>
<b>Deferred tax liability, net</b>	<b>(14.547.659)</b>					<b>(12.372.491)</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(continued)

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. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. The unrecognized deferred tax assets on accumulated tax losses at December 31, 2011 amounted to 3,950 thousand Tenge (2010: 67,991 thousand Tenge).

In November 2010, the Government of the Republic of Kazakhstan approved amendments to the Tax Code effective January 1, 2011, in accordance to which the statutory income tax rates are set at 20% from 2011 and onwards. The Company's calculation of deferred tax and income tax expense reflects these changes in the tax law.

The movements in the net deferred tax liability were as follows for the years ended December 31:

In thousands of Tenge	2011	2010
Opening balance as of January 1	12.372.491	14.547.659
Origination and reversal of temporary differences	(1.232.412)	(2.757.628)
Change in opening deferred tax resulting from change in tax rate	—	2.840.785
Discontinued operation (Note 34)	—	(2.258.325)
<b>Closing balance as of December 31</b>	<b>11.140.079</b>	<b>12.372.491</b>

### 34. DISCONTINUED OPERATIONS

#### Disposal of GSM Kazakhstan (2011)

On December 21, 2011, Kazakhtelecom concluded an agreement to sell its 49% ownership in GSM Kazakhstan OAO Kazakhtelecom LLP to Sonera Holding B.V., a subsidiary of Swedish mobile operator Telia Sonera AB. The Board considered GSM Kazakhstan met the criteria to be classified as held for sale as of December 31, 2011 for the following reasons:

- On December 21, 2011, a sale-purchase agreement was signed stating the selling price of 1,519 million US Dollars.
- On February 1, 2012, the Group completed the sale for consideration of 1,519 million US Dollars

Investments in the associate were classified as assets available for sale as of December 31, 2011 in the consolidated statement of financial position, and share in associate's profit was classified as discontinued operation in the consolidated statement of comprehensive income for 2011 and 2010.

In thousands of Tenge	2011	2010
The carrying amount of the Group's investments in the associate, classified as held for sale	58.389.446	—
The share of the associate's profit classified as discontinued operation (Note 10)	33.023.615	26.038.892

#### Sale of Mobile Telecom-Service LLP (2010)

On December 14, 2009 Kazakhtelecom concluded an agreement to sell its shares in the subsidiary Mobile Telecom-Service LLP to Tele2 Sverige AB, a Swedish mobile operator. Mobile Telecom-Service was a separate financial segment of the Group. On March 17, 2010, the Group completed the sale transaction for 76,000 thousand USD (equivalent to 11,175,000 thousand Tenge). As a result, the gain from disposal comprised of 178,320 thousand Tenge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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The results of Mobile Telecom-Service LLP for the year ended December 31, 2010 are presented below:

In thousands of Tenge	2011	2010
Revenue	—	670.038
Cost of revenue	—	(614.472)
Gross profit	—	55.566
General and administrative expenses	—	(70.313)
Selling expenses	—	(73.558)
Operating loss	—	(88.305)
Finance costs	—	(126.930)
Finance income	—	1.467
Foreign exchange gain	—	925.599
Other loss	—	(45.859)
<b>Profit before tax from a discontinued operation</b>	<b>—</b>	<b>665.972</b>
Gain on sale of subsidiary	—	178.320
Income tax benefit	—	—
<b>Profit for the year from a discontinued operation</b>	<b>—</b>	<b>844.292</b>

The gain on sale of subsidiary comprised the following:

In thousands of Tenge	2011	2010
Consideration received from Tele2 AB	—	11.175.800
Net assets associated with disposal group as of the date of disposal	—	(1.890.643)
Provision for loss related to receivables from Mobile Telecom-Service LLP	—	(9.106.837)
<b>Gain on sale</b>	<b>—</b>	<b>178.320</b>

Cash inflow from sale:

In thousands of Tenge	2011	2010
Consideration received	—	11.175.800
Net cash disposed of with the discontinued operation	—	(217.905)
<b>Net cash inflow</b>	<b>—</b>	<b>10.957.895</b>

