

Leveraging our competitive advantage...

Kcell Annual Report 2013



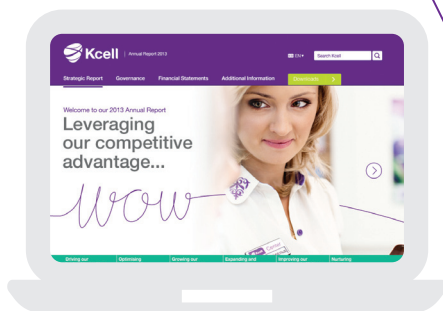


Kcell is Kazakhstan's leading provider of mobile telecommunication services by revenue and subscriber numbers. Despite this year's tougher market environment, we are proud to have retained our leading market position, and look forward to building on this achievement as we move forward.

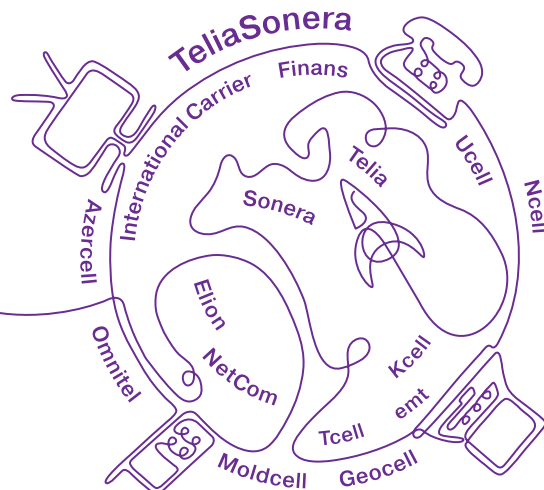
Operating through our Kcell and Activ brands, we have 14.3 million subscribers in Kazakhstan, more than five million of whom use the internet on their mobile phones through our network. Over the past 15 years, our subscribers have talked for approximately 100 billion minutes, sent 22 billion SMS and submitted 26 million GB of data. During that time,

the speed of data transmission within the Kcell network has increased over 560 times, from 9.6 Kbps in 2G network up to 42 Mbps in 3G HSPA DC.

We successfully completed a global depository receipt (GDR) listing on the London Stock Exchange and ordinary shares on the Kazakhstani Stock Exchange in December 2012.



View this report online
www.investors.kcell.kz/en



Contents

Strategic report

- 02 This is Kcell
- 03 Network coverage
- 04 Key highlights
- 05 Key events in 2013
- 06 Chairman's statement
- 08 Market fundamentals
- 10 CEO's review
- 12 Our business model
- 13 Our strategy
- 14 Key performance indicators
- 15 Building a great team
- 16 Sustainability
- 18 Corporate responsibility
- 21 Performance overview
 - 21 Voice communication
 - 22 Data services
 - 22 Value added
- 23 Network and technology
- 24 Financial review
- 30 Principal risks and uncertainties

Governance

- 33 Corporate governance

Financial statements

- 40 Consolidated statement of financial position
- 41 Consolidated statements of profit or loss and other comprehensive income
- 42 Consolidated statement of changes in equity
- 43 Consolidated statement of cash flows
- 44 Notes to the consolidated financial statements

Additional information

- 72 Corporate information
- 73 Glossary

This is Kcell

Established in 1998, Kcell is the leading provider of mobile telecommunication services in Kazakhstan. In 2013, the Company was number one both in terms of market share of revenue at 54%, and subscribers at 46.2%.

We provide mobile voice telecommunication services, SMS, MMS, value added services, mobile content services, internet access, and data transmission services.

The Company's two brands Kcell and Activ are targeted at corporate clients, including government agencies and the mass consumer market respectively.

Kcell has 14.3 million subscriptions in Kazakhstan (according to Company calculations). More than 5 million of these subscribers use the internet on their mobile phones through Kcell's network. Over the past 15 years, our subscribers have talked for approximately 100 billion minutes, sent 22 billion SMS and submitted 26 million GB of data. During that time, the speed of data transmission within the Kcell network has increased over 560 times, from 9.6 Kbps in 2G network up to 42 Mbps in 3G HSPA DC.

Kcell successfully completed a global depository receipt (GDR) listing on the London Stock Exchange and ordinary shares on the Kazakhstani Stock Exchange in December 2012. The offering consisted of a sale by TeliaSonera of 50 million shares, representing 25% of Kcell's share capital. The controlling shareholder in the Company is Sweden's TeliaSonera, one of the largest and most diverse telecommunication companies in Europe and the world.

Kcell benefits from TeliaSonera's ability to negotiate extremely competitive rates and prices for services and equipment as well as their expertise in establishing high quality networks to ensure that customers have access to the best services and solutions available.

Our vision for the future is to become indispensable to the business community in Kazakhstan by offering innovative and commercially viable services and solutions in a constantly evolving world.

Our history

Kcell was established as a limited liability partnership (GSM Kazakhstan OAO Kazakhtelecom LLP) on 1 June 1998 to design, construct and operate a cellular telecommunications network in the Republic of Kazakhstan, using the GSM (Global System for Mobile Communications) standard. The Company began its commercial operations in 1999 through direct sales and a network of distributors.

Prior to 2 February 2012 the Company was a subsidiary of Fintur Holdings B.V. (Fintur), owned 51% and 49% by Kazakhtelecom JSC (Kazakhtelecom). Fintur itself is owned jointly by Sonera Holding B.V. and Turkcell Iletisim Hizmetleri A.S., with holdings of 58.55% and 41.45% respectively.

On 2 February 2012 the 49% stake in the Company owned by Kazakhtelecom was sold directly to Sonera Holding B.V. (Sonera), a subsidiary of TeliaSonera.

On 1 July 2012 the General Meeting of participants of GSM Kazakhstan OAO Kazakhtelecom LLP approved a conversion of the Company from Limited Liability Partnership to Joint Stock Company (the Conversion), with 200 million common shares to be transferred to Fintur and Sonera in proportion to their ownership percentage. The General Meeting also approved the Company's change of name to Kcell JSC.

On 27 August 2012 the Ministry of Justice registered the Company as a Joint Stock Company. Under Kazakh law, upon Conversion, retained earnings as of the date of Conversion became share capital of the Company and ceased to be available for distribution to shareholders.

Network coverage

Kcell was the first company to be granted a non-exclusive licence to provide GSM standard 900 (GSM-900) mobile telephone services for a 15-year period from 1998.

This was just the beginning of what today has become the largest mobile communications network in Kazakhstan, covering 46.8% of the territory with a population coverage of 95.8%. We now have a licence to provide GSM-900, GSM-1800 and 3G networks for an unlimited period of time. We continue to invest in and develop the technologies to support our operations and development plans. Under the terms of the general licence, by the end of 2014 Kcell's 3G network must cover all settlements in Kazakhstan with a population of over 10,000 people and all district centre points. We are currently testing 4G capabilities in anticipation of new 4G licence.





46.8%

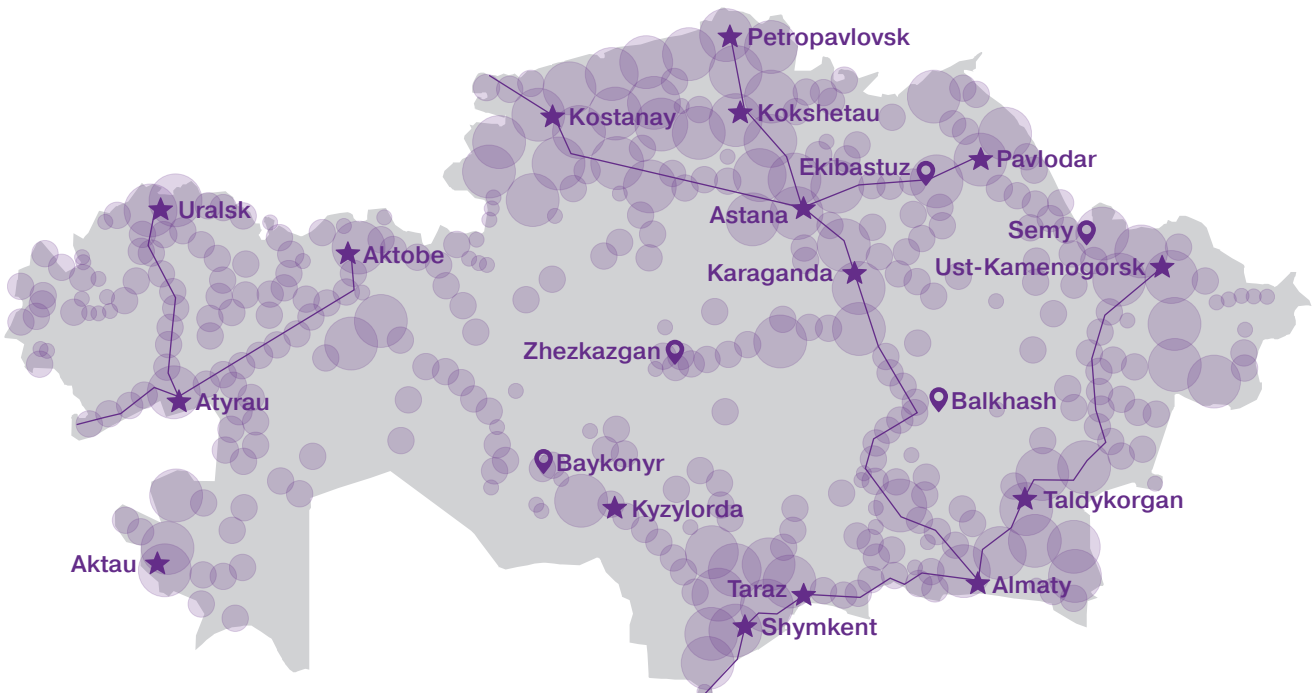
TERRITORY
COVERAGE

95.8%

POPULATION
COVERAGE

Map key

-  GSM coverage
-  Regional centre and cities of national significance
-  Big cities
-  Roads of national significance



Key highlights

01

Revenue increased by 3.1% to KZT 187,599 million (2012: KZT 182,004 million)

EBITDA, excluding non-recurring items, increased by 3.3% to KZT 104,727 million (2012: KZT 101,426). EBITDA margin increased to 55.8% (2012: 55.7%)

02

Operating income, excluding non-recurring items, increased by 3.8% to KZT 81,600 million (2012: KZT 78,645 million)

03

Net finance cost increased to KZT 2,119 million (2012: KZT 516 million)

04

06

Free cash flow grew to KZT 80,743 million (2012: KZT 61,203)

Net income increased by 2.5% to KZT 63,392 million (2012: KZT 61,828 million)

05

07

Subscriber base increased by 845,000 to 14,307 million (2012: 13,462 million)

Key events in 2013

February 2013

Kcell's common shares were included in the representative list of shares for the KASE Index calculation following ratification by the Committee on Indices and Securities Valuation.

March 2013

The Kcell Board of Directors introduced an internal audit function to evaluate the financial and business activities of the Company.

May 2013

The Kcell Board of Directors adopted the following decisions:

- The termination of the term in office of Veysel Aral, Chief Executive Officer of Kcell, with effect from 1 June 2013 in view of his transfer to another position within the Telia Sonera Group.
- The election of Ali Agan as Chief Executive Officer of Kcell, with a one-year term of office from 1 June 2013 until 1 June 2014.

At the Annual General Meeting held on 24 May 2013, all the resolutions proposed to Kcell shareholders were approved:

- To appoint PricewaterhouseCoopers LLP as the auditor for Kcell.
- To approve the Company's annual financial statements for 2012.
- To declare a dividend of KZT 162.01 gross per ordinary share, or approximately USD 1.07 gross per Global Depositary Receipt (GDR), for the period from 1 July 2012 to 31 December 2012 to be paid to holders of Kcell shares as at the record date of 10 June 2013.
- To elect William H R Aylward as a new member of the Company's Board and as an Independent Director. (Bert Nordberg, Independent Director, resigned from Kcell's Board of Directors due to the time pressures of other commitments).

June 2013

On 24 June 2013, dividends of KZT 162.01 gross per ordinary share were paid for the period from 1 July 2012 to 31 December 2012, totalling KZT 32,402 million.

August 2013

- The Company began the process of reconfiguring its commercial structure. B2B and B2C departments, a Customer Experience function has been created to align the structure more closely with the business strategy, in order to become a more customer-centric organisation and optimise business processes.

September 2013

- The Company opened a credit line with Halyk Bank of Kazakhstan JSC for KZT 30 billion.
- Citibank Kazakhstan JSC and SB RBS Kazakhstan JSC extended their loan agreement with the Company for KZT 14.5 billion until 26 September 2014.
- The Company repaid the syndicated loans to Citibank Kazakhstan JSC and SB RBS Kazakhstan JSC totalling KZT 30.5 billion and accumulated interest of KZT 820 million.

November 2013

- The Company announced the appointment of Khalida Kyrykbayeva as Sustainability and Compliance Officer, a newly created function reporting directly to the CEO. The Sustainability and Compliance Officer's main responsibilities include managing the Company's sustainable development by implementing relevant policies and organizing training sessions on Kcell's sustainability commitment for its employees and external stakeholders.
- According to EPSI Rating, (an independent organisation that conducts research for the Pan-European Customer Satisfaction Index) conducted in October and November 2013, the retail consumer satisfaction index for the quality of mobile operators in 2013 has not changed. Our Kcell and Activ brands are still the leaders in how they deal with their customers.

Chairman's statement



“I am very pleased to confirm that we have delivered on all the performance indicators that we outlined at the time of our IPO.”

Jan Erik Rudberg
Chairman of the Board

Dear Shareholder

I am delighted to report the results for 2013, Kcell's first full financial year since its listing on the London and Kazakh stock exchanges at the end of 2012, and I am very pleased to confirm that we have delivered on all the performance indicators that we outlined at the time of our IPO. We were also honoured to receive EMEA Finance Achievement Award for the best Depositary Receipt Program and the award for Best IPO at the prestigious annual East Capital Awards, which focuses on businesses within the region, and is a public endorsement of the dedication and professionalism of Kcell's management team and people.

Performance

We have maintained our leading market position and again recorded an increase in our subscriber base, rising by 845,000 to 14.3 million users (according to Company calculations), in the face of an increasingly competitive domestic market and a tough regulatory framework. We have also seen further growth in revenue of 3.1% to KZT 187,599 million, driven by the demand for our data services as the rollout of the 3G network continues. Despite strong pricing pressure, we also sustained an EBITDA margin at a sector-leading level in excess of 55%.

Dividend

The General Meeting (GM) adopted a dividend policy that envisages distribution of at least 70% of the net income of the Company for the previous financial year. We are pleased to announce that, at the Annual General Meeting (AGM) on 21 May 2014, we will be proposing payment of the annual dividend of KZT 221.81 gross per ordinary share (approximately US\$ 1.22), representing 70% of the Company's net income for the period from 1 January to 31 December 2013 (the first full financial year). In the view of the Company's strong financial results in 2013, the Board of Directors has additionally recommended the payment of a special dividend of KZT 95.14 (approximately US\$ 0.52), representing 30% of the Company's net income for the first full financial year, to be paid to holders of Kcell shares as at the record date of 7 June 2014.

Board and corporate governance

Bert Nordberg, who had been a Board member and Independent Director since November 2012, stepped down due to time pressure of other commitments. We would like to express our thanks for his valuable contribution to the business.

We welcomed William H R Aylward as a new member of the Board and as an Independent Director following his election at the 2013 AGM. Mr Aylward brings with him extensive experience as Chairman, CEO and Non-Executive Director of both private and public companies with expertise across a variety of sectors including telecommunications (mobile and fixed-line) and technology.

Kcell is committed to maintaining high standards of corporate governance that comply with both international best practice and the regulatory system within Kazakhstan. The Board Committees have worked diligently to establish a strong corporate governance framework that protects the rights and interests of all stakeholders. During the year, we approved and adopted 14 new policies in support of this, including a revised Kcell Code of Ethics and Conduct, Risk Management Policy and Anti-corruption Policy. We also introduced an Internal Audit function to evaluate the financial and business activities of the Company.

People

In June 2013, Ali Agan took over as CEO at Kcell. He has more than 20 years' international experience in the financial and telecommunications sectors as well as substantial knowledge of the workings of the TeliaSonera Group having previously held the post of CEO in two subsidiaries, Ucell (Uzbekistan) and Azercell (Azerbaijan).

With the help of his strong management team and employees across Kazakhstan, Mr Agan has delivered a healthy financial result for the year. The contribution made by everyone – whether working in management, administration, engineering or call centres – is invaluable to the overall success of the business. On behalf of the Board, I would like to formally thank them all for their hard work and loyal support.

Outlook

The successful provision of attractive and accessible data services to drive revenue and subscriber growth remains a key strategic focus for Kcell in the current financial year. At the same time, we are reviewing our operations on an ongoing basis to ensure that sustainability underpins and informs our activities across all areas of business.

In 2014 and beyond, Kcell will continue to develop new products and innovative services as we continue to fulfil the constantly shifting requirements of our customers. By focusing on both commercial and technological innovation, we aim to remain at the forefront of developments within the telecommunications industry in Kazakhstan.

Jan Erik Rudberg

Chairman of the Board

30 April 2014

Market fundamentals

The macro-economic situation

Kazakhstan is the ninth largest country in the world and almost as big as the whole of Europe. Along with natural gas and oil, the country is one of the world's major producers of gold, uranium and grain.

As might be expected with such a profile, Kazakhstan has one of the most favourable growth economies among the CIS countries. For most of the last decade the annual growth rate for GDP was in excess of 8%. Although this year-on-year increase slowed to 6% in 2013, GDP remains a healthy US\$ 220.3 billion (2012: US\$ 203.5 billion) and per capita GDP is US\$ 12,933 (2012: US\$ 12,119), with IMF predictions for 2014 set at a growth rate of 5%.

The telecommunications market

According to data reported by the Agency of Statistics of the Republic of Kazakhstan in 2013, the telecommunications market in Kazakhstan generated a total revenue of KZT 644 billion (2012: KZT 598 billion). Within that, mobile services (voice and other services) is by far the most dynamic sector. Revenues increased at a compound annual growth rate of 7% between 2009 and 2013, reaching KZT 307 billion in 2013 (2012: KZT 308 billion) and accounting for 48% of the total market revenue.

The rapid increase of revenues naturally correlates to the substantial increase in the number of mobile subscriptions which has increased by twice over during the same period. In 2009, there were 11.8 million subscribers and by the end of 2013 this had risen to 23.6 million. The mobile voice communication penetration rate in Kazakhstan was 180% in 2013.

EPSI Rating is an independent organisation that conducts research for the Pan-European Customer Satisfaction Index. According to EPSI research, the retail consumer satisfaction index for the quality of mobile operators in 2013 has not changed. Kcell is still the leader in dealing with its customers.

In the research, for which the data collection took place in October and November 2013, some 1,250 subscribers in Kazakhstan rated the quality of their mobile operator over the previous 12 months. The survey was conducted via telephone interviews by an independent Kazakh contact centre under the supervision of EPSI experts and in accordance with European standards of EPSI Rating. Data sets were analysed to determine the major brands with the greatest share of the market, taking into account the dynamics of prior years.

EPSI analysis of the experience of a consumer's relationship with a mobile operator is based on five aspects of satisfaction – the image, quality of the product, the consumer's expectations regarding the company, quality of service and price/performance ratio (value for money).

The average weighted index of consumer satisfaction with mobile operators in Kazakhstan over the past year remained unchanged at 76.5 points. Kcell brand is perceived by its clients as better than others.

The research results show that Kazakhstan mobile subscribers gave the highest marks to Kcell and Activ, with both brands topping the ratings for customer satisfaction. In 2013, Kcell subscribers assessed their satisfaction at 77.5 points and Activ users at 76.5 points. EPSI Rating stated: "Customer satisfaction in the industry, on average, remained at the same level as last year, although over the last four years there has been a slight decline. In this respect, Kcell has a definite competitive advantage."

Mobile internet access

"Analytical agency iKS-Consulting carried out a comprehensive study of the mobile internet access market in the Republic of Kazakhstan and reported the following outcomes for market development in 2013.

Estimated revenues from internet access and data transmission services in mobile networks in 2013 were KZT 47.4 billion, an increase of more than 40% compared with the previous year. By way of comparison, the market volume for broadband access in fixed networks (excluding revenues from internet access services in respect of telecom operators) in 2013 amounted to KZT 72.7 billion, an increase of only 18% compared with 2012.

According to iKS-Consulting, the number of active devices with access to the internet and mobile data in the mobile networks in 2013 was about 2.8 million. Smartphones dominated the market with a 72% share. The remaining market share is split between USB-modems (13%), M2M devices (10%) and tablets (5%).

The users of the above devices, which account for less than 25% of the number of registered internet users on mobile networks, generate about 90% of all revenues from mobile data services.

Mobile internet market trends in Kazakhstan

According to iKS-Consulting, increased smartphone penetration will be the main driver of the development of the mobile Internet market. This will be facilitated by such factors as:

- Cheaper smartphones with competition influencing the price from manufacturers.
- Active promotion by mobile operators of package offers, including the possibility of purchasing smartphones at reduced prices.
- Growth of an internet-literate population and its involvement in the social and economic processes, embracing social networking, mobile payments, etc.

Market trends in 2013 and beyond

Increasing competition

Kcell is the lead mobile operator in Kazakhstan both in terms of market share (46.2%) and revenue (54%). With increasing competition from the other main operators – Beeline (VimpelCom), Tele2 (MTS) and Altel – our regional business approach was a key focus, protecting our market leadership in ‘strong’ regions and increasing market share in other regions with the launch of competitive tariffs and products.

Altel launched the first commercial LTE 4G network in Kazakhstan during 2013 and began active roll out of 2G and 3G networks. While we have not experienced a significant impact on our market position, we are investing substantially in our own 3G network and testing 4G, ahead of the expected launch of further 4G technology.

Regulatory pressure

Innovative pricing strategies were also driven by pressures from the regulatory authorities. The Ministry of Transport and Communication (MTC) has the right to regulate interconnection tariffs and set tariff caps of operators included in the State Register of Dominant and Monopoly Entities (the Register). In October 2011 Kcell and Beeline were included in the Register. We had won a challenge to this ruling in two instances but lost the case in the Supreme Court in 2013. The MTC is currently awaiting the findings of an expert examination and may then set price caps on interconnection services.

In anticipation of this, in December 2012, we signed an agreement with Beeline and Tele2 to reduce mobile termination rates (MTR) incrementally by 15% over three years. The first reduction took place in January 2013 when MTR was reduced to KZT 13.02 (excluding VAT) per min.

In January 2013 MTC issued an order requiring the lowering maximum tariff prices by approximately 15-20%. We challenged the order and three courts have ruled in favour of the Company. The MTC has a further right to appeal to the Supreme Court or conduct new expertise examination and regulate prices based on it.

Mobile number portability

The MTC initiative, the implementation of mobile number portability (MNP) is to be introduced by all mobile operators in 2015, with trials planned for 2014. MNP is obviously of great benefit for our customers but as an operator we expect to see an increase in churn rate as a result. Kcell will do its best to aid retention. The Company will also have to take into account the additional costs for the installation of special equipment and interconnect costs relating to readdressing calls.

Growth potential

Voice communication remains the major source of revenue for the Company, at 76.6% of total revenue in 2013, but this was down compared with the previous year (2012: 80.6%) and like all other telecommunication companies around the world we expect that this downward trend will continue. However, the reduction in voice communication is more than compensated for by the significant increase in data usage and take-up of value-added services, now accounting for 14% and 9.3% of total revenue respectively (2012: 10.3% and 8.3%). For more detailed information about our market sectors, see our Performance section in this annual report.

With increased 3G capabilities and 4G waiting in the wings, the penetration of smart phones in Kazakhstan is set to increase substantially. With 30% of the population aged under 25 and disposable income rising year-on-year, the growth potential for data and value-added services is limitless. We have expanded and invested in the quality of our network infrastructure to ensure that we can support future demands. At the same time, we are constantly reviewing and innovating the services and products we provide to meet the needs of our customers.

Chief Executive's review



“We have delivered on all our promises to the stock market, and look forward to 2014 as a year of great opportunity.”

Ali Agan

Chief Executive Officer

Our IPO at the end of December 2012 will have been seen by many as a new beginning for Kcell. But for the Company, 2013 marked the start of business as usual – building on our track record of 15 years' of operational excellence while retaining our position as the leading mobile telecommunications provider in Kazakhstan and providing value for our shareholders.

We have delivered on all our promises to the stock market.

Our performance

Despite difficult market conditions in a highly competitive environment, revenue for 2013 increased by 3.1% to KZT 187,599 million (2012: KZT 182,004 million), and would have increased further to 5.5% without the application of the MTR reduction from January 2013. A strong contribution from data services more than compensated for the drop in revenue from voice communications with data revenue up 39.9% to KZT 26,232 million (2012: KZT 18,755 million). EBITDA, excluding non-recurring items, was up by 3.3% to KZT 104,727 million (2012: KZT 101,426 million). Our EBITDA margin, which is an indicator of operational efficiency, increased to 55.8% (2012: 55.7%) and remains one of the highest in the global telecommunications industry. Operating income, excluding non-recurring items, increased by 3.8% to KZT 81,600 million (2012: KZT 78,645 million). Net income increased by 2.5% to KZT 63,392 million (2012: KZT 61,828 million).

Our ability to deliver superior profitability in a challenging environment is testimony to our robust financial and operational frameworks. Regular reviews of and increases in efficiency, aligned with organisational transformation, are major contributors to this. The cash-generative capacity of the Company means that we are able to continue with our progressive dividend policy and at the same time, meet our funding commitments and invest in the improvement of our operations.

The subscriber base will be cleaned during 2014 to delete non correct figures from the statistics.

Retaining market leadership

We are proud to retain market leadership in our core business, both in terms of market share and revenue. We are already seeing how our focus on a regional business approach is helping protect our market leadership in 'strong' regions. In other regions, we launched a number of innovatively priced tariffs which served to boost our market share.

But this is not simply about staying ahead of the competition. The strength of our position provides us with a compelling platform on which to build the future success of our brands. Key to this is the development a wider range of enhanced products and services to both improve the experience of our existing customer base and help us attract more customers.

Strengthening our offer

Although the biggest share of our revenue today still comes from voice, tomorrow data will be the biggest contributor to our business. In fact, we are driving data usage and are ready for the next generation technologies such as 4G LTE. By focusing on both commercial and technological innovation, we aim to remain at the forefront of developments within the telecoms industry in Kazakhstan. During the last year, for example, we implemented a public platform for cloud-based services and launched an automatic payment service integrated with the banks.

Smart phone penetration in Kazakhstan is still relatively low at 15%, compared for example with Scandinavia, where last year almost 100% of all new phones are smart phones. In Russia, which is perhaps a better benchmark for our market, there has been a 50% take-up. As the trend towards smart phones increases, this gives us plenty of future potential and will inevitably boost our data revenue further. In 2013, we saw this increase to 14% of Kcell's total revenue from 10.3% in the previous year.

The credible research firms and companies in the telecoms sector are forecasting that in the next 10 years global data traffic will increase 70 times over. In 2013, our own data traffic increased by 112.3% from 7,589,056 GB to 16,114,191 GB. In part this is due to the rise in our customer base, but we also offered Kcell subscribers attractively-priced, bundled packages with the objective of opening up the possibilities and potential to be gained from data services – and in doing so successfully increased usage.

But we are going to see the biggest change come from the expansion of 4G capabilities. Over the last three years we have been preparing the core and radio network to support LTE technology. In the last year alone, we invested KZT 22.8 billion in our overall network infrastructure to ensure that our customers have extensive and high quality mobile coverage. The Company is ready to launch its 4G network at the moment we get 4G licence. As part of TeliaSonera, we will also have the advantage of being able to draw on our parent company's experience as one of the first LTE providers in Europe.

Putting customers at the centre

Our strategy is based on the depth of knowledge we have about our customers and their behaviour. Our customer-centric approach enables us to devise new tariffs, products and services that will enhance their experience of Kcell and add value to the business.

Getting to know our customers better through our supportive customer relations teams and call centres in the regions is key to ensuring that we create the services and products that they need today but also about keeping pace with their communication needs for the future. The demography of the Kazakhstan market is still quite young compared to other markets – 30% of the population is under 25.

That a significant proportion of this age group are keen adopters of new technologies would on its own be beneficial for Kcell's prospects. But taken with the year-on-year increase in GDP and the high value of their disposable income, our role in developing innovative products and services to engage with them in their everyday lives is even more crucial.

Sustainability and corporate responsibility

Kcell is both a significant contributor to the economy of Kazakhstan and an active participant in the social and cultural life of the nation. We take our economic, environmental and social responsibilities very seriously and aspire to make these an integral part of our business activities. In November 2013, we appointed Sustainability and Compliance Officer whose role is to co-ordinate a sustainability approach into everyday operations throughout the Company.

We support a range of corporate responsibility projects that cover education, Kazakhstan's cultural heritage, sport, health and the environment. Further information on our corporate responsibility activities is in the Sustainability section of this annual report.

Looking to the future

2014 is set to be another year of intensive competition from other mobile operators, further compounded by more regulatory change.

All mobile operators are obliged to introduce mobile number portability (MNP) in 2015 and this will be trialled during 2014. MNP has obvious advantages for our customers but we are likely to see an increased churn rate as a result so we will be looking at innovative options to help us aid retention.

While we eagerly await the launch of 4G nationally in the near future, 2014 will in any case be a year of great opportunity for us. There are now more mobile phones on earth than human beings. The appetite for data services – and value-added services – provides us with enormous potential if we continue to look after our loyal customer base and attract more subscribers to our brands. We have a highly skilled and energetic workforce and, with their support, have everything in place to make this both an exciting and very profitable year for Kcell and its stakeholders.

Ali Agan

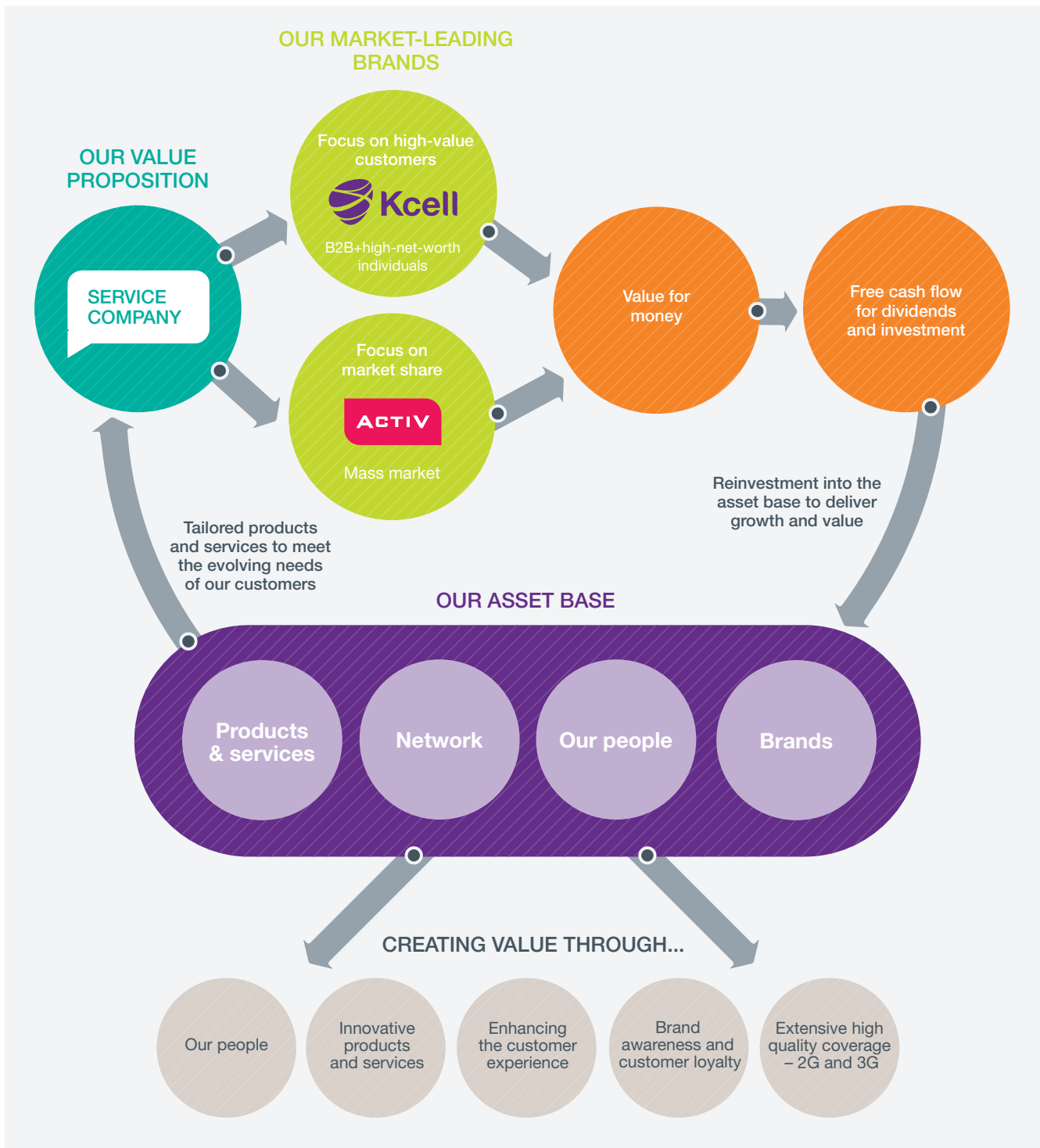
Chief Executive Officer

30 April 2014

Our business model

Today 14.3 million subscribers in Kazakhstan (according to Company calculations) are connected through Kcell's 2G and 3G networks. We meet the needs of our customers through our brands Kcell, focusing on B2B and high net-worth individuals, and Activ, our consumer brand. In this way we are able to deliver tailored, innovative products

and services that both enhance the customer experience and increase brand loyalty. The revenue generated from our market-leading position, combined with cash generative growth and a robust capital structure, enables us to reinvest in our asset base to create value for all our stakeholders.



Our strategy

Driving our leadership position

We have a sustained focus on creating and delivering value to our shareholders. We will achieve this through our long-term business strategy which is underpinned by four key pillars on which we continue to concentrate our efforts, namely: retaining our position as market leader; strengthening our data services offering; our commitment to cash-generative growth; and fulfilling our role as a service provider.

We will maintain our market leadership in our core business. But more than that, our position as market leaders, both in terms of revenue (54%) and number of subscribers (46.2%), provides us with a compelling platform on which to develop a wider range of enhanced products and services to help us attract more customers.

We are already seeing the expansion of the demand for data services, through the growth of smart phone penetration within our country. A variety of attractively-priced, bundled packages were offered to Kcell subscribers with the objective of increasing usage of data services as well as opening up the possibilities and potential of data services to our customers. We are also ready to launch our 4G network across Kazakhstan as soon as the 4G licence is granted. By focusing on both commercial and technological innovation, we aim to remain at the forefront of developments within the telecommunications industry in Kazakhstan.

Cash-generative growth that delivers superior profitability in a challenging environment is embedded in our financial and operational frameworks. Continuous reviews of and increases in efficiency, aligned with organisational transformation, are major contributors to this. Whilst we are the leading provider of mobile telecommunications services in Kazakhstan, we are seeking to enhance our position in the regions where we are already the market leader and in those where our position is weaker.

As a service company, we have a customer-centric approach to all our activities as we strive to provide the best products and improve the quality of our national networks. We are proud of our pioneering background and, by focusing on how we can make telecoms innovation part of our everyday lives, we are getting ever closer to meeting the evolving needs of our customers.

However none of this would be achievable without our commitment to the tenets of governance, compliance and sustainability, and how this impacts on the business and our relationship with all our stakeholders. As a strong statement of intent, we appointed our first Sustainability and Compliance Officer in November 2013, reporting directly to the CEO and tasked with integrating a sustainability approach into everyday operations throughout the Company.



Key performance indicators

Financial indicators

	Units of measurement	2011	2012	2013	2012/13
Revenues	KZT million	178,786	182,004	187,599	3.1%
EBITDA excluding non-recurring items	KZT million	105,794	101,426	104,727	3.3%
EBITDA margin	%	59.2	55.7	55.8	0.1 pp
Capital expenditures (CAPEX)	KZT million	26,801	26,730	22,849	
CAPEX/Revenue	%	15.0	14.7	12.2	-2.5 pp
Free cash flow	KZT million	54,108	61,203	80,743	
Net debt/EBITDA	%	–	0.46	0.06	–
Net Income	KZT million	66,858	61,828	63,392	2.5%

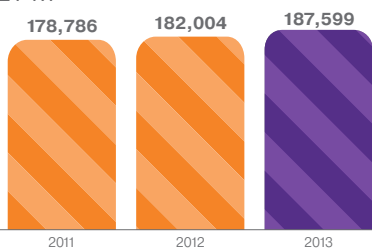
Operating indicators

	Units of measurement	2011	2012	2013	2012/13
Subscribers* (total)	million subscribers	10,850	13,462	14,307	6.3%
Kcell subscribers	million subscribers	1,497	1,741	1,714	
Activ subscribers	million subscribers	9,353	11,721	12,593	7.4%
Average revenue per user (ARPU)	KZT	1,472	1,252	1,106	-11.7%
MOU	min per month per subscriber	122	168	152	-9.4%

* According to Company calculations.