The net cash flows incurred by Mobile Telecom-Service LLP were as follows:

In thousands of Tenge	2011	2010
Operating	—	(271.317)
Investing	—	(67.769)
Financing	—	71.337
<b>Net cash outflow</b>	<b>—</b>	<b>(267.749)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### *Provision for loss related to receivables from Mobile Telecom-Service LLP*

Immediately before the classification of Mobile Telecom-Service LLP as a discontinued operation, the recoverable amount of receivables due from Mobile Telecom-Service LLP was equal its nominal value and amounted to 11,672,000 thousand Tenge. Following the classification, the carrying amount of the receivables was reduced to its recoverable amount, and further the recoverable amount was discounted to reflect the agreed deferred payment term. Consequently, long-term receivables amounted to 2,565,163 thousand Tenge.

### 35. NON-CASH TRANSACTIONS

During 2011, under finance lease agreements, the Group received telecommunication equipment with a value of 7,763,733 thousand Tenge (2010: 4,175,774 thousand Tenge). This transaction has been excluded from the consolidated statement of cash flows.

In 2011, 9,038,314 thousand Tenge was paid for property, plant and equipment purchased in the prior year (2010: 6,509,535 thousand Tenge). Property, plant and equipment of 7,043,577 thousand Tenge was purchased in 2011 but not paid by December 31, 2011 (2010: 9,038,314 thousand Tenge).

In 2011, the Group obtained a loan in the amount of 7,236,607 thousand Tenge from the Bank of China to finance purchases of fixed assets. According to the loan agreement, the bank transferred money directly to the supplier of equipment.

### 36. RELATED PARTY TRANSACTIONS

The category 'parent-controlled entities' comprises entities controlled by the Parent, except for banks controlled by the Parent. Halyk Bank of Kazakhstan is a related party due to the bank being controlled by member of the management board of Parent. BTA Bank JSC, Temirbank JSC and Alliance Bank JSC are related parties since they are controlled by Parent. Associate (discontinued operation) is represented by GSM Kazakhstan, a private entity not listed on any public exchange, in which the Group has a 49% interest (*Note 10*).

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 year ended December 31, 2011 and 2010, the Group has not recorded any impairment of trade accounts receivables relating to amounts owned 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.

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Sales and purchases with related parties during the years ended December 31, 2011 and 2010 and the balances with related parties at December 31, 2011 and 2010 were as follows:

In thousands of Tenge	2011	2010
<b>Sales of goods and services</b>		
Parent	520.816	279.288
Parent-controlled entities	3.623.589	3.160.116
Associate (discontinued operation)	6.426.968	6.389.427
<b>Purchases of goods and services</b>		
Parent-controlled entities	1.665.595	1.623.476
Associate (discontinued operation)	4.632.072	4.738.547
<b>Interest earned on financial assets</b>		
Alliance Bank	97.331	—
Average interest rate on financial assets	0.01%	—
<b>Interest incurred on borrowings</b>		
Halyk Bank of Kazakhstan	—	7.628
Average interest rate on borrowings	—	13,75%
Development Bank of Kazakhstan	4.195.437	4.249.094
Average interest rate on borrowings	9,53%	9,51%

In thousands of Tenge	2011	2010
<b>Cash and cash equivalents</b>		
Alliance Bank	4.042.647	734.991
Halyk Bank of Kazakhstan	1.611.235	10.306.195
BTA Bank	1.446.095	560.029
Development Bank of Kazakhstan	12.690	—
Temirbank	96	—
<b>Borrowings</b>		
Development Bank of Kazakhstan	46.591.485	46.358.023
<b>Trade and other receivables</b>		
Parent	370.972	138.205
Parent-controlled entities	559.728	459.761
Associate (discontinued operation)	635.759	425.917
<b>Accounts payable</b>		
Parent-controlled entities	72.197	82.035
Associate (discontinued operation)	2.513.021	2.221.965

Total compensation to key management personnel in general and administrative expenses in the accompanying consolidated income statement amounted to 320,171 thousand Tenge and 272,900 thousand Tenge for the years ended December 31, 2011 and 2010, respectively. Compensation to key management personnel mainly consists of contractual salary and performance bonus based on operating results.