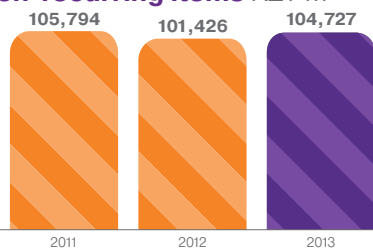
Revenues

KZT M



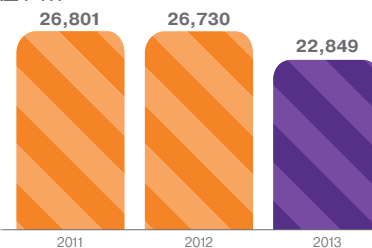
EBITDA excluding non-recurring items

KZT M



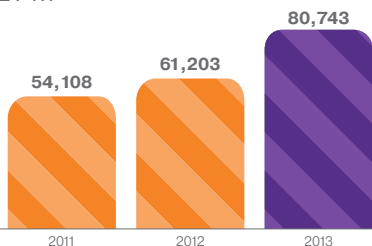
Capital expenditures (CAPEX)

KZT M



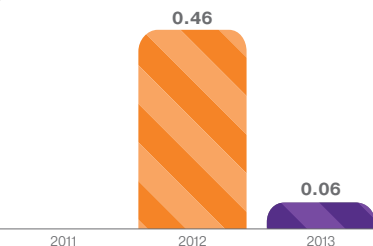
Free cash flow

KZT M



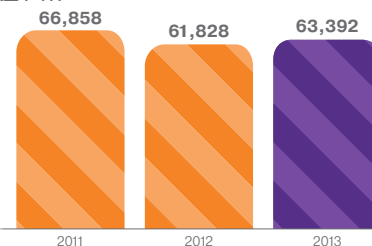
Net debt/EBITDA

%



Net income

KZT M



Building a great team

Our employees are our most important asset ensuring stable operations in the Company, the implementation of new ideas, the execution of business plans and, ultimately, leadership in the telecommunications market.

Investing in the knowledge, skills and behaviour of our people is fundamental to our plans for growth. As a customer-centric organisation, the contribution of our employees is essential to delivering a proposition based on a deeper understanding of our customers' needs.

Because of this, we do everything possible to create comfortable working conditions for employees and a supportive environment for professional and personal growth, and to ensure fair remuneration. Thanks to effective human resources management, the Company is developing dynamically and strengthening its reputation as a responsible employer.

Rewarding performance

Kcell uses a comprehensive staff effectiveness analysis system to improve staff performance, and to promote, retain and motivate company staff.

Kcell's incentive system focuses on optimising employee performance: the Company's employees receive basic pay and an annual bonus. This bonus is based on Kcell's annual performance results and personal achievements. Employees on the incentive schemes have a fixed and a variable component linked to monthly and quarterly KPIs (these employees are eligible for annual bonus as well).

Recruitment

The Company aims to recruit high-performing people who show respect, add value and make it happen. Kcell values business-minded people with a strong customer focus. People with a constant drive for simplicity, that team up to make the business happen across borders. The Company wants to attract and recruit people that through a strong drive, a positive attitude and innovative mindset can create business opportunities.

Training and development

Kcell considers continuing education and professional development of its employees to be an important part of business development. The Kcell Business School project was created with this goal in mind. Training is conducted in the Business School using external professional coaches as well as experienced and knowledgeable trainers who are qualified teachers and retained as part of the Kcell staff.

In order to improve its own training programmes, the Company co-operates with higher and secondary educational institutions in Kazakhstan that specialise in training for the communications industry.

Employee benefits and health & safety

In an effort to create a positive and motivating work environment in all areas of its operations as well as improve the quality of life of its employees and their family members, Kcell provides a number of benefits over and above those required by law in Kazakhstan.

The Company provides a comprehensive benefits package that includes: voluntary medical insurance, transportation, access to a fitness room, provision of mobile communications, meal allowance and financial aid in the case of sickness of an employee or death of a close relative.

Kcell takes responsibility for the lives and health of its employees and provides them with compulsory social insurance against accidents occurring during performance of professional duties. As part of the agreement, the Company also provides medical insurance during business trips.

The occupational safety and health of our employees is an unconditional priority in Kcell's operations. All measures in this area are carried out in accordance with the Labor Code of the Republic of Kazakhstan and other regulatory acts on occupational safety.

Health and safety management objectives and measures for their implementation are defined in the Company's Unified Health and Safety Management System. Primary objectives in health and safety management include safety training, protective clothing and equipment; guaranteeing optimal labour conditions; standardising sanitary labour conditions; health care services; communications outreach on occupational health and safety; monitoring compliance with occupational safety and health standards.

Sustainability

As a leading provider of telecommunications services, Kcell is a vital part of the social and economic infrastructure in Kazakhstan.

We provide services that help people and companies communicate in a simple, effective and environmentally friendly way – when and where needed. Kcell shares the TeliaSonera Group values: add value; make it happen; and show respect. These values guide all our everyday work and relations with stakeholders.

At Kcell, we believe that sustainability is an umbrella term to describe business operations that are designed to realise our economic, environmental and social responsibilities. Our sustainability work mainly involves ensuring environmental and social sustainability along with our supply chain, taking care of the well-being of our employees, complying with ethical business practices in all markets, safeguarding our customers' privacy, respecting freedom of expression and supporting research related to exposure to electromagnetic fields.

Kcell and sustainability in 2013

In May and December 2013, the Kcell Board of Directors adopted three new policies related to sustainability. These were a revised Code of Conduct and Ethics, an Anti-Corruption Policy and a Privacy Policy. These are outlined below, along with details about the progress made in implementing the principles of each policy during the year. Copies of these and all our policies can be found on our website: www.investors.kcell.kz.

Anti-Corruption Policy

Kcell is committed to the highest standards of business conduct. We act in a responsible way, based on a firm set of values and principles. We advocate free and fair trade, striving for forthright competition and ethical conditions within the legal frameworks.

We interact with a variety of stakeholders, including customers, suppliers, consultants, business partners, governments and regulatory bodies. In Kcell's operations worldwide, we do not pay or receive bribes or other illegal payments to obtain or retain business. Our management is committed to implementing effective measures to prevent, monitor and eliminate corruption in any form.

During 2013 a number of initiatives were undertaken to support the implementation of the Anti-Corruption Policy throughout the business:

- All employees (with the exception of those on maternity leave) have taken an e-learning course about the principles of the policy achieving a pass rate of 99.9%.
- New tendering procedures have been developed, aimed at making the tendering process fair, transparent and to eliminate conflict of interest. These will be rolled out during 2014.
- Gift and Entertainment Guidelines have been introduced, including an electronic Gift Register implemented.
- In early 2014 the Company will institute a centralised procurement function. This will minimise corruption risks and make the process more structured, transparent and controlled.

Privacy Policy

In Kcell we recognise that privacy is important to our customers. The purpose of this policy is to set consistently high Kcell standards to respect privacy. The primary objective is to ensure that customers feel confident that Kcell respects and safeguards their privacy. Kcell is a telecom operator managing significant networks and data volumes, and we therefore aim to ensure network integrity and data security to protect privacy. With this policy, we also aim reduce legal and regulatory risks as well as reputational and brand exposure.

During 2013, we implemented the following in support of the Privacy Policy:

- We amended our Public Agreement with subscribers in November with particular reference to our guidelines on personal data disclosure. A full copy of the Agreement is available on our website at: www.kcell.kz.
- We are currently monitoring a pilot project that applies intelligent audit software to log user activity.

Kcell seeks to meet the highest international standards for sustainable development and social responsibility.

Human rights

TeliaSonera adopted a Freedom of Expression Policy in December 2013. At Kcell we have adopted this in line with our own Charter and the Kcell Freedom of Expression Policy will be submitted to our Board of Directors for consideration in 2014.

Environmental responsibility

We are committed to conducting our business in an environmentally sustainable way. We contribute to global sustainability by developing, promoting and utilising resource-efficient and environmentally friendly services and through our actions to minimise the environmental impact of our own activities. We constantly look for opportunities to maximise the use of best practices and synergies between our businesses.

Kcell contributes data for inclusion in the TeliaSonera Sustainability Report about our energy and resource consumption, in accordance with Global Reporting Initiative (GRI) requirements, as well as information about our corporate responsibility (CR) activities. For the first time in 2013, we also contributed data from some of our vendors.

In 2013 we introduced the Kcell Green Office initiative aimed at engaging employees in saving resources and recycling waste. This is a practical environmental programme, which aims to reduce greenhouse gas emissions and the ecological footprint of our offices. Easy to implement, the approach is: don't wait, start with yourself by, for example, reducing paper and electricity consumption, and supporting recycling.

Employees

At Kcell we recognise that our employees are key to our success. Our aim is to be an employer of choice; we strive to attract, develop and retain qualified and motivated people in a professional working environment. Kcell supports the international human rights and dignity of all employees as outlined by the UN declaration and core International Labour Organisation's conventions.

As of 31 December 2013, the Company had 1,488 employees. During the reporting year, the staff decreased by 7.7% due to head count optimisation and restructuring.

We believe that the continuing education and professional development of our employees is vital to business development. The Kcell Business School project was created with this in mind and is an area in which we continue to invest. In 2013, 99.9% of employees passed an e-learning course on the Code of Ethics and Conduct.

Relationship with our shareholders

Kcell strives to be an attractive investment for a wide group of shareholders and, as such, aims for long-term, sustainable development of shareholder value. We inform our shareholders and the market of all major developments that affect the valuation of the Company promptly, simultaneously and transparently.

Relationship with our suppliers, business partners and competitors

Kcell aims to be a reliable partner to suppliers and contractors. We focus on long-term, good business relations and healthy co-operation. We expect our suppliers and contractors to support international standards on human rights, labour conditions, the environment and anticorruption.

As part of our commitment to improving supply chain management, we have adopted a Kcell Supplier Code and implementation began in 2014.

Interaction with society

During the last 15 years, Kcell has established its credentials in Kazakhstan as an organisation with mature social responsibility policies that contribute to all aspects of the society in which it operates. We communicate regularly with our stakeholders and the feedback and experience gained over time help us add value to each project.

The Company is committed to upholding the main principles of modern business practice – sustainability and transparency. These are crucial for Kcell as it interacts with employees, customers, business partners and the wider society, putting mutual respect and honesty first in all that we do.

By balancing the long-term growth plans for the business with the interests of all our stakeholders, we will continue to build a successful company and help improve the social climate of the country.



Corporate responsibility

Back in 2007 we were the first telecommunications company in Kazakhstan to sign up to the United Nations Global Compact.

We actively support this initiative, which encourages businesses worldwide to adopt sustainable and socially responsible policies.

Kcell invests in a wide range of CR projects to support the communities within which it operates. These traditionally cover education, Kazakhstan's cultural heritage, sport, health and the environment.

When reviewing potential CR projects, the Company considers the following objectives:

- Making digital technologies more widely available.
- Long-term steady growth.
- Competent top management and employees.
- Confidentiality and security of networks.
- Honest business practices.
- Responsible delivery network.
- Responsible marketing activities.
- Responsible employees.

We aspire to the highest international standards of sustainable development and social responsibility, and making these part of our everyday business activities. We have identified the top priorities within the CR framework, by undertaking a comprehensive analysis of the interests of all parties involved and based on our previous experience.

We have designated five key areas for our CR focus:

- Education.
- Cultural heritage.
- Sport and healthy lifestyle.
- Social support for children and people with disabilities by providing charitable or sponsorship assistance through relevant public organisations.
- Preservation of the environment.

Education for the future

We believe that investment in education is crucial for the economic growth and intellectual development of our country. We have set up two different ventures to support this philosophy:

- The Kcell Business School, where we support lecturers, students and researchers through our co-operation with the country's leading higher education institutions, such as: Al-Farabi Kazakh National University, Kazakh-British Technical University, KIMEP University, Kazakh National Technical University, Almaty Institute of Energy and Communications, International IT University, Karaganda State Technical University, Karaganda State University, Kazakh National Conservatory, Kostanay State University, Zhautykov Republican Specialized Physical and Mathematical Secondary Boarding School.
- In 2013 we began working with an international platform for e-learning – Coursera – which is being developed by the world's leading universities. Globally, more than 70 partner universities with 3.6 million students are supporting Coursera. Kcell has chosen five popular courses, not currently offered by universities in Kazakhstan, which will be translated into Kazakh.
- Gamification.
- Creative programming for digital media and mobile applications.
- Inspiring leadership.
- Networks: friends, money and bytes.
- Learn to program: the fundamentals.

Alongside this successful promotion of high quality online education in Kazakhstan, Kcell is also helping push the boundaries of mobile learning. We have joined a government-led initiative to encourage the use of the 'trinity of languages' (Kazakh, Russian and English) throughout the country. Last year we launched the SMS-based service, 'Phrase of the Day', to help those studying the languages. In 2013 we launched the upgraded version implementing three difficulty levels: easy, medium and advanced.

Enabling sport and health

During the last 11 years Kcell has been an active partner of the Special Olympics, the biggest world sports programme for children and adults with intellectual disabilities.

Kcell became the official sponsor of the international cycling race, Tour of Almaty, the first professional race to be organised in Kazakhstan under the auspices of the International Cycling Union (UCI). Twenty teams from 16 different countries will be competing to win the race. Kazakhstan will be represented by three teams: the national team, the continental team of Astana and the cycling club.

Kcell was the official mobile operator for the III Eurasian Sport Games among youth. The Games included competitions covering 13 sports disciplines, such as weightlifting and athletics, boxing, swimming, cycling, rhythmic and artistic gymnastics, kazak kures, etc. The tournament brought together 1,000 athletes and 500 coaches from Kazakhstan, Belarus and Russia, Kyrgyzstan and Tajikistan.

'Save Children's Lives' is the first SMS charitable project in Kazakhstan, on which Kcell has been working in co-operation with other telecommunications companies since 2007. Within the project our subscribers donate money via a short number. Donations are managed by a non-government organisation Volunteery Fund Mercy and the money is used to finance surgery for children that cannot be performed in Kazakhstan. To date, over 700 children have received assistance through this project.

Promoting cultural heritage

In 2013 Kcell developed a unique mobile application, 'The Great Silk Road'. For hundreds of years, covering some 6,437km and travelling through over 30 countries, this was the main trading route between the East and the West. 'The Great Silk Road' played a major part in the development of Kazakhstan as a nation and this application brings the history, geography and significance to life. The mobile application works with iOS and Android mobile platforms and is available in three languages – Kazakh, English and Russian – on Google Play Market and in the AppStore. The historical content of the application was developed by the team of the Institute of Archaeology of the National Academy of Sciences.

Supporting business acumen

Kcell continues its support of the ICT Development Fund, established in 2012. We are a member of the Board of Trustees which also comprises representatives from the Ministry of Transport and Communications of the Republic of Kazakhstan, Zerde info-communication company, Kazakhtelecom JSC and Beeline.

The main goals of the fund are supporting telecommunications start-ups and the development of the ICT sector in areas such as conferences, exhibitions and seminars. As part of this, the fund has conducted:

- 14 presentations at the leading universities in Astana, Almaty and Karaganda.
- MoU with Czech ICT Alliance and TechDrive Accelerator.
- A start-up contest (165 applications received) with the results announced at the ASTEX 2013 conference and exhibition. The four winning projects were: E-queue online service; SHOPPY.KZ – social shopping portal offering fulfillment services; BARAKAT MENU – aimed at restaurants and café owners, including e-menu service and e-waiter; AION CONNECT – IP telephony service base on WebRTC technology.

Environmental preservation

In partnership with public association, 'Plant a tree', Kcell is participating in a project of improving the green belt around Almaty and other cities of Kazakhstan.

Corporate responsibility

continued

Major CR projects during 2013

Project category	Project name	Project description
Education	Hack Day in International IT University	Sponsorship assistance in carrying out project Hack Day in International IT University. The project created a video for YouTube and social media aimed at dispelling myths on radiophobia.
Education	Republican School of Women leadership project	In co-operation with the Women Entrepreneurs Union of Kazakhstan association, we are carrying out the Republican school of women leadership project in three cities.
Culture	TEDxAlmaty 2013	Sponsorship of TEDxAlmaty 2013 event. TED conferences bring together leaders of modern thought to present their ideas within an 18-minute timeframe. Kazakhstan hosts TEDxAlmaty – the letter ‘x’ signifying an ‘independently-organised TED event.’ Kcell provided sponsorship assistance to enable free participation in the conference.
Environment	Kcell Green Office project	Internal official launch of Kcell Green Office project in Kcell HQ.
Health	Help for the Palliative Centre of Almaty	Financial assistance for the purchase of medical and specialist equipment for the Palliative Centre of Almaty in co-operation with non-government organisation ‘Solnechny Krug’.
Sport	Almaty mini-football league	Sponsorship to enable the Almaty mini-football league to hold mini-football tournament.
Sport	Billiards Federation of Kazakhstan	Support for hosting the World Billiards Tournament.
Other	The Project www.usynovite.kz	Assistance for the voluntary foundation “Mercy”, providing mobile communications for the project www.usynovite.kz .
Other	Seminar: ‘On the way to gender equality: The UNO Convention on the Elimination of All Forms of Discrimination against Women’	Sponsorship for Kazakhstan’s Business Women Association’s seminar: ‘On the way to gender equality: held in Almaty at the Kazakhstan State Pedagogical University.

Performance overview

One of the key focuses for 2013 was market share retention, which we achieved successfully with Kcell remaining the leading provider of mobile services in Kazakhstan by revenue and number of subscribers.

The Company succeeded in defending and retaining its leading market position in spite of changes in the competitive environment and a tough regulatory framework.

Total revenue for 2013 increased by 3.1% to KZT 187,599 million (2012: KZT 182,004 million), which represents 54% of the total revenue for the mobile telecoms market in Kazakhstan. The headline revenue figures by market segment for the year are as follows and are explained in more detail below:

- Voice services – KZT 143,731 million (KZT 146,669 million).
- Data revenue – KZT 26,232 million (2012: KZT 18,755 million).
- Value-added services – KZT 17,426 million (2012: KZT 15,195).
- Other revenue – KZT 210 million (2012: KZT 1,385 million).

Our subscriber base increased by 845,000 to 14.3 million users (2012: 13.5 million), 46.2% of all mobile users in the country (according to Company calculations).

A number of different factors have contributed to us retaining our leading position. As a customer-centric organisation, we are focused on delivering products and services that meet our subscribers' needs and preferences. Our commitment to investing in and ensuring the high quality of our extensive distribution network throughout the regions, allied with innovative tariff plans, is rewarded by strong customer loyalty to our Activ and Kcell brands.

Roaming – the provision of mobile services for outgoing calls for subscribers using their phones outside Kazakhstan and for incoming calls to visitors to the country – is another segment of the telecoms market that is experiencing substantial growth. At the end of 2013, we have commercial roaming agreements with 375 operators in more than 168 countries. And the Company's subscribers are also able to take advantage of preferential roaming tariffs within the TeliaSonera international roaming network.

The roaming results for 2013 were very positive across the whole spectrum of our services. Roaming revenue increased by 24%. The most visited countries were covered by discount agreements with roaming partners during 2013, enabling us to provide cheaper tariffs for subscribers, increase revenue (the decrease in the tariff led to an increase in traffic) and strengthen loyalty through a positive roaming experience.

With the acceleration of smart phone penetration in Kazakhstan we anticipate that the appetite for data will be boosted even further. We are investing heavily in our new 3G network and testing 4G ahead of the roll-out, to ensure that we can continue to support the substantial increase in data traffic and the demand for more innovative services.

Voice communication

Kcell provides primary call services for subscribers as well as offering voice mail, call waiting, call forwarding, caller identification and conference calls.

Revenue from voice services during the year decreased by 2.0% to KZT 143,731 million (2012: 146,669 million). While this still represents a 76.6% share of the Company total revenue in 2013, it is a decline over 2012 when it made up 80.6% of total revenue.

This downward trend in voice communication is one being experienced across the mobile telecommunications industry as a younger generation of users actively engage with innovative mobile technology – favouring texting over voice calls and accessing data services via smartphones. However, this decline in voice revenue value is compensated for by a corresponding growth in both data and value added revenue as the rollout of the 3G network continues – and the anticipated launch of nationwide 4G LTE in 2015 should enhance this.

Voice traffic did actually increase by 6.4% to 23,311 million minutes (2012: 21,901 million minutes). However, this was partially due to the launch of special incentive tariffs which we introduced to both stimulate demand and fend off other mobile competitors. The increase year-on-year of our subscriber base was another factor that helped to boost voice traffic and resulted in only a slight reduction in ARMU to KZT 4.7 (2012: 5.2). MOU has consistently been around 150 quarter on quarter throughout the year and ARPU has also flattened out at KZT 1,142 for the second half of 2013.

Outgoing voice revenue decreased by 4.8% to KZT 109,272 million (2012: 114,747 million). Interconnect revenue increased by 7.0% to KZT 28,826 million (2012: 26,945 million), due to a higher volume of incoming calls from subscribers of other mobile operators. This in turn was also driven by the overall increase in our own subscriber base along with attractive off-net tariffs.

Performance overview

continued

Data services

Kcell provides data transmission services, which are primarily internet access services.

We remain in a leading position, providing data services in Kazakhstan for about five million data users. The growth of smart phone penetration continues to drive up the demand for data services, both in terms of increased number of users and increased usage of applications and services.

Data revenue was 39.9% higher for the year contributing KZT 26,232 million (2012: 18,755 million) to Kcell's overall revenue. Data traffic itself more than doubled, increasing by 112.3% to 16,114,191 GB (2012: 7,589,056 GB). To support this usage and maintain the quality of transmission for our subscribers, in 2014 we will continue the roll out of 3G.

Growth in data traffic was partially offset by packages with lower tariffs per MB, which resulted in a decrease in average revenue per MB (ARMB) to KZT 1.6 (2012: KZT 2.4). A variety of attractively priced, bundled packages with reduced prices per MB of data transferred were offered to subscribers with the objective of increasing usage of data services.

Smartphone penetration in the Kcell network is currently around 15% and remains below that of more developed countries. Wider availability of internet-enabled mobile devices and the relatively young population of Kazakhstan, who are early adopters of innovation, will boost the number of mobile data users.

With our own 3G network, offering new data services such as mapping services, access to social networks and media consumption services, we are well positioned to take advantage of the long-term growth potential in this increasingly important segment of our market.

Value-added services

Kcell offers a wide range of additional services, including short message services (SMS), multimedia messages services (MMS), and information and entertainment services (such as ring back tones, financial services weather forecasts, exchange rates, news, and other information).

Like data services, the rise in smartphone adoption also brings with it an increase in the take-up of our value-added services and in 2013 revenue from these increased by 14.7% to KZT 17,426 million (2012: KZT 15,195 million). We have made value-added services (VAS) a particular focus for development since they give us a clear competitive advantage over other mobile operators. They also encourage our subscribers to make more and better use of their phones, and we know from our proactive customer relations programmes that this also increases customer satisfaction with the Company.

We experienced another drop in revenue coming specifically from SMS with a 5% decrease year-on-year and down to KZT 9.1 billion (2012: 9.6 billion). Kcell offers SMS packages, including SMS bundling with other services, in order to minimise the reduction in SMS revenues. The fall in SMS traffic is due to the increased availability of voice and data services, including communication via social networks, but also the use of instant messaging apps such as iMessage and WhatsApp.

We continue, therefore, to expand the selection of services that we offer which provide our subscribers with access to third-party applications, including SMS-notifications on a variety subjects, information and entertainment portals, entertainment voice services, virtual services through mobile social networks, and many other entertainment services. The Company also provides other text and interactive services, such as news reports, sports scores, traffic reports, and weather forecasts. Some of these services are provided using MMS or video technologies developed by Kcell.

Network and technology

Since being granted its first licence to provide mobile telephone services in 1998, Kcell has grown substantially and now has the largest mobile communications network in Kazakhstan, and covering 46.8% of the country with 95.8% population coverage. We have especially high rates of coverage in the major cities, particularly Almaty and Astana. We continued 3G rollout during 2013.

Kcell has a collocated network, which operates at three frequency bands – 900 MHz, 1800 MHz and 2100 MHz – providing both data and voice communications. The data services are based on GPRS, EDGE and HSPA+ technologies.

2G network

The 2G network allows voice calls, data transmission and value added services. Our GSM/ GPRS/ EDGE technology is an advanced 2G technology at 900 MHz and 1800 MHz. Packet data rates vary from 50 kbps to 300 kbps, depending mainly on the handset and type of content used, as well as usage patterns.

Kcell is constantly enhancing the capacity of its 2G network. We are currently selectively optimising and expanding this, particularly in urban areas. By the end of 2013, our 2G network covered all settlements in Kazakhstan with a population of over 1,000 people. The equipment for the collocated network was supplied and is maintained by Ericsson and ZTE Corporation.

3G network

Our 3G network, which uses HSPA+ and Dual-Carrier HSDPA technology, offers full interactive multimedia capabilities with current potential data rates of up to 42 Mbps by using 10 MHz bandwidth.

At the end of 2013, the network covered all areas with a population of over 50,000 people. Under the terms of the general licence, by the end of 2014 Kcell's 3G network must cover all settlements in Kazakhstan with a population of over 10,000 people and all district centre points.

Kcell's primary objective for the future is to complete the build-out of our 3G network in order to achieve both quality and coverage parameters in line with our other networks. We will also continue with extensive optimisation of the support networks for mobile data technologies.

4G preparation

We are ready to launch our 4G network across Kazakhstan as soon as the 4G licence is granted. Over the last three years we have been preparing the core and radio network to support LTE technology. We have installed new base stations for the radio network's platforms and we require only to add some units and antennas once we have been assigned the frequency spectrums for 4G.

We have completed thorough testing of our 4G capabilities, with the following parameters having been tested as DL/UL throughput: handover between LTE-LTE, LTE-3G, 3G-LTE; packets delays; CS fallback, registering to LTE network.

We continue the discussion with the regulatory body about obtaining the licence.

Transmission

The Company has continued to expand its intra-city fibre optic network. The intra-city fibre optic network protects the main HUB points, increases capacity for 3G and prepares the network for LTE launching. At the end of 2013, the Company owned and operated fibre optic networks in 19 major cities in Kazakhstan. The Company's total intra-city fibre optic cable length is 1,366 km.

The Company connects its city-wide networks using the nationwide fibre optic network of Kazakhtelecom, the incumbent operator, and, to a lesser extent, the fibre optic networks of other operators. In addition to Kazakhtelecom, several large providers and a large number of smaller providers operate fibre optic cable networks in Kazakhstan. The Company also uses Kazakhtelecom's and other operators' data transmission networks as well as satellite transmission channels in geographic areas in which it believes building its own fibre optic network would not be cost effective.

We are exploring opportunities to expand our transmission-fibre to the home assets.

Financial review

Key highlights 2013

- Revenue increased by 3.1% to KZT 187,599 million (2012: KZT 182,004 million).
- EBITDA, excluding non-recurring items, was up by 3.3% to KZT 104,727 million (2012: KZT 101,426 million). The EBITDA margin increased to 55.8% (2012: 55.7%).
- Operating income, excluding non-recurring items, increased by 3.8% to KZT 81,600 million (2012: KZT 78,645 million).
- Net finance cost increased to KZT 2,119 million (2012: KZT 516 million).
- Net income increased by 2.5% to KZT 63,392 million (2012: KZT 61,828 million).
- Free cash flow grew to KZT 80,743 million (2012: KZT 61,203 million).
- Subscriber base increased by 845 thousand to 14.3 million (2012: 13.5 million) (according to Company calculations).

Financial highlights

KZT in millions, except key ratios, per share data and changes	2011	2012	2013	Change 2012/13 (%)
Revenue	178,786	182,004	187,599	3.1
EBITDA excl. non-recurring items	105,794	101,426	104,727	3.3
Margin (%)	59.2	55.7	55.8	–
Operating income	82,898	77,902	81,600	4.7
Operating income excl. non-recurring items	82,898	78,645	81,600	3.8
Net income attributable to owners of the parent company	66,858	61,828	63,392	2.5
Earnings per share (KZT)	334.29	309.14	316.96	2.5
CAPEX-to-sales (%)	15.0	14.7	12.2	–
Free cash flow	54,108	61,203	80,743	–

Revenues

Revenue increased by 3.1% to KZT 187,599 million (2012: KZT 182,004 million).

Revenue from voice services decreased by 2.0% to KZT 143,731 million (2012: KZT 146,669 million). Data revenue was 39.9% higher at KZT 26,232 million (2012: KZT 18,755 million). Revenue from value-added services increased by 14.7% to KZT 17,426 million (2012: KZT 15,195 million). Other revenue fell by 84.8% to KZT 210 million (2012: KZT 1,385 million).

KZT in millions, except percentages	2011	% of total	2012	% of total	2013	% of total
Voice services	146,077	81.7	146,669	80.6	143,731	76.6
Data services	14,064	7.9	18,755	10.3	26,232	14.0
Value added services	14,532	8.1	15,195	8.3	17,426	9.3
Other revenues	4,114	2.3	1,385	0.8	210	0.1
Total revenues	178,786	100.0	182,004	100.0	187,599	100.0

Voice services

Revenue from voice services decreased by 2.0% to KZT 143,731 million (2012: KZT 146,669 million). Voice traffic was up 6.4% to 23,311 million minutes (2012: 21,901 million minutes) as a result of an increase in the subscriber base to 14.3 million (2012: 13.5 million). However growth in traffic and in the number of subscribers was partially offset by lower tariffs, which caused ARMU to decrease to KZT 4.7 (2012: KZT 5.2).

Outgoing voice revenue decreased by 4.8% to KZT 109,272 million (2012: KZT 114,747 million).

Interconnect revenue increased by 7.0% to KZT 28,826 million (2012: 26,945 million). This increase resulted from a higher volume of incoming calls from subscribers of other mobile operators. This in turn resulted from an overall increase in the subscriber base along with attractive off-net tariffs.

Data services

Data revenue was 39.9% higher at KZT 26,232 million (2012: KZT 18,755 million). Data traffic increased by 112.3% to 16,114,191 GB (2012: 7,589,056 GB). Growth in data traffic was partially offset by packages with lower tariffs per MB, which resulted in a decrease in average revenue per MB (ARMB) to KZT 1.6 (2012: KZT 2.4). A variety of attractively priced data packages such as bundled packages with reduced prices per MB of data transferred were offered to subscribers with the objective of increasing usage of data services.

Value-added services

Value-added services revenue increased by 14.7% to KZT 17,426 million (2012: KZT 15,195 million). The increase was primarily due to an increase in revenue from the provision of content services, such as ring back tones, mobile credit and other information and entertainment services.

Other revenue

Other revenue decreased by 84.8% to KZT 210 million (2012: KZT 1,385 million). The decrease was largely the result of lower sales of handsets and USB modems.

Expenses

Cost of sales

Cost of sales grew by 4.2% to KZT 79,469 million (2012: KZT 76,291 million), this was driven largely by an increase in interconnect fees and expenses to KZT 25,800 million (2012: KZT 24,604 million), higher maintenance expenses and site rental costs resulting from an increase in the number of sites and base stations.

Selling and marketing expenses

Selling and marketing expenses decreased by 3.4% to KZT 16,614 million (2012: KZT 17,195 million). The drop was driven primarily by a decrease in commission for cash collection.

General and administrative expenses

General and administrative expenses decreased by 9.0% to KZT 10,017 million (2012: KZT 11,005 million) primarily due to a decrease in consulting expenses and depreciation and amortisation expenses.

Earnings, financial position and cash flow

EBITDA, excluding non-recurring items, increased by 3.3% to KZT 104,727 million (2012: KZT 101,426 million). The EBITDA margin increased to 55.8% (2012: 55.7%).

Net finance cost increased to KZT 2,119 million (2012: KZT 516 million).

Income tax expense increased by 3.4% to KZT 16,089 million (2012: KZT 15,558 million).

Net income attributable to owners of the parent company increased by 2.5% to KZT 63,392 million (2012: KZT 61,828 million) and earnings per share increased to KZT 316.96 (2012: KZT 309.14).

Capital expenditure (CAPEX) decreased to KZT 22,849 million (2012: KZT 26,730 million) and the CAPEX-to-sales ratio decreased to 12.2% (2012: 14.7%).

Free cash flow increased to KZT 80,743 million (2012: KZT 61,203 million), primarily due to movements in working capital and decrease in CAPEX.

Net debt/equity ratio was 6.0% (2012: 69.4%).

Net debt/EBITDA rate was 0.06 (2012: 0.46).

The equity/assets ratio was 61.0% (2012: 44.2%).

Financial review

continued

Condensed consolidated statements of comprehensive income

KZT in millions, except per share data, number of shares and changes	2011	2012	2013	Chg (%)
Revenues	178,786	182,004	187,599	3.1
Cost of sales	-69,955	-76,291	-79,469	4.2
Gross profit	108,831	105,712	108,130	2.3
Selling and marketing expenses	-15,763	-17,195	-16,614	-3.4
General and administrative expenses	-9,943	-11,005	-10,017	-9.0
Other operating income and expenses, net	-227	389	101	
Operating income	82,898	77,902	81,600	4.7
Finance costs and other financial items, net	725	-516	-2,119	
Income after financial items	83,624	77,386	79,481	2.7
Income taxes	-16,765	-15,558	-16,089	3.4
Net income	66,858	61,828	63,392	2.5
Total comprehensive income attributable to owners of the parent company	66,858	61,828	63,392	2.5
Earnings per share (KZT), basic and diluted	334.29	309.14	316.96	2.5
Number of shares (thousands)				
Outstanding at period-end	200,000	200,000	200,000	
Weighted average, basic and diluted	200,000	200,000	200,000	
EBITDA	105,794	100,683	104,727	4.0
EBITDA excl. non-recurring items	105,794	101,426	104,727	3.3
Depreciation, amortization and impairment losses	-22,896	-22,781	-23,127	1.5
Operating income excl. non-recurring items	82,898	78,645	81,600	3.8

Condensed consolidated statements of financial position

KZT in millions	As at 31 Dec 2011	As at 31 Dec 2012	As at 31 Dec 2013
Assets			
Intangible assets	18,434	16,140	13,955
Property, plant and equipment	100,372	110,337	112,369
Other non-current assets	6,759	3,121	3,131
Total non-current assets	125,565	129,598	129,455
Inventories	1,836	978	499
Trade and other receivables	16,229	15,990	10,410
Cash and cash equivalents	1,353	3,075	18,916
Total current assets	19,418	20,043	29,825
Total assets	144,983	149,641	159,280
Equity and liabilities			
Share capital	3,915	33,800	33,800
Retained earnings	116,338	32,403	63,393
Total equity attributable to owners of the parent	120,252	66,203	97,193
Deferred tax liabilities	3,991	5,104	5,232
Other long-term liabilities	495	988	1,426
Total non-current liabilities	4,486	6,092	6,658
Short-term borrowings	–	48,991	24,721
Trade payables, and other current liabilities	20,245	28,355	30,708
Total current liabilities	20,245	77,346	55,429
Total equity and liabilities	144,983	149,641	159,280

Condensed consolidated statements of cash flows

KZT in millions	2011	2012	2013
Cash flow before change in working capital	89,071	85,324	90,639
Change in working capital	-7,658	863	7,417
Cash flow from operating activities	81,413	86,187	98,056
Cash CAPEX	-27,305	-24,984	-17,313
Free cash flow	54,108	61,203	80,743
Total cash flow from investing activities	-27,305	-24,984	-17,313
Cash flow before financing activities	54,108	61,203	80,743
Cash flow from financing activities	-58,000	-59,481	-64,902
Cash flow for the period	-3,892	1,722	15,841
Cash and cash equivalents, opening balance	5,245	1,353	3,075
Cash flow for the period	-3,892	1,722	15,841
Cash and cash equivalents, closing balance	1,353	3,075	18,916

Financial review

continued

Condensed consolidated statements of changes in equity

KZT in millions	2011			2012			2013		
	Share capital	Retained earnings	Total equity	Share capital	Retained earnings	Total equity	Share capital	Retained earnings	Total equity
Opening balance	3,915	107,479	111,394	3,915	116,338	120,253	33,800	32,403	66,203
Dividends	–	-58,000	-58,000	–	-115,877	-115,877	–	-32,402	-32,402
Transformation from LLP to JSC	–	–	–	29,885	-29,885	–	–	–	–
Total comprehensive income	–	66,858	66,858	–	61,828	61,828	–	63,392	63,392
Closing balance	3,915	116,338	120,253	33,800	32,403	66,203	33,800	63,393	97,193

Non-recurring items

KZT in millions	2011	2012	2013
Within EBITDA			
Restructuring charges, synergy implementation costs, etc.	–	743	–
Total	–	743	–

Investments

KZT in millions	2011	2012	2013
CAPEX			
Intangible assets	2,711	2,325	1,517
Property, plant and equipment	24,090	24,405	21,332
Total	26,801	26,730	22,849

Related party transactions

For the year ended 31 December 2013, Kcell purchased services for KZT 790 million and sold services for a value of KZT 272 million. Related parties in these transactions were mainly TeliaSonera and its group entities, Turkcell and Fintur Holding B.V.