As discussed in *Note 27*, 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 20*, some of the Group's borrowings were guaranteed by the Government of the Republic of Kazakhstan.

Transactions with (purchases from) parent-controlled entities are mainly represented by transactions of the Group with NC Kazakhstan Temir Zholy JSC (railway services), KEGOK JSC (utilities), Kazpost JSC (postage services). The Group provides telecommunication services to Parent, parent-controlled entities and Associate.

### 37. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments consist of bank borrowings, lease liabilities, cash and short-term deposits 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.

In thousands of Tenge	2011		2010	
	Increase / decrease in basis points	Effect on profit before tax	Increase / decrease in basis points	Effect on profit before tax
US Dollar	+15	(84.031)	+100	(525.968)
	-15	84.031	-25	131.492
Euro	+15	(585)	+100	(11.107)
	-15	585	-25	2.777
Tenge	+15	—	+100	(4.613)
	-15	—	-25	1.153

\* 1 basis point = 0.01%

#### Currency risk

As a result of significant borrowings, lease liabilities and accounts payable, cash and cash equivalents and accounts receivable denominated in the 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	2011		2010	
	Increase / decrease in exchange rate	Effect on profit before tax	Increase / decrease in exchange rate	Effect on profit before tax
US Dollar	+11%	(6.002.429)	+12%	(6.965.752)
	-11%	6.002.429	-12%	6.965.752
Euro	+16%	(57.892)	+17%	(47.309)
	-16%	57.892	-17%	47.309
Won	+16%	(255.117)	+17%	(284.001)
	-16%	255.117	-17%	284.001

#### Credit risk

The Group trades only with recognised, creditworthy parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in *Notes 12, 14*. 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

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, 24% of the Group's debt will mature in less than one year at December 31, 2011 (2010: 21%) 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 December 31, 2010 based on contractual undiscounted payments.

In thousands of Tenge	On demand	Due later than one month but not later than three months	Due later than three months but not later than one year	Due later than one year but not later than five years	Due after five years	Total
<b>As of December 31, 2011</b>						
Borrowings	—	7.350.375	10.340.115	59.345.893	17.057.411	94.093.794
Finance lease liabilities	—	2.627.439	6.395.429	10.307.113	—	19.329.981
Accounts payable	12.084.120	1.569.733	2.197.127	—	—	15.850.980
Debt component of preferred shares	—	—	108.971	338.077	652.572	1.099.620
Employee benefit liability	—	—	330.013	1.163.356	3.962.423	5.455.792
Other non-current liabilities	—	—	—	4.598.899	—	4.598.899
Other current liabilities	7.631.513	—	—	—	—	7.631.513
	<b>19.715.633</b>	<b>11.547.547</b>	<b>19.371.655</b>	<b>75.753.338</b>	<b>21.672.406</b>	<b>148.060.579</b>
<b>As of December 31, 2010</b>						
Borrowings	—	4.752.883	7.488.442	47.017.047	31.465.686	90.724.058
Finance lease liabilities	—	2.327.313	6.025.811	8.983.798	—	17.336.922
Accounts payable	13.507.196	1.754.592	2.455.869	—	—	17.717.657
Debt component of preferred shares	—	—	108.971	338.077	652.572	1.099.620
Employee benefit liability	—	—	254.509	1.018.035	3.376.497	4.649.041
Other non-current liabilities	—	—	—	3.873.216	—	3.873.216
Other current liabilities	6.911.163	—	—	—	—	6.911.163
	<b>20.418.359</b>	<b>8.834.788</b>	<b>16.333.602</b>	<b>61.230.173</b>	<b>35.494.755</b>	<b>142.311.677</b>



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### 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 December 31, 2011 and 2010.

The Group monitors capital using a debt-to-equity ratio, which is net debt divided by total capital. The Group's policy is to keep the ratio not greater than 1.0. The Group includes within net debt interest bearing loans and borrowings, trade accounts payable and finance lease liabilities. Capital includes equity attributable to the equity holders of the Group.