Net debt

KZT in millions	As at 31 Dec 2011	As at 31 Dec 2012	As at 31 Dec 2013
Long-term and short-term borrowings	–	48,991	24,721
Less short-term investments, cash and bank	1,353	-3,075	-18,916
Net debt	-1,353	45,916	5,805

Loan financing

On 25 September 2013, JSC Kcell signed a credit line agreement with JSC Halyk Savings Bank for a credit line of up to KZT 30 billion with a 24 month access period and an interest rate from 5.3% to 7.3% per annum for 1 month to 12 months tranches accordingly.

On 25 September 2013, JSC Kcell signed a credit line agreement with JSC SB HSBC Kazakhstan for a credit line of up to KZT 6 billion with a 12 month access period and a fixed interest rate of 6.5%.

On 26 September 2013, JSC Kcell fully repaid KZT 15 billion loan under the Loan Facility Agreement with JSC Citibank Kazakhstan and JSC SB RBS Kazakhstan signed on 17 October 2012.

On 26 September 2013, JSC Kcell repaid KZT 15.5 billion part of KZT 30 billion loan to JSC Citibank Kazakhstan and JSC SB RBS Kazakhstan under the Loan Facility Agreement with JSC Citibank Kazakhstan and JSC SB RBS Kazakhstan signed on 26 September 2012. This Loan Facility Agreement with JSC Citibank Kazakhstan and JSC SB RBS Kazakhstan was prolonged for a part in the amount of KZT 14.5 billion with a fixed interest rate of 7.4% per annum, a maturity of 12 months.

On 26 December 2013, JSC Kcell utilised two tranches in the amount of KZT 2.75 billion and KZT 1.2 billion under the credit line agreement with ATF bank JSC with maturity on 27 January 2014 and 26 March 2014 correspondingly.

Financial key ratios

	As at 31 Dec 2011	As at 31 Dec 2012	As at 31 Dec 2013
Return on equity (% , rolling 12 months)	55.6	93.4	65.2
Return on capital employed (% , rolling 12 months)	67.0	107.0	76.5
Equity/assets ratio (%)	82.9	44.2	61.0
Net debt/equity ratio (%)	n/a	69.4	6.0
Net debt/EBITDA rate (multiple, rolling 12 months)	n/a	0.46	0.06
Owners' equity per share (KZT)	601.3	331.0	486.0

Contractual obligations

On 31 December 2013, contractual obligations in respect of property, plant and equipment totalled KZT 5,809 million (December 2012: KZT 4,285 million), mostly related to purchase of telecommunications equipment from Ericsson.

Operational data

	2011	2012	2013	Chg (%)
Subscribers, period-end (thousands)*	10,850	13,462	14,307	6.3
Of which prepaid	9,353	11,721	12,593	7.4
MOU (min/month)	122	168	152	-9.4
ARPU (KZT)	1,472	1,252	1,106	-11.7
Churn rate (%)	35.4	25.3	31.2	23.3
Employees, period-end	1,584	1,612	1,488	-7.7

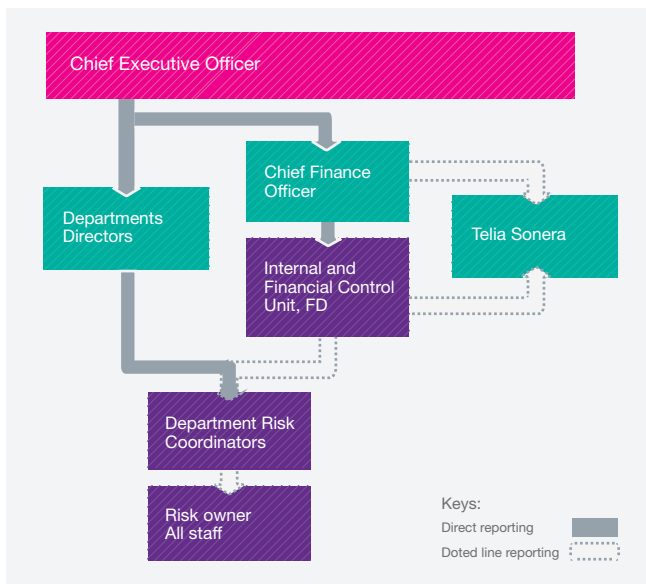
* According to Company calculations.

Principal risks and uncertainties

All businesses are subject to risk. At Kcell we recognize that effective risk management is key to safeguarding successful outcomes for the Company, but also for our employees, customers and shareholders. Our focus is on identifying any risks that could prevent us from meeting our goals and objectives. By identifying both current risks and potential threats for the future, we are able to plan accordingly and mitigate the negative impact that could be caused if no actions were taken.

Taking responsibility for risk management

The Kcell Board of Directors has overall responsibility for the risk profile of the business and in 2013 adopted a Risk Management Policy with principles based on those within the TeliaSonera Group Policy.



Risk management is fully integrated into the business planning and control processes, with procedures that are transparent, practicable and traceable. Our aim is to instil a culture at Kcell where everyone takes personal ownership of the responsibility for risk management and is accountable for the risks inherent in daily decision-making.

Within Kcell operations, our management teams are responsible for:

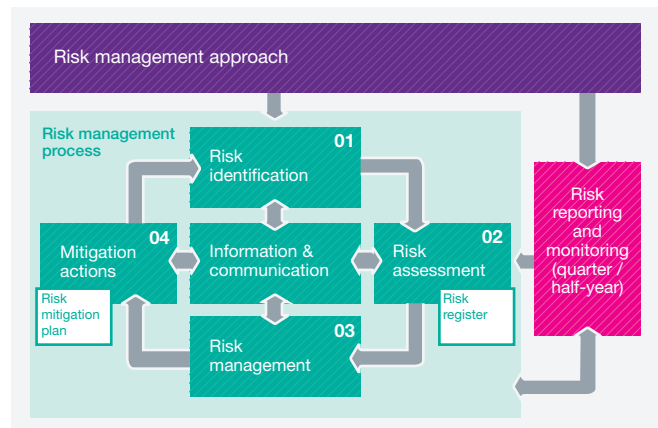
- Identifying and assessing risks and deciding how risks should be managed and mitigated.
- Making relevant and reasonable efforts to safeguard business continuity.
- Transparent reporting and communication of risks.
- Recruiting staff to oversee effective risk and risk mitigation evaluation and reporting processes.
- Maintaining overall risk awareness within their area of responsibility.
- Ensuring that adequate documentation is kept.

Risk management framework

Our risk management framework has been developed in line with the COSO (Committee of Sponsoring Organisations of the Treadway Commission) Enterprise Risk Management Framework (ERM).

Our business-focused risk management process identifies and evaluates potential threats to the business and ensures plans are in place to prevent and rectify problems for the continuity of the business. The Kcell risk management framework emphasises the management of risks as part of daily operations and all business units are tasked with continuously identifying, assessing and monitoring risks across all activities.

Risk management process



The main principles of the risk management process are:

- **Integrity** – We consider the elements of the overall risk of the Company in the context of corporate risk management system.
- **Openness** – The corporate risk management system is easily accessible and understandable.
- **Structuring** – Our integrated system of risk management has a clear structure.
- **Awareness** – Our risk management system necessitates objective, accurate and timely information.
- **Continuity** – The risk management process is on an ongoing one.
- **Cyclic** – The process of risk management is a constantly recurring cycle built of its main components.

Risk identification

Using risk identification we categorise the Company's exposure to uncertainty. This requires an intimate knowledge of the Company, the market in which it operates, the legal, social, political and cultural environment in which it exists, as well as the development of a sound understanding of its strategic and operational objectives including factors critical to its success and the threats and opportunities related to the achievement of these objectives.

Through the risk management framework we have identified a number of principal risks and uncertainties that are key to our day-to-day operations: strategic, operational, financial, legal, natural disaster/catastrophe.

Strategic risk

Strategic risks are identified as the potential for losses due to changes or errors in defining and implementing of business strategy, Company development, competition, changes in the political or regional environment and customer or industry changes. Most strategic risks are considered high risk, requiring the attention of management.

These include the increased price competition caused by the activities of other mobile operators or changes in legislation such as the rise in the churn rate of subscribers as the result of the planned introduction of mobile number portability in Kazakhstan. The Company looks to mitigate these risks by, for example, protecting market leadership in 'strong' regions and increasing market share in regions with the launch of competitive tariffs and products.

Operational risk

Operational risks are identified as the potential for losses due to defects or errors in internal processes, supply chain, recruitment, culture, regulations, Board composition and information systems and technologies. Most of these have a low risk rating and already have mitigating actions in place as part of the daily routines within our risk management process.

Financial risk

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk), liquidity risk and credit risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance. The Company does not use derivative financial instruments to hedge risk exposures.

Risk management is carried out by the management teams under policies adopted by the Company. The management provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk.

Credit risk – The Company has policies in place to ensure that sales of products and services are made to customers and distributors with an appropriate credit history. If corporate customers are independently rated, these ratings are used. If there is no independent rating, risk control assesses the credit quality of the customer taking into account its financial position, past experience and other factors. The Company's management reviews ageing analysis of outstanding trade receivables and follows up on past due balances. Customers that fail to settle their liabilities for mobile services provided are disconnected until the debt is paid. The Company has no significant concentrations of credit risk since the customers portfolio is diversified among a large number of customers, both individuals and companies. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss.

The Company has established relationships with a number of banks, which are considered at the time of deposit to have minimal risk of default. The Company accepts only those banks in Kazakhstan that have the highest credit ratings.

The Company reviews the credit ratings of those banks periodically to decrease credit risk exposure. As the Republic of Kazakhstan continues to display some characteristics of an emerging market, certain risks inherent to the country are also inherent to the banks where the Company has placed its cash and cash equivalents and term deposits at the end of the reporting period.

Foreign exchange risk – The majority of the Company's purchases of property, plant and equipment and inventories, as well as certain services such as roaming are denominated in US Dollars. Profit is less sensitive to movement in Tenge/US Dollar exchange rates. Hence the major concentration of foreign exchange risk arises from the movement of the US Dollar against the Tenge. Due to the undeveloped market for financial instruments in Kazakhstan, management does not hedge the Company's foreign exchange risk.

Cash flow and fair value interest rate risk – The Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company does not have floating interest bearing assets and liabilities as of 31 December 2013.

Principal risks and uncertainties

continued

Legal risk

Legal risks are identified as the potential for uncertainty due to legal actions or uncertainty in the applicability or interpretation of contracts, laws or regulations. The Legal Department in the Company checks the queries/orders for compliance with legislation, monitors the amendments to legislation and participates, whenever possible, in draft law debates.

Natural disaster/catastrophe risk

Natural disasters or catastrophes are identified as those risks caused by natural phenomena or process, provoked catastrophic situations characterised by sudden reduction in population, demolition of material values, defeat and death of people. The Company has implemented plans to mitigate against disasters such as fire, accidents, failures and man-made disasters. These include fire drills, fire alarm system, regular servicing of vehicles, preventive measures against seasonal diseases, medical insurance, annual medical examination, diesel generators for use during a power failure, water reserve delivery to the Company's employees and undertaking preventive works.

Risk management review 2013

Category	Risk	Actions taken
Financial (fraud)	During 2013, the major challenge faced by our Fraud Control Unit (FCU) involved the use of SIM Box and other so-called GSM gateways – devices that are used to reroute calls so that no interconnection fees are payable/collectable.	Preventative measures have now been put in place and SIM Box traffic decreased dramatically by 65% in November and 82% in December, in comparison to the same period in 2012.
Financial (fraud)	The rise in the market of international premium rate providers (PRS) has brought with it an increase in the incidence of international revenue share fraud (IRSF).	Our Fraud Control Unit continues to research and create innovative tools for use against international and local IRSF to help keep losses to a minimum.
Legal	Interconnection regime and MTRs regulation The Ministry of Transport and Communication (MTC) has the right to regulate interconnection tariffs of operators included in the State Register of Dominant and Monopoly Entities (the Register), and set tariff caps. In October 2011 Kcell and Beeline were included in the Register.	Kcell challenged the inclusion and was successful in having the Company excluded from the scope of regulation for more than two years. However, Kcell lost its appeal in the Supreme Court and was included in the Register. The MTC is currently awaiting the findings of an expert examination and may then set price caps on interconnection services. According to a Memorandum, signed by Kcell, Beeline and Tele2, in January 2014 mobile termination rates (MTR) were reduced from KZT 13.02 (excluding VAT) per min to KZT 11.1 (excluding VAT) per min.
Legal	Smart Connect campaign and Daytime unlimited tariff plan The Agency for Competition Protection (ACP) initiated two investigations into alleged violation by Kcell of the anti-monopoly law with respect to the 'Always Available' service and 'Daytime unlimited' tariff plan.	The Company disputes these allegations and will protect its rights in Court. In view of recent changes to the legislation the Company's view is that the fine (if applicable) should only be applied to the revenue received from the zone of violation not on total revenue from voice services as claimed by the ACP.
Legal	Tariff caps set by MTC In January 2013 MTC issued an order requiring the lowering maximum tariff prices by approximately 15-20%.	The Company challenged the order and three courts have ruled in favour of the Company. The MTC has a further right to appeal to the Supreme Court or conduct new expertise examination and regulate prices based on it.

Corporate governance

Corporate governance at Kcell is based on the principles of fairness, honesty, responsibility, transparency, professionalism and expertise. Our Company's system of corporate governance requires respect and protection for the rights and interests of all stakeholders, increases Kcell's efficiency and market value, and promotes financial stability and profitability.

Corporate governance principles

Protecting the rights and interests of shareholders	The Company guarantees fair and equitable treatment of all shareholders, assists in effective participation of its shareholders in key decisions, and provides detailed information relevant to their interests.
Effective management of the Company by the Board of Directors and Chief Executive Officer (CEO)	The Board of Directors aims to increase the Company's market value and provide shareholders with a balanced and accurate assessment of progress and prospects. The CEO manages the Company's daily operations in accordance with the established business plan and development strategy.
Transparency and objectivity in disclosure of information on Company operations	Timely and accurate disclosure of information ensures maximum transparency about the Company.
Legality and ethics	The Company operates in strict accordance with the law, the Kcell Code and generally accepted standards of business ethics.
Effective dividend policies	The Company pays dividends in accordance with the law, the Charter and the relevant resolutions of the General Shareholders' Meeting. Net income is distributed in accordance with the decision of the General Shareholders' Meeting on payment of dividends, taking into account the Company's development goals and the ratio of long-term net debt to EBITDA.
Effective human resources policies	The Company guarantees its employees' rights under the law and the Code of Ethics and Conduct of the TeliaSonera Group, and develops partnership relations with staff to address social issues and regulation of working conditions.
Environmental protection	The Company considers the need for environmental preservation in conducting its operations and complies with environmental safety standards established by the law and the Kcell's Code of Ethics and Conduct.
Settlement of corporate disputes	In the event of a corporate dispute, participants can seek resolution through negotiation, in order to effectively protect the rights of all shareholders and the reputation of the Company.

Kcell is committed to maintaining high standards of corporate governance. In keeping with our GDR listing on the London Stock Exchange, our Charter and the Kcell Code of Corporate Governance all comply with the UK Code of Corporate Governance. We also comply with the regulations of the Kazakstan Stock Exchange concerning joint stock companies and securities.

Corporate governance

continued

Improving corporate governance in 2013

During 2013, Kcell adopted 14 new policies in support of its commitment to establishing a strong corporate governance framework:

- Procurement Policy
- Financial Management Policy
- Insurance Policy
- Risk Management Policy
- Communication Policy
- Recruitment Policy
- Remuneration Policy
- Insider Information Policy
- Insider Trading Policy
- Security Policy
- Code of Ethics
- Anti-corruption Policy
- Privacy Policy
- CEO's instructions

During the year we also elected a new Chief Executive Officer, held our first AGM since IPO – which included representation of GDR holders through the depository bank – and introduced an Internal Audit function. Kcell has purchased specialist software called Directors Desk which is designed to improve Board communications and effectiveness. This will provide end-to-end security for our governance and workflow management.

Annual General Meeting

At the Annual General Meeting (AGM), held on 24 May 2013, all the resolutions proposed to Kcell shareholders were approved:

- To appoint PricewaterhouseCoopers LLP as the auditor for Kcell.
- To approve the Company's annual financial statements for 2012.
- To declare a dividend of KZT 162.01 gross per ordinary share, or approximately USD 1.07 gross per Global Depositary Receipt (GDR), for the period from 1 July 2012 to 31 December 2012 to be paid to holders of Kcell shares as at the record date of 10 June 2013.
- To elect William H R Aylward as a new member of the Company's Board and as an Independent Director; Bert Nordberg, Independent Director, resigned from Kcell's Board of Directors due to the time pressures of other commitments.

On June 24, 2013, dividends totalling KZT 32,402 million, KZT 162.01 gross per ordinary share, were paid for the period from 1 July 2012 to 31 December 2012.

No Extraordinary Meetings of Shareholders were held in 2013.

Board of Directors

The Board of Directors ensures general management of Company activities. Members of the Board of Directors are elected at the General Meeting, where the terms of office of such members are also decided. The current members of the Board of Directors are elected for the term until the next General Meeting, the agenda of which will include the issue of re-election of the Board of Directors.

Besides formulating strategies and approving plans for the Company's development, the Board of Directors is responsible for taking decisions on establishing Kcell branches and representative offices, on the acquisition or disposal by the Company of 10% or more of third party shares, on the conclusion of major transactions and transactions with related parties, and for approval of annual budgets, as well as on other issues that belong to the exclusive competence of the Board of Directors according to the Company's Charter and the Joint-Stock Companies Act of the Republic of Kazakhstan.

Membership of the Board of Directors

There has been only one change to the Board composition during the year: Bert Nordberg, who had been a Board member and Independent Director since November 2012, stepped down due to time pressure of other commitments. William H R Aylward has been elected as Independent Director on 24 May 2013, he replaced Bert Nordberg.

William H R Aylward (Born 1951)

Member of the Board of Directors and as an Independent Director¹ since 24 May 2013.

Mr Aylward has extensive experience as Chairman, CEO and Non-Executive Director of both private and public companies across a variety of sectors including telecommunications (mobile and fixed-line) and technology.

Since 2011 he has served as Chairman and CEO of Alchemy Group, which operates primarily in the Balkan Peninsula and focuses on telecommunications, media and energy, and as strategic investment advisor at Redwave Technology LTD since 2006.

From 2008 to 2011 he was CEO of Belvedere Media Santa Monica, CA, and prior to that held senior management positions in a number of companies including Jonathan Partners INC, Bulgarian Telecommunications Company, Advent International, Fusion Telecommunications Ltd, Landtel Communications Inc, Kingston Communications Plc and Westminster Cable UK.

He graduated from the University of London with a BSc in Mechanical and Production Engineering.

¹ Members of the Board of Directors regarded as Independent Directors according to the law of Kazakhstan, subject to the provisions of clause B.1.1. of the Code of Corporate Governance of Great Britain.

The rest of the Board remained unchanged in 2013:

Jan Erik Rudberg (Born 1945)

Veysel Aral (Born 1968)

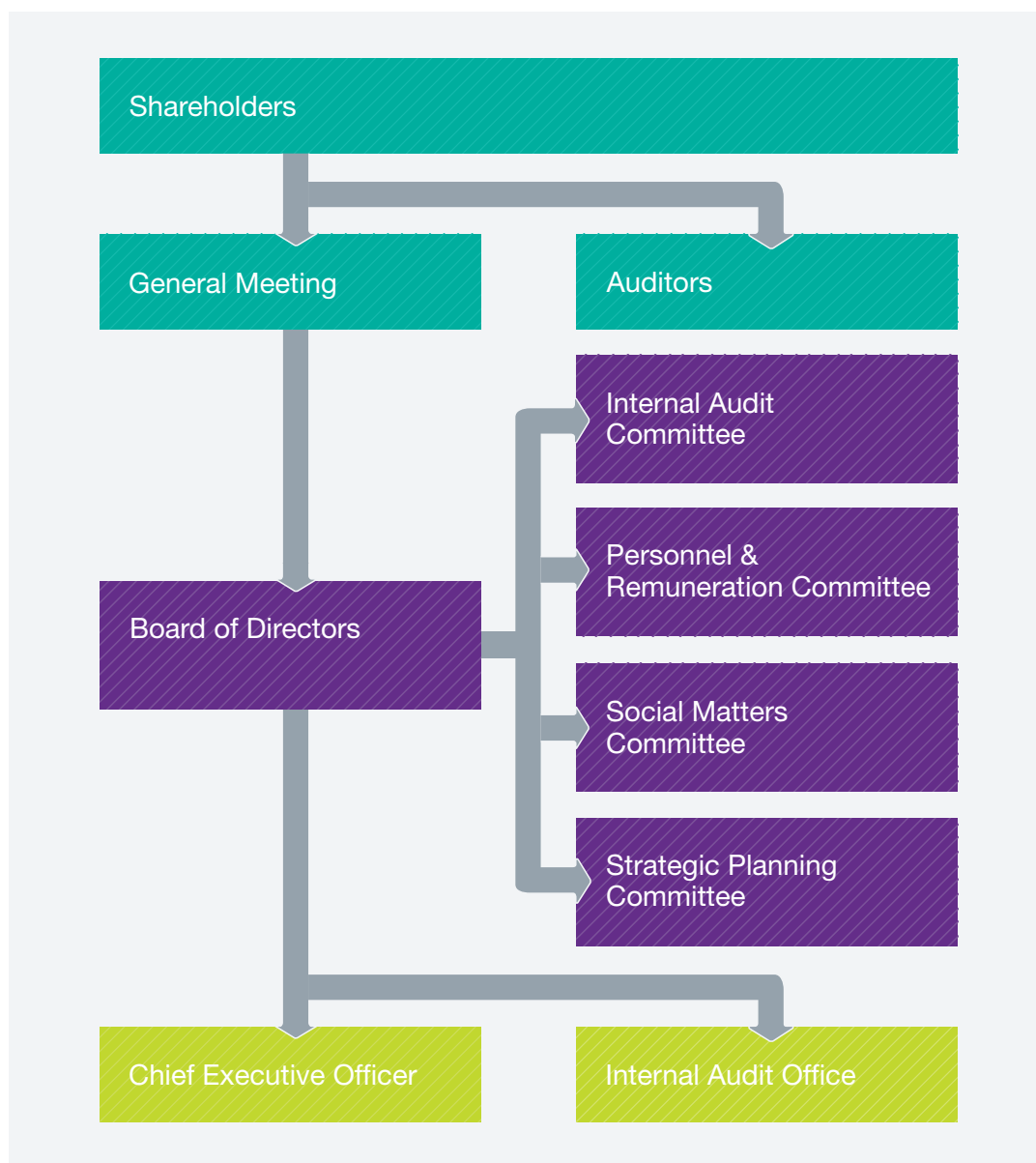
Berndt Kenneth Karlberg (Born 1954)

Tolga Kokturk (Born 1977)

Mats Göran Salomonsson (Born 1950)

During 2013, no members of the Board of Directors held shares of Kcell.

Corporate structure



Corporate governance

continued

Committees of the Board of Directors

In line with the legislation on joint stock companies within Kazakhstan, the following Committees have been established by Kcell to consider important issues and prepare recommendations for the Board of Directors: a Strategic Planning Committee, a Personnel Remuneration Committee, an Internal Audit Committee and a Social Matters Committee. The Board may create other Committees at its discretion.

The Chairmen of each Committee are Independent Directors. The law also requires that Committees are drawn from the members of the Board of Directors who have the necessary expertise to serve on the given Committee. All Committees are advisory bodies of the Board of Directors.

	Strategic Planning Committee	Personnel and Remuneration Committee	Internal Audit Committee	Social Matters Committee
Committee role	Makes recommendations to the Board of Directors on the Company's strategic development.	Makes recommendations to the Company's Board of Directors on qualification requirements for employees, appointment and dismissal of certain employees, bonuses and salary for management bodies, and internal documents evaluating staff fitness, training and motivation of employees.	Makes recommendations to the Company's Board of Directors on financial statements, internal controls and risk management, and internal and external audits.	Makes recommendations to the Company's Board of Directors on internal documentation regarding social responsibility, Company participation in social projects, and resolution of internal team conflicts.

Board activities

The Board of Directors held a total of 21 meetings during 2013: four held in person and the rest conducted via conference calls or voting in absentia.

The routine activities of the Board throughout the year included: determining the salary of the CEO and top management directly reporting to CEO; approval of interested party transactions and major transactions; discussion and approval of business-related issues and strategies for future development; discussion of the quarterly results prior to publication.

Major resolutions and transaction approved by the Board during the year are outlined below:

March 2013

The Kcell Board of Directors introduced an internal audit function to evaluate the financial and business activity of the Company.

May 2013

The Kcell Board of Directors adopted the following decisions:

- The termination of the term in office of Veysel Aral, Chief Executive Officer of Kcell, with effect from 1 June 2013 in view of his transfer to another position in TS Group.
- The election Ali Agan as the Chief Executive Officer of Kcell, with a one-year term of office from 1 June 2013 until 1 June 2014.

September 2013

The Board approved: the opening of a credit line with Halyk Bank of Kazakhstan JSC for KZT 30 billion; the extension of the loan agreement for the Company by Citibank Kazakhstan JSC and SB RBS Kazakhstan JSC for KZT 14.5 billion until 26 September 2014; the repayment of the syndicated loans to Citibank Kazakhstan JSC and SB RBS Kazakhstan JSC totalling KZT 30.5 billion and accumulated interest of KZT 820 million.

The Board agenda for 2014

In addition to its regular agenda items and any urgent matters arising, the Board has decided to conduct an in-depth study of the Company, segment by segment. Each of the planned face-to-face meetings will be devoted to a specific business area, for example, sales and marketing, HR. There will also be a major focus on sustainability as we strive to be a role model for socially responsible businesses within Kazakhstan.

Remuneration of the Board of Directors

In accordance with Kcell's regulations on the amount and terms of remuneration and compensation of expenses paid to the Board of Directors' members for the fulfilment of their duties, remuneration is paid to Independent Directors, as well as to the Directors, who are not employed at TeliaSonera. The amount of remuneration paid to the Board of Directors is comprised of two parts: a fixed annual remuneration, which depends on the attendance of the meetings by the Board members, and an auxiliary annual remuneration for the participation in the Board of Directors' Committees. The regulation also provides for the compensation of expenses incurred by the Board of Directors when fulfilling their duties.

The General Meeting held on 9 November 2012, approved the following remuneration which was in force during 2013 for those independent directors and directors, who are not employed at TeliaSonera: fixed annual remuneration of US\$ 75,000 (before tax); auxiliary annual remuneration for chairing the Company Board of Directors of US\$ 25,000 (before tax); US\$ 15,000 (before tax) for participating in the Internal Audit Committee; US\$ 6,000 (before tax) for participating in any other Committee of the Board of Directors.

According to the payment terms: 50% of the fixed annual remuneration fee and annual additional remuneration for Committee membership is paid six months after a Director takes office; the remaining 50% of the fixed annual remuneration fee and annual additional remuneration for Committee membership is paid one year after the Director takes office.

The total remuneration paid to the Board of Directors in 2013 was US\$ 304,000 (before tax).

Corporate governance

continued

Executive Management

The Chief Executive Officer (CEO) manages the daily operations of the Company. He is responsible for all matters not within the exclusive jurisdiction of the Board of Directors or the Annual General Meeting of Kcell. In addition, the CEO is responsible for executing decisions taken by the AGM and the Board of Directors.

The executive management team of Kcell is a highly professional team of experts with extensive experience of working in the Kazakhstani and international mobile services markets and expertise in the fields of telecommunications, finance, marketing and information technology.



Ali Agan (Born 1970)

Chief Executive Officer at Kcell since June 2013.

Mr. Agan holds an MBA in Finance from the University of Baltimore (USA). He also studied at the University of Toronto (Canada) and has a degree in Economics from the Faculty of Political Sciences at the University of Ankara (Turkey).

Mr Agan has more than 20 years' international experience in the financial and telecommunications sectors, across a broad range of functions including sales, distribution and content provision. Mr Agan joins from Ucell, a subsidiary of TeliaSonera Group and the second largest operator in Uzbekistan, where he was CEO from September 2012. Prior to that, from May 2008, he was Deputy CEO and from December 2008 CEO of Azericell, a subsidiary of TeliaSonera Group and the leading mobile operator in Azerbaijan.

From 2005-2008, Ali Agan was CEO and Board member of MEP Communication a GSM distribution company with \$ 500 mln turnover, he held Board responsibilities across 16 of the Group's businesses covering five countries.

Prior to that Mr Agan was engaged in Finance industry and also worked as Vice President in bank and insurance company.



Bauyrzhan Ayazbayev (Born 1978)

Chief Financial Officer at Kcell since 2011.

Mr Ayazbayev graduated as a lawyer from the Kazakh State Law University and received an MBA from KIMEP University.

He has held a number of positions at Kcell since joining in 2006, including Deputy Chief Accountant, Chief Accountant and Deputy Finance Director.

From 2001 to 2005 he served as Senior Auditor for the Kazakhstan Branch of PricewaterhouseCoopers LLP and from 2005 to 2006 he served as Manager of Operational and Financial Accounting for JSC PetroKazakhstan Oil Products (Kazakhstan).



Aida Dossayeva (Born 1960)

Corporate Affairs Department Director at Kcell since 2008.

Ms Dossayeva graduated from the Almaty Institute of National Economy. She received a Ph.D. in economics from Kazakh State National University, and graduated from the University of KIMEP in Public Relations and International Journalism (MA).

From 1994 to 1997, she served as a Director of the admission committee and financial aid at KIMEP University. From 1997 to 1998, she was Account Manager representing Oracle BV in Kazakhstan and from 1999 to 2004 worked at the Eurasia Foundation, funded by the U.S. Agency for International Development. From 2004 to 2008 she held the position of Manager for Client Relations, and was later Director of Corporate Sales Department at Microsoft Kazakhstan LLP.



Aliya Kishkimbayeva (Born 1975)

Legal Department Director at Kcell since 2010.

Ms Kishkimbayeva graduated with a specialty in English from the Kazakh University of International Relations and World Languages, and as a lawyer from the Adilet Higher Law School.

She joined Kcell in 2007 as a senior associate and later served as Company Head of Contracts and Litigation. Prior to joining Kcell, Ms Kishkimbayeva worked as a lawyer at CJSC AralParker (Joint Venture) and PetroKazakhstan Inc. (Joint Ventures).



Sevda Salimova (Born 1974)

Human Resources Director at Kcell since July 2013 (TS international assignment).

Graduated in History from Baku State University.

Ms Salimova started her career in Azercell Telecom LLC (part of TeliaSonera group) in 1998 and held a number of managerial positions in the Customer Relations Department. From 2004 till 2010, she served as Human Resources Department Director and also had responsibility for Internal Communications. From 2010 to 2013 she held the position of Marketing Communications Manager.



Olga Tsoi (Born 1982)

B2B Director at Kcell since September 2013.

Graduated from KIMEP University with Bachelor degree in Science and Master degree in Business Administration.

Ms Tsoi has held a number of positions at Kcell since 2008, including Corporate Marketing Head and Corporate Marketing Manager.

Prior to that, from 2006 to 2007, she served as Customer Marketing Specialist in Colgate Palmolive LLP. From 2007 to 2008, she served as Trade Marketing Manager in Wimm-Bill-Dann Central Asia LLP.



Daniel Mota (Born 1963)

Business Development Director at Kcell since 2008.

Graduated as computer engineer from Boston University; MS Systems Management from University of Southern California.

From 1990 to 1997, Mr Mota worked for Motorola in Germany and Kazakhstan in department of wireless communications products. From 1997-1998 he worked as Director of paging communication in Alma Page, Kazakhstan. From 1998-2005 he was engaged in TSG project development and its delivery 'on a turn-key basis' and also as a consultant to Telecomm company.



Hikmatulla Nasritdinhodjaev (Born 1979)

Director of B2C of Kcell JSC since September 2013

Graduated from University of World Economy and Diplomacy in Uzbekistan in 2000. In 2002 received Master's Degree in Economics from Tashkent Economic University.

From 2012 to 2013, Mr Nasritdinhodjaev served as Marketing Director of Ucell, a subsidiary of TeliaSonera Group and the second largest operator in Uzbekistan. He joined Kcell in 2008 and held a number of positions, including Head of Consumer Segment and Consumer Marketing Manager.

Mr Nasritdinhodjaev began his career in 2003 at Nestle in Uzbekistan.



Marat Dzhilkibayev (Born 1976)

Director of Regional Operations Department at Kcell since January 2013.

Graduated as an economist from Pavlodar Public University. Specialization in Economic and Management.

Mr Dzhilkibayev joined Kcell in 2009 and has held a number of positions including Head of Kostanay Branch, Manager of Almaty Branch.

Prior to that, in 1997 he joined the Kazkommertsbank, the leading bank in Kazakhstan, where he spent 12 years progressing from general employee position up to the Bank Branch Director.

Shareholding and remuneration

During 2013, none of the members of the senior management mentioned above held shares of Kcell JSC.

Currently the Company has no compensatory stock options or any other similar programmes. The bonus part of the senior management's remuneration is paid subject to the achievement of strategic goals and KPIs: revenue increase in %, EBITDA margin, EBITDA/capital expenses ratio, capital expenses/revenues ratio.

Directors' remuneration

The remuneration paid to Directors for their services in full-time executive management positions consists of a contractual salary, performance bonus depending on financial performance of the Company. Directors' compensation totalled KZT 340,189 thousand for the year ended 31 December 2013 (2012: KZT 326,824 thousand).

There were ten Directors classified as key management personnel in 2013 (2012: nine).

Consolidated statement of financial position

In thousands of Kazakhstani Tenge	Note	31 December 2013	31 December 2012
Assets			
Non-current assets			
Property, plant and equipment	8	112,368,845	110,336,802
Intangible assets	9	13,954,545	16,139,754
Other non-current assets	10	3,130,944	3,121,627
Total non-current assets		129,454,334	129,598,183
Current assets			
Inventories		499,180	977,772
Trade and other receivables	11	9,268,357	14,364,046
Prepaid current income tax		834,480	1,596,283
Due from related parties	7	306,862	29,546
Cash and cash equivalents		18,916,258	3,075,138
Total current assets		29,825,137	20,042,785
Total assets		159,279,471	149,640,968
Equity			
Share capital	12	33,800,000	33,800,000
Retained earnings		63,392,942	32,403,052
Total equity		97,192,942	66,203,052
Liabilities			
Non-current liabilities			
Deferred income tax liability	18	5,231,448	5,104,217
Other non-current liabilities		1,426,245	988,203
Total non-current liabilities		6,657,693	6,092,420
Current liabilities			
Borrowings	14	24,721,178	48,990,985
Trade and other payables	13	21,490,816	21,256,936
Due to related parties	7	502,045	318,187
Deferred revenue	15	7,346,686	6,011,022
Taxes payable		1,368,111	768,366
Total current liabilities		55,428,836	77,345,496
Total liabilities		62,086,529	83,437,916
Total liabilities and equity		159,279,471	149,640,968

Approved for issue and signed on behalf of the Management on 17 April 2014

Ali Agan
Chief Executive Officer

Baurzhan Ayazbaev
Chief Financial Officer

The accompanying notes on pages 44 to 71 are an integral part of these consolidated financial statements.

Consolidated statements of profit or loss and other comprehensive income

In thousands of Kazakhstani Tenge	Note	2013	2012
Revenues	16	187,599,216	182,003,503
Cost of sales	17	(79,468,914)	(76,291,475)
Gross profit		108,130,302	105,712,028
Selling and marketing expenses	17	(16,614,320)	(17,194,652)
General and administrative expenses	17	(10,017,121)	(11,004,899)
Other operating income		463,992	570,694
Other operating expenses		(363,278)	(181,237)
Operating profit		81,599,575	77,901,934
Finance income		299,228	131,088
Finance expense		(2,417,920)	(647,126)
Profit before income tax		79,480,883	77,385,896
Income tax expense	18	(16,088,993)	(15,557,863)
Profit for the year		63,391,890	61,828,033
Other comprehensive income		–	–
Total comprehensive income for the year		63,391,890	61,828,033
Earnings per share (Kazakhstani Tenge), basic and diluted	12	316.96	309.14

Profit and total comprehensive income for both periods is fully attributable to the Group's shareholders.