The debt-to-equity ratio at the year end was as follows:

In thousands of Tenge	2011	2010
Borrowings	74.219.507	67.125.105
Accounts payable	15.850.980	17.717.657
Finance lease obligations	15.902.144	15.691.797
<b>Net debt</b>	<b>105.972.631</b>	100.534.559
Equity	282.902.266	238.592.165
<b>Debt-to-equity ratio</b>	<b>0,37</b>	0,42

### Fair values

At December 31, 2011 and 2010 the carrying values of the Group's monetary assets and liabilities approximated their estimated fair values.

The carrying amount of cash and cash equivalents, trade accounts receivable, trade accounts payable and other current monetary assets and liabilities approximates their fair value due to the short-term maturity of these financial instruments. Interest-bearing loans and borrowings are stated at amortized costs which approximate their fair values.

The fair value of long-term financial assets is estimated using discounted cash flow based on deposit rates currently available to the Group with similar terms and average maturities. The fair value of long-term financial assets is considered to be equal to their carrying values.

## 38. 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 December 31, 2011 the Group had contractual commitments totaling 9,074,781 thousand Tenge (2010: 14,652,126 thousand Tenge) related mostly to the purchase of telecommunication equipment and construction of telecommunication network.

### Operating lease commitments - Group as lessee

In September 2008 the Group has entered into lease of an office space. This lease has a life of five years with a renewal option included in the contract. There are no restrictions placed upon the Group by entering into this lease.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Future minimum rentals payable under non-cancellable operating lease are as follows:

In thousands of Tenge	2011	2010
Within one year	642.982	670.193
After one year but not more than five years	651.262	368.604
	<b>1.294.244</b>	1.038.797

### 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 December 31, 2011. As at December 31, 2011 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.

## 39. EVENTS AFTER THE REPORTING PERIOD

Since 6th of January 2012 Halyk Bank of Kazakhstan JSC and its subsidiaries- members of Halyk Group are not related parties of the Group.

On January 19, 2012 the Group made an installment payment under its Kazakhstan bonds obligations in the amount of 2,106,939 thousand Tenge.

On January 25, 2012, GSM Kazakhstan, the associate, declared dividends related to prior periods to be paid to the Group in the amount of 34,723,133 thousand Tenge during 2012.

On February 1, 2012, the Group completed the sale of its associate, GSM Kazakhstan, for consideration of 1,519 million US Dollars (equivalent to 225,738,590 thousand Tenge).

# ALEXANDRA PACULA

## About myself

I recreate the feeling of dizziness and confusion by letting the paint blur and allowing shapes to dissolve. I suggest motion in order to slow down the scene and capture the fleeting moments, which tend to be forgotten. The sense of motion is intensified with the use of quick vigorous lines and sharp perspectives. By interpreting lights in graphic or painterly ways, I create a sense of space, alluding to a hallucinogenic experience. I want the viewer's eye to travel within my composition and experience a familiar, exhilarating event of an actual nightly excursion.

## Biography

Alexandra Pacula lives in New York, and works in a studio in Brooklyn. She received a Bachelor of Fine Arts degree from Mason Gross School of the Arts at Rutgers the State University of NJ in 2002 and in 2006 finished a Master of Fine Arts degree at Montclair State University of NJ.

Pacula's work has been included in many exhibitions in the US as well as Spain, London and Paris. She was awarded a Fellowship in Painting from the New York Foundation for the Arts for 2010. Other awards include the Robert Sterling Clark Visual Art Space Award in 2010, which provides a studio space at the Marie Walsh Sharpe Art Foundation and Winner of Saatchi Showdown Competition in 2008.

Alexandra usually works on a large scale and explores the dynamic energy of the city at night. Through luscious brushwork, vibrant color and sense of motion she is able to capture the essence of the city. Her streets are filled with light that travels within the composition almost of it's own accord. She has developed her own unique style of painting which combines, impressionism, expressionism and photorealism. She uses a disposable digital image as a starting point to elaborate on the fact that we are living in the age of technology.