The accompanying notes on pages 44 to 71 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

In thousands of Kazakhstani Tenge	Charter/ Share capital	Retained earnings	Total equity
Balance at 1 January 2012	3,914,895	116,337,563	120,252,458
Total comprehensive income for the year	–	61,828,033	61,828,033
Transformation from LLP to JSC (Note 1,12)	29,885,105	(29,885,105)	–
Dividends declared	–	(115,877,439)	(115,877,439)
Balance at 31 December 2012	33,800,000	32,403,052	66,203,052
Total comprehensive income for the year	–	63,391,890	63,391,890
Dividends declared	–	(32,402,000)	(32,402,000)
Balance at 31 December 2013	33,800,000	63,392,942	97,192,942

The accompanying notes on pages 44 to 71 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

In thousands of Kazakhstani Tenge	Note	2013	2012
Cash flows from operating activities			
Net income		63,391,890	61,828,033
Adjustments for:			
Depreciation of property, plant and equipment	8	19,549,811	18,812,111
Amortisation of intangible assets	9	3,577,512	3,968,634
Income taxes	18	889,034	(509,082)
Impairment of trade receivables	11	733,770	440,768
Finance costs		2,417,920	647,126
Losses less gains on disposal of property, plant and equipment and intangible assets		79,046	136,797
Operating cash flows before working capital changes		90,638,983	85,324,387
Trade and other receivables		4,361,840	(772,393)
Due from related parties		(277,316)	2,167,238
Inventories		478,592	858,484
Taxes payable		599,745	(152,020)
Trade and other payables		2,972,661	105,384
Due to related parties		183,858	(62,759)
Deposits received from subscribers		323,608	19,519
Deferred revenues		1,012,056	(1,192,368)
Restricted cash		(50,363)	(56,047)
Cash generated from operations		100,243,743	86,239,425
Interest paid		(2,187,727)	(52,494)
Net cash from operating activities		98,056,016	86,186,931
Cash flows from investing activities			
Purchase of property, plant and equipment		(15,795,866)	(23,263,472)
Purchase of intangible assets		(1,517,030)	(1,720,231)
Net cash used in investing activities		(17,312,896)	(24,983,703)
Cash flows from financing activities			
Proceeds from bank borrowing	14	26,900,000	53,395,353
Repayment of borrowing	14	(51,400,000)	(4,999,000)
Dividends paid	12	(40,402,000)	(107,877,439)
Net cash used in financing activities		(64,902,000)	(59,481,086)
Net increase in cash and cash equivalents		15,841,120	1,722,142
Cash and cash equivalents at beginning of the year		3,075,138	1,352,996
Cash and cash equivalents at end of the year		18,916,258	3,075,138

The accompanying notes on pages 44 to 71 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1 The Group and its operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2013 for Kcell JSC (the "Company") and its subsidiaries (together referred to as the "Group").

The Company was established as a limited liability partnership (GSM Kazakhstan OAO Kazakhtelecom LLP) on 1 June 1998 to design, construct and operate a cellular telecommunications network in the Republic of Kazakhstan, using the GSM (Global System for Mobile Communications) standard. The Company began its commercial operations in 1999 through direct sales and a network of distributors. Prior to 2 February 2012 the Company was owned 51 percent by Fintur Holdings B.V. ("Fintur" or "Parent" company) and 49 percent by Kazakhtelecom JSC ("Kazakhtelecom"). Fintur itself is owned jointly by Sonera Holding B.V. and Turkcell Iletisim Hizmetleri A.S., with holdings of 58.55 percent and 41.45 percent respectively. On 2 February 2012 the 49 percent stake in the Company owned by Kazakhtelecom was sold directly to Sonera Holding B.V. (Sonera), a subsidiary of TeliaSonera. On 1 July 2012 the General Meeting of participants of GSM Kazakhstan LLP approved a conversion of the Company from Limited Liability Partnership to Joint Stock Company (the Conversions), with 200,000,000 common shares to be transferred to Fintur and Sonera in proportion to their ownership percentage. The General Meeting also approved the Company's change of name to Kcell JSC. On 27 August 2012 the Ministry of Justice registered the Company as a Joint Stock Company. Under Kazakh law, upon Conversion, retained earnings as of the date of Conversion became share capital of the Group and ceased to be available for distribution to shareholders. The Company's ultimate parent and controlling party is TeliaSonera.

In an auction arranged by the Republic of Kazakhstan in June 1998, the Group obtained a non-exclusive general license for 15 years to provide mobile telephone services in accordance with GSM standard 900 (GSM-900). The Group started its commercial activity in 1999 through direct sales and a network of distributors. The Group provides cellular services throughout most of the territory of the Republic of Kazakhstan. At present, the Group is one of three GSM cellular phone carriers operating in the Kazakhstani market. The Group operates under its own brands, Kcell (postpaid and paid-in-advance subscribers) and Activ (prepaid subscribers).

In 2008, the Group accepted an offer from the government of the Republic of Kazakhstan to acquire additional 5 MHz radio frequencies in the range of 1800 MHz. On 26 August 2008, the competent authority approved an addendum to the Group's operating GSM license. The revised license provides the Group with a right to operate both GSM-900 and GSM-1800 networks. Under revised terms, the Group provided all locations with population over 1,000 people with mobile services using GSM-900 and GSM-1800 standards by 31 December 2012.

The Company acquired KT-Telecom LLP ("KT-Telecom") in 2008 and AR-Telecom LLP ("AR-Telecom") in 2007. The purpose of these acquisitions was to obtain wireless local loop ("WLL") licenses (Note 9). In 2009, KT-Telecom and AR-Telecom commenced their operating activities; accordingly the Group started to prepare consolidated financial statements since 2009 (Note 2). In 2010, WiMAX services were launched in Astana and Atyrau under WLL licenses. Subsequently in 2011, the ownership of WLL licenses have been transferred to the Company.

On 25 December 2010, the competent authority signed an addendum to the existing GSM license, which provides the Group with a right to operate a 3G network. In December 2010, the Group launched 3G services in Astana and Almaty. The addendum requires the Group to provide all locations with population over 10,000 people with mobile services using UMTS/WCDMA standards until 1 January 2015 (Note 9).

On 1 July 2011 the Ministry of Communication and Information of Kazakhstan extended the Company's general license from initial 15 years to unlimited period of time.

The Company has successfully completed its offering of Global Depositary Receipts on the London Stock Exchange and common shares on Kazakhstan Stock Exchange on 13 December 2012. The offering consisted of a sale by TeliaSonera of 50 million shares, which represents 25 percent of the Company's share capital (Note 12).

The Company's registered address is 100, Samal-2, Almaty, Republic of Kazakhstan. The head office is located at Timiryazeva street, 2, Almaty, Republic of Kazakhstan.

2 Basis of preparation and significant accounting policies

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention as modified by the initial recognition of financial instruments based on fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These consolidated financial statements have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements, unless otherwise stated (refer to Note 4, New Accounting Pronouncements).

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3. Actual results could differ from those estimates.

Foreign currency translation

(i) Functional and presentation currency

All amounts in these consolidated financial statements are presented in thousands of Kazakhstani Tenge (“Tenge”), unless otherwise stated.

Functional currency is the currency of the primary economic environment in which the entity operates. The functional currency of the Group entities is Tenge.

(ii) Transactions and balances

Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction established by National Bank of the Republic of Kazakhstan. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the profit or loss for the year.

At 31 December 2013 the principal rate of exchange used for translating foreign currency balances was USD 1 = Tenge 153.61 (31 December 2012: USD 1 = Tenge 150.74). Exchange restrictions and currency controls exist relating to converting Tenge into other currencies. At present, Tenge is not a freely convertible currency in most countries outside of the Republic of Kazakhstan.

Consolidated financial statements

Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits.

The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group’s policies.

Property, plant and equipment

(i) Recognition and subsequent measurement

Property, plant and equipment are stated at cost, less accumulated depreciation and provision for impairment. Cost comprises construction cost or purchase price, including import duties and non-refundable taxes, and any directly attributable costs of bringing the asset to working condition for its intended use. Any trade discounts and rebates are deducted in arriving at the construction cost or purchase price.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired. Construction in progress is carried at cost. Upon completion, assets are transferred to buildings and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

(ii) Depreciation

Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Buildings	10 to 25
Switches and transmission devices	4 to 8
Other	4 to 8

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in the profit or loss for the year when the asset is retired.

Notes to the consolidated financial statements

continued

2 Basis of preparation and significant accounting policies continued

Property, plant and equipment continued

(iii) Impairment

At each reporting date the management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Intangible assets

The Group's operating GSM license (GSM-900, GSM-1800 and 3G), as disclosed in Notes 1 and 9, are recorded at cost and are amortised on a straight-line basis over the estimated economic useful life of the license/right.

The economic useful life of the original GSM license and 3G license is estimated by management at 15 years. The useful life of the initial license term is in line with the management assessment of the development of communication technology. The economic useful life of the right for the radio frequencies (GSM-1800) is estimated by management to expire in line with the original GSM license.

Other intangible assets are amortised over their estimated useful lives as follows:

	Useful lives in years
Computer software and software license rights	4 to 8
Other telecom licences	10
Other	8 to 10

If impaired, the carrying amount of intangible assets is written down to the higher of value in use or fair value less costs to sell.

When the Group acquires a group of assets that does not constitute a business, it allocates the cost of the group between the individual identifiable assets in the group based on their relative fair values at the date of acquisition. The Group accounted for the acquisitions of AR-Telecom and KT-Telecom (Note 9) as the acquisitions of groups of intangible assets rather than businesses. Accordingly, the costs of acquisitions of those entities were allocated to the costs of acquired assets.

Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Trade and other receivables

Trade and other financial receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the profit or loss for the year. When a trade receivable is uncollectible, it is written off against the provision for impairment account for trade receivables. Subsequent recoveries of amounts previously written off are credited to the profit or loss for the year. The primary factor that the Group considers whether a receivable is impaired is its overdue status.

Prepaid taxes, deferred expenses and advances to suppliers are stated at actual amounts paid less provision for impairment.

2 Basis of preparation and significant accounting policies continued

Prepayments

Prepayments are carried at cost less any provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition.

Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks with original maturities of three months or less and are subject to insignificant risk of change in value. Cash and cash equivalents are carried at amortised cost using the effective interest method. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date are included in other non-current assets.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are expensed to the consolidated statement of profit or loss and other comprehensive income. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the end of the reporting period and before the consolidated financial statements are authorised for issue are disclosed in the subsequent events note.

Value added tax

Value added tax ("VAT") related to sales is payable to the government when goods are shipped or services are rendered. Input VAT is reclaimable against output VAT upon receipt of a tax invoice from a supplier. The tax legislation permits the settlement of VAT on a net basis. Accordingly, VAT related to sales and purchases unsettled at the reporting date is stated in the statements of financial position on a net basis.

Trade and other payables

Trade and other financial payables are accrued when the counterparty performed its obligations under the contract. The Group recognises trade payables at fair value. Subsequently, trade payables are carried at amortised cost using the effective interest method.

Provisions for liabilities and charges

Provisions for liabilities and charges are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Asset retirement obligations

Estimated costs of dismantling and removing an item of property, plant and equipment (asset retirement obligations) are added to the cost of an item of property plant and equipment when incurred either when an item is acquired or as the item is used during a particular period for purposes other than to produce inventories during that period. Changes in the measurement of an existing asset retirement obligation that result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate adjust the cost of the related asset in the current period.

Revenue recognition

Revenue is recorded on an accrual basis at the sales value, adjusted for discounts granted and VAT. Revenue is measured at the fair value of the consideration received or receivable.

Revenue is categorised as follows: voice services, data services, value added services, and other revenues.

Voice service includes call out revenue, interconnect fees, roaming revenues charged to the Group's subscribers for roaming in other wireless operators' network, and revenues charged to other wireless operators for non-Group subscribers using the Group's network.

Data services include revenues from GRPS, WAP services and other data services.

Value added services consists of SMS, MMS, infoservices and providing content of third parties, fax and voice mail services.

Other revenues include sales of handsets to distributors and subscribers, rental of transmission lines to other operators.

Notes to the consolidated financial statements

continued

2 Basis of preparation and significant accounting policies continued

Revenue recognition continued

(i) Call out revenue

Call out revenue is recognised based on the actual airtime used by the subscribers. Prepayments received for call out revenue are not recognised as revenue until the related service has been provided to the subscriber. Revenue is recognised based on the actual traffic time elapsed, at the customer selected calling plan rates.

(ii) Interconnect revenues and costs

The Group charges interconnect per minute fees and fixed monthly payments to other local wireless and fixed line operators for calls originated outside and terminated within the Group's network. The Group recognises such revenues when the services are provided. The Group is charged interconnect fees per minute and fixed monthly payments by other local wireless and fixed line operators for calls originated within the Group's network and terminated outside of the network. The Company recognises such costs when the services are provided.

(iii) Data revenue

The data service is recognised when a service is used by a subscriber based on actual data volume traffic or over the contract term, as applicable.

(iv) Roaming revenues charged to the Group's subscribers

Roaming revenue from the Group's subscribers for roaming in other operators' network is charged based on information provided by other operators to the Group.

(v) Roaming fees charged to other wireless operators

The Group charges roaming per minute fees to other wireless operators for non-Group subscribers utilising the Group's network. The Group recognises such revenues when the services are provided.

(vi) Value added services

Value added services mainly consists of content provided by third parties, different inforservices, fax and voice mail. When invoicing the end-customer for third party content service, amounts collected on behalf of the principal are excluded from revenue.

(vii) Deferred revenue

Prepayments received for communication services are recorded as deferred revenue. The Group recognises revenue when the related service has been provided to the subscriber.

Sales commission to dealers and distributors

The Company sells part of payment scratch cards, sim cards, and handsets using various distributors and dealers. The Company pays a certain commission to distributors and dealers depending on the number of payment scratch cards, sim cards or handset sold. The commission is recognised when the item is sold to the subscriber.

Payroll expenses and related contributions

Wages, salaries, contributions to pension funds, paid annual leave and sick leave, bonuses, and other benefits are accrued in the period in which the associated services are rendered by the employees of the Group.

Pension payments

The Group does not incur any expenses in relation to provision of pensions or other post-employment benefits to its employees. In accordance with the legal requirements of the Republic of Kazakhstan, the Group withholds pension contributions from employee salaries and transfers them into state or private pension funds on behalf of its employees. Upon retirement of employees, all pension payments are administered by the pension funds directly.

Income taxes

Income taxes have been provided for in these consolidated financial statements in accordance with Kazakhstani legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the period except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered in respect of taxable profits or losses for the current and prior periods. Taxable income or losses are based on estimates where the consolidated financial statements are authorised prior to the filling of the relevant tax return. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences are recorded only to the extent that it is probable that future taxable profit, including deferred tax liabilities, will be available against which the deductions can be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

2 Basis of preparation and significant accounting policies continued

Earnings per share

Preference shares are not redeemable and are considered to be participating shares. Earnings per share are determined by dividing the profit or loss attributable to owners of the Group by the weighted average number of participating shares outstanding during the reporting year. The Group has no dilutive or potentially dilutive securities outstanding.

Segment reporting

Segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately. The chief operating decision-maker has been identified as the Company's CEO. The Group determined the Group's operations as a single reporting segment.

Financial instruments

(i) Key measurement terms

Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and the current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure at fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

(ii) Classification of financial assets

Financial assets of the Group include loans and receivables. The management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise restricted cash (Note 10), trade receivables (Note 11), due from related parties (Note 7) and cash and cash equivalents in the consolidated statements of financial position.

Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year. The Group does not apply hedge accounting.

(iii) Classification of financial liabilities

Financial liabilities of the Group include financial liabilities carried at amortised cost. The Group's financial liabilities comprise trade and other financial payables (Note 13) and due to related parties (Note 7).

Notes to the consolidated financial statements

continued

2 Basis of preparation and significant accounting policies continued

Financial instruments continued

(iv) Initial recognition of financial instruments

Derivatives are initially recorded at fair value. All other financial assets and liabilities are initially recorded at fair value less transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

(v) Derecognition of financial assets

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

3 Critical accounting estimates, and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial period. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in these consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial period include:

Useful lives of property, plant and equipment and intangible assets

Management determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and intangible assets. This estimate is based on projected period over which the Group expects to consume economic benefits from the asset. It could change significantly as a result of technical innovations and competitor actions in a high-tech and competitive mobile industry. Carrying amount of assets most affected by judgements (switches and transmission devices) amounted to 68,228,770 thousand Tenge (Note 8) as of 31 December 2013 (2012: 61,080,559 thousand Tenge). Management will increase the depreciation charge where useful lives are less than previously assessed estimated lives, or it will write-off or write-down technically obsolete assets that have been abandoned or sold.

The management assesses the useful life of telecommunication licenses based on technology development and legal terms of the license agreements. The useful life of GSM and 3G license is assessed as estimated by the management as 15 years. The useful lives are reviewed at least at each reporting date.

Impairment of non-financial assets

At each reporting date management assesses whether there is any indication of impairment of non-financial assets. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell or its value in use. Calculation of value in use requires application of estimated data and professional judgment from management, which are considered reasonable in the existing circumstances.

In accordance with the Group's accounting policy, for the purposes of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Management has determined the whole telecommunication network of the Group as one cash-generating unit. Telecom licenses and other intangible assets, including WLL licenses, do not generate independent cash flows and are assessed for impairment together with the related network assets. Total carrying value of the cash generating unit as of 31 December 2013 is 126,323,390 thousand Tenge (2012: 126,476,556 thousand Tenge).

Management has considered whether there are any indications of impairment of property, plant and equipment and intangible assets as of 31 December 2013 and concluded that no impairment indications existed at this date.

4 Adoption of new or revised standards and interpretations

The following new standards and interpretations became effective for the Group from 1 January 2013:

Amendments to IAS 1 “Presentation of Financial Statements” (issued in June 2011, effective for annual periods beginning on or after 1 July 2012) changed the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to “statement of profit or loss and other comprehensive income”. The amended standard resulted in changed presentation of consolidated financial statements, but did not have any impact on measurement of transactions and balances.

“Disclosures – Offsetting Financial Assets and Financial Liabilities” – Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that enable users of an entity’s consolidated financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The Standard resulted in additional disclosures in these consolidated financial statements. Refer to Note 20. Unless otherwise described above, no other standards and interpretations effective from 1 January 2013 affect significantly the Group’s financial statements.

5 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2014 or later, and which the Group has not early adopted.

IFRS 9 “Financial Instruments: Classification and Measurement”. Key features of the standard issued in November 2009 and amended in October 2010, December 2011 and November 2013 are:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity’s business model is to hold the asset to collect the contractual cash flows, and (ii) the asset’s contractual cash flows represent payments of principal and interest only (that is, it has only “basic loan features”). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The amendments made to IFRS 9 in November 2013 removed its mandatory effective date, thus making application of the standard voluntary. The Group does not intend to adopt the existing version of IFRS 9.

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of ‘currently has a legally enforceable right of set-off’ and that some gross settlement systems may be considered equivalent to net settlement. The Group is considering the implications of the amendment and its impact on the Group. Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group’s financial statements.

Notes to the consolidated financial statements

continued

6 Segment information

The Group's operations are a single reportable segment.

The Group provides mobile communication services in Kazakhstan. The Group identifies the segment in accordance with the criteria set in IFRS 8 and based on the way the operations of the Group are regularly reviewed by the chief operating decision maker to analyse performance and allocate resources among business units of the Group.

The chief operating decision-maker ("CODM") has been determined as the Company's CEO. The CODM reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined a single operating segment being mobile communication services based on these internal reports.

Within the segment all business component demonstrates similar economic characteristics and are alike as follows:

- Providing mobile communication services to prepaid subscribers.
- Providing mobile communication services to postpaid and paid-in-advance subscribers.

The chief operating decision-maker assesses the performance of the operating segment based on a measure of Revenue, EBITDA, EBIT, and Profit for the year. The Group defines EBITDA as Profit before income tax, finance income and costs, depreciation, and amortisation. The Group defines EBIT as Profit before tax, finance income and finance costs. The Group's definition of EBITDA and EBIT may differ from that of other companies.

The accounting policies used for segments are the same as accounting policies applied for these consolidated financial statements as described in Note 2.

The segment information for the year ended 31 December 2013 and a reconciliation of segment's measures of profit or loss to profit for the year is provided as follows:

In thousands of Kazakhstani Tenge	2013	2012
Revenue	187,599,216	182,003,503
EBITDA	104,726,898	100,682,679
Depreciation and amortisation	(23,127,323)	(22,780,745)
EBIT	81,599,575	77,901,934
Finance income	299,228	131,088
Finance cost	(2,417,920)	(647,126)
Profit before income tax	79,480,883	77,385,896
Profit for the year	63,391,890	61,828,033

The Group's revenue for each service is presented in the Note 16. All revenue is attributable to the customers in Kazakhstan. All non-current assets other than financial instruments and deferred tax assets are located in Kazakhstan.

7 Balances and transactions with related parties

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Group's ultimate controlling party is TeliaSonera. Entities of TeliaSonera group include entities under common control and associates of TeliaSonera.

Amounts due from related parties at 31 December 2013 and 2012 are as follows:

In thousands of Kazakhstani Tenge		31 December 2013	31 December 2012
Entities of TeliaSonera group	Consulting, technical assistance and operational support	190,974	–
Entities of TeliaSonera group	Roaming	113,485	25,849
Turkcell (Minority owner of Parent)	Roaming	2,324	3,697
Entities of TeliaSonera group	Rent	79	–
Total due from related parties		306,862	29,546

Amounts due from related parties are neither past due nor impaired. It represents receivables from related parties for roaming services. These entities do not have credit ratings assigned but their reliability is determined by the Group on the basis of long-term cooperation and which have a good credit history. The Group's management believes that due from related parties in the amount of Tenge 306,862 thousand will be fully repaid in 2014.

Amounts due to related parties at 31 December 2013 and 2012 are as follows:

In thousands of Kazakhstani Tenge		31 December 2013	31 December 2012
Fintur Holding B.V. (Parent)	Technical assistance	392,660	284,503
Entities of TeliaSonera group	Roaming	56,177	20,532
Entities of TeliaSonera group	Interconnect	43,686	–
Turkcell (Minority owner of Parent)	Roaming	5,066	4,464
TeliaSonera (Ultimate parent)	Roaming	4,456	8,688
Total due to related parties		502,045	318,187

The income items with related parties for the years ended 31 December 2013 and 2012 were as follows:

In thousands of Kazakhstani Tenge		2013	2012
Revenues			
Entities of TeliaSonera group	Consulting, technical assistance and operational support	136,105	–
Entities of TeliaSonera group	Interconnect	98,626	–
Entities of TeliaSonera group	Roaming	24,100	132,183
Turkcell (Minority owner of Parent)	Roaming	13,113	48,481
Kazakhtelecom (Minority owner prior 2 February 2012)	Interconnect	–	232,297
Total revenues – related parties		271,944	412,961

Notes to the consolidated financial statements

continued

7 Balances and transactions with related parties continued

The expense items with related parties for the years ended 31 December 2013 and 2012 were as follows:

In thousands of Kazakhstani Tenge		2013	2012
Operating expenses			
Entities of TeliaSonera group	Transmission	845,957	–
Entities of TeliaSonera group	Roaming	390,723	357,620
Entities of TeliaSonera group	Interconnect	208,551	–
Fintur Holding B.V. (Parent)	Technical assistance	108,157	92,454
Turkcell (Minority owner of Parent)	Roaming	59,836	168,033
Telia Sonera (Ultimate parent)	Roaming	22,368	21,054
Kazakhtelecom (Minority owner prior 2 February 2012)	Interconnect and transmission	–	538,025
Total expenses – related parties		1,635,592	1,177,186

The Group has transmission (Note 19) and interconnect agreement with KazTransCom JSC, that became a related party of the Group starting from 14 January 2013 (Note 19).

The Group has also roaming agreements with Latvijas Mobilais Telefons SIA (“Latvijas Mobilais”), Omnitel Telecommunication Networks (“Omnitel”), Sonera Carrier Networks Ltd. (“Sonera Carrier”), Sonera Corporation, Telia Mobile AB Finland (“Telia Mobile”), the subsidiaries of TeliaSonera, Megafon and Estonian Mobile Telephone Group (“Estonian Mobile”), the associates of TeliaSonera, Turkcell, and Fintur’s subsidiaries, which are as follows: Azercell Telecom B.M. (“Azercell”), Geocell Ltd. (“Geocell”), Moldcell Ltd. (“Moldcell”), Telia Denmark, NetCom ASA (Telia NetCom Holding AS), TOV Astelit (“TOV Astelit”), Indigo Tajikistan (“Indigo Tajikistan”), Coscom LLC and Spice Nepal Pvt. Ltd. (“Spice Nepal Pvt. Ltd.”) under which they earn and incur certain revenues and costs. Since these revenues and costs occur continually, the balances between them are normally settled by means of mutual set-off.

In January 2003 the Group entered into a Technical and Management Support Agreement (“TMS Agreement”) with Fintur. In accordance with the TMS Agreement, Fintur provides the Group with technical and management assistance.

The Group delivers consulting, technical assistance and operational support to TeliaSonera UTA Holding B.V. and Indigo Tajikistan.

Memorandum on understanding

On 26 August 2012, Sonera and the Group entered into a memorandum of understanding (the Buy and Sell MoU). Under this MoU the Group has the right to require Sonera to sell to it, and Sonera has the right to require the Group to acquire from it, all participatory interests owned by Sonera in KazNet Media LLP (KazNet) and in Rodnik Inc LLP (Rodnik). Subject to satisfaction of the applicable conditions, each of Sonera and the Group is entitled to exercise its option at any time starting from nine months after the date of the planned offering of global depository receipts and listing on local stock exchange (Note 19).

The contractual right of Sonera to sell the underlying assets (debt and equity interests and related rights and obligations) to Kcell is a financial instrument (derivative) within the scope of IAS 39. The derivative instrument should be measured at fair value, with the changes in fair value recognised in income statement. The Group does not have an unconditional right to avoid the settlement.

Sonera has the right to terminate the Buy and Sell MoU at any time by serving a written notice to the Company.

Unless otherwise agreed by Sonera and the Company, exercise of these options is conditional upon Fintur having consented to, authorised or voted in favour of the acquisition to be made by the Company as a result of the exercise of such right. In addition, completion of the acquisition contemplated by the exercise of options is subject to law, regulation and any requisite approvals. Sonera has the option to sell (the “Put Option”) and the Company has the option to buy (the “Call Option”) the participatory interest. Strike price of both the options equals net costs incurred by Sonera, annually compounded using the interest rate (interest accruals begins when the costs are incurred or the receipts are cashed and ends when the participatory interest are transferred).

7 Balances and transactions with related parties continued

Memorandum on understanding continued

Neither the Put Option nor the Call Option can be exercised without the authorisation of Fintur. In addition there is an uncertainty in timing of requires changes in 4G/LTE regulation. Accordingly, there is an uncertainty in valuation of the derivative. The Company measured the derivative at original cost, which is zero.

The value of the Call Option to acquire the assets is nil as Sonera has the option to cancel it by issuing a written notification in this respect.

Directors' compensation

Compensation paid to directors for their services in full time executive management positions consists of a contractual salary, performance bonus depending on financial performance of the Group, and other compensation in form of reimbursement of apartment rent expenses from the Group and parent companies. Total directors' compensation included in staff costs in the statements of profit loss and other comprehensive income is equal to 340,189 thousand Tenge for the year ended 31 December 2013 (2012: 326,824 thousand Tenge). Directors classified as key management personnel include ten positions for 2013.

8 Property, plant and equipment

Movements in the carrying amount of property, plant and equipment were as follows:

In thousands of Kazakhstani Tenge	Freehold land	Buildings	Switches and transmission devices	Other	Construction in progress	Total
Cost at 31 December 2011	1,939,630	22,646,420	123,271,626	18,715,928	22,055,614	188,629,218
Accumulated depreciation	–	(3,526,658)	(71,971,196)	(12,759,716)	–	(88,257,570)
Carrying amount at 31 December 2011	1,939,630	19,119,762	51,300,430	5,956,212	22,055,614	100,371,648
Additions	53,637	2,815,602	4,016,987	4,576,588	17,451,248	28,914,062
Transfers	–	1,631,609	20,384,874	1,397,685	(23,414,168)	–
Disposals	–	(38,529)	(45,560)	(52,708)	–	(136,797)
Depreciation charge	–	(1,050,722)	(14,576,172)	(3,185,217)	–	(18,812,111)
Cost at 31 December 2012	1,993,267	27,291,320	148,284,982	23,658,376	16,092,694	217,320,639
Accumulated depreciation	–	(4,813,598)	(87,204,423)	(14,965,816)	–	(106,983,837)
Carrying amount at 31 December 2012	1,993,267	22,477,722	61,080,559	8,692,560	16,092,694	110,336,802
Additions	81,480	888,397	5,674,721	1,110,564	13,905,738	21,660,901
Transfers	–	483,921	17,236,323	243,932	(17,964,176)	–
Disposals	–	(5,799)	(53,779)	(19,348)	(120)	(79,046)
Depreciation charge	–	(1,087,441)	(15,709,054)	(2,753,316)	–	(19,549,811)
Cost at 31 December 2013	2,074,747	28,121,794	163,873,471	25,200,837	12,034,136	231,304,985
Accumulated depreciation	–	(5,364,994)	(95,644,701)	(17,926,445)	–	(118,936,140)
Carrying amount at 31 December 2013	2,074,747	22,756,800	68,228,770	7,274,392	12,034,136	112,368,845

At 31 December 2013, the gross carrying value of property, plant and equipment, which has been fully depreciated and still in use, was approximately 44,824,120 thousand Tenge (31 December 2012: 27,007,160 thousand Tenge).

Notes to the consolidated financial statements

continued

9 Intangible assets

In thousands of Kazakhstani Tenge	GSM network license and rights	Computer software and software license rights	Other telecom licenses	Other	Total
Cost at 31 December 2011	14,462,162	15,739,232	3,317,778	3,998	33,523,170
Accumulated amortisation	(7,162,028)	(6,835,396)	(1,090,759)	(1,296)	(15,089,479)
Carrying amount at 31 December 2011	7,300,134	8,903,836	2,227,019	2,702	18,433,691
Additions	102,417	1,572,280	–	–	1,674,697
Transfers	–	–	–	–	–
Disposals (net)	–	–	–	–	–
Amortisation charge	(1,068,358)	(2,568,371)	(331,778)	(127)	(3,968,634)
Cost at 31 December 2012	14,564,579	17,311,512	3,317,778	3,998	35,197,867
Accumulated amortisation	(8,230,386)	(9,403,767)	(1,422,537)	(1,423)	(19,058,113)
Carrying amount at 31 December 2012	6,334,193	7,907,745	1,895,241	2,575	16,139,754
Additions	–	1,392,237	–	66	1,392,303
Transfers	–	–	–	–	–
Disposals (net)	–	–	–	–	–
Amortisation charge	(1,134,867)	(2,109,507)	(331,778)	(1,360)	(3,577,512)
Cost at 31 December 2013	14,564,579	18,703,749	3,317,778	4,064	36,590,170
Accumulated amortisation	(9,365,253)	(11,513,274)	(1,754,315)	(2,783)	(22,635,625)
Carrying amount at 31 December 2013	5,199,326	7,190,475	1,563,463	1,281	13,954,545

The original GSM network license (GSM-900) was provided by the State Committee of Telecommunications and Information of the Republic of Kazakhstan for a fee in amount of 5.5 billion Tenge and is valid for 15 years, commencing June 1998. On 28 August 2008, the Group obtained a radio frequency band of 5 MHz spectrum (receipt/transit) in the range of 1800 MHz under the existing GSM network license (Note 1) for the amount of 2.6 billion Tenge. The acquired frequencies were capitalised as intangible assets within “GSM network license and rights” category.

The Group acquired two dormant local entities AR-Telecom LLP (“AR-Telecom”) in 2007 and KT-Telecom LLP (“KT Telecom”) in 2008. The purpose of these acquisitions was to obtain non-term WLL licenses and other related telecom licenses held by AR-Telecom and KT-Telecom that provide a right to organise wireless radio-access networks and data transfer services on the territory of Kazakhstan. The acquisitions of these entities were accounted for as acquisitions of groups of assets (licenses) rather than businesses. The acquired licenses were included in category “other telecom licenses” within intangible assets. Management estimated their economic useful life at 10 years.

On 25 December 2010, the Group received a right to operate 3G network by utilising a radio frequency band of 20 MHz (receipt/transit) in the range of 1920-1980 MHz and 2110-2170 MHz. The radio frequencies were provided in the form of addendum to the existing GSM license. The acquisition cost was 5 billion Tenge.

10 Other non-current assets

In thousands of Kazakhstani Tenge	31 December 2013	31 December 2012
Restricted cash	125,574	75,211
Total financial assets	125,574	75,211
Prepayments for property, plant and equipment	2,880,643	3,046,416
Prepayments for intangibles	124,727	–
Total other non-current assets	3,130,944	3,121,627

11 Trade and other receivables

In thousands of Kazakhstani Tenge	31 December 2013	31 December 2012
Trade and other receivables from dealers and distributors	3,380,474	7,406,783
Trade receivables from subscribers	2,641,742	2,396,607
Trade receivables for interconnect services	1,229,785	1,884,047
Trade receivables from roaming operators	363,855	558,486
Less: provision for impairment of trade receivables	(1,710,085)	(976,315)
Total financial assets	5,905,771	11,269,608
Advances to suppliers	2,501,779	1,067,051
VAT recoverable (net)	–	867,166
Prepaid other taxes	540,769	514,644
Deferred expenses	188,701	162,068
Other receivables	131,337	483,509
Total trade and other receivables	9,268,357	14,364,046

The Group classifies its accounts receivable into four classes: trade and other receivables from dealers and distributors, trade receivables from subscribers, trade receivables from roaming operators and trade receivables for interconnect services.

Trade and other receivables are denominated in currencies as follows:

In thousands of Kazakhstani Tenge	31 December 2013	31 December 2012
Tenge	5,541,916	10,711,122
US dollar	363,855	558,486
Total financial assets	5,905,771	11,269,608

Notes to the consolidated financial statements

continued

11 Trade and other receivables continued

Provision for impairment of trade receivables relates to trade receivables from subscribers and distributors. The ageing analysis of trade receivables is as follows:

In thousands of Kazakhstani Tenge	31 December 2013	31 December 2012
Total neither past due nor impaired	5,084,255	10,110,622
Past due but not impaired		
due for 1 month	154,689	269,526
due for 2 months	77,284	134,853
due for 3 months	63,188	184,394
due for 4 to 6 months	102,166	148,045
due for more than 6 months	424,189	422,168
Total past due but not impaired	821,516	1,158,986
Impaired		
30 to 60 days	4,064	6,440
60 to 90 days	7,021	15,133
90 to 120 days	7,570	21,254
120 to 150 days	10,459	16,719
150 to 200 days	760,122	32,698
over 200 days	920,849	884,071
Total impaired	1,710,085	976,315
Provision for impairment of trade receivables	(1,710,085)	(976,315)
Total financial assets	5,905,771	11,269,608

The main factors which the Group takes into account when considering the issue on impairment of receivables are their past due status and collectability. As a result, the Group presented the above aging analysis of receivables. Impairment of receivables was assessed based on past due status of such receivables.

Neither past due nor impaired receivables represent receivables from companies and subscribers with no credit ratings assigned but their reliability is determined by the Company on the basis of long-term cooperation representing those companies which have a good credit history. The Company's management believes that neither past due nor impaired receivables in the amount of Tenge 5,084,255 thousand will be fully repaid in 2014.

Reconciliation of movements in the financial assets impairment provisions:

In thousands of Kazakhstani Tenge	
At 31 December 2011	669,224
Charge for the year	440,768
Receivables written off during the year as uncollectible	(133,677)
At 31 December 2012	976,315
Charge for the year	733,770
At 31 December 2013	1,710,085

12 Share capital

Share capital of the Group at 31 December 2013 and 2012 is as follows:

	31 December 2013		31 December 2012	
	Shareholders	Number of shares	Shareholders	Number of shares
Fintur	51 percent	102,000,000	51 percent	102,000,000
Sonera	24 percent	48,000,000	24 percent	48,000,000
JSC Central Securities Depository	23.35 percent	46,709,056	22.56 percent	45,113,528
JSC Grantum Accumulative Pension Fund	0.95 percent	1,900,000	0.95 percent	1,900,000
Public	0.70 percent	1,390,944	1.49 percent	2,986,472

On 1 July 2012 General Meeting of Participants of GSM Kazakhstan approved a conversion of the Company from a Limited Liability Partnership to a Joint Stock Company with 200,000,000 common shares transferred to the Company's participants proportionally to their ownership percentage (Note 1).

The nominal registered amount of the Company's issued share capital at 31 December 2012 is 33,800,000 thousand Tenge, which was formed as a total equity as per interim consolidated financial statements prepared in accordance with IAS 34 on the date of Conversion.

The total authorised number of ordinary shares is 200,000 thousand shares with a par value of 169 Tenge per share. All issued ordinary shares are fully paid. Each ordinary share carries one vote. The Company did not have treasury shares.

On 13 December 2012, the Company has successfully completed its offering of Global Depository Receipts on the London Stock Exchange and common shares on Kazakhstan Stock Exchange. The offering consisted of a sale by TeliaSonera of 50 million shares, including shares representing 25 percent of the Company's share capital.

For the purpose of these consolidated financial statements, earnings per share is calculated by dividing net profit for the period attributable to owners of the Group by the number of common shares approved by the Company's participants.

	31 December 2013	31 December 2012
In thousands of Kazakhstani Tenge		
Profit for the period attributable to equity shareholders	63,391,890	61,828,033
Number of common shares	200,000,000	200,000,000
Earnings per share (Kazakhstani Tenge), basic and diluted	316.96	309.14

Dividends declared and paid during the years 2013 and 2012 were as follows:

	31 December 2013	31 December 2012
In thousands of Kazakhstani Tenge		
Dividends payable at 31 December 2011		–
Dividends declared during the year		115,877,439
Dividends paid during the year		(107,877,439)
Dividends payable at 31 December 2012		8,000,000
Dividends declared during the year		32,402,000
Dividends paid during the year		(40,402,000)
Dividends payable at 31 December 2013		–

Notes to the consolidated financial statements

continued

13 Trade and other payables

In thousands of Kazakhstani Tenge	31 December 2013	31 December 2012
Trade payables	18,636,939	10,664,606
Dividends payable	–	8,000,000
Total financial liabilities	18,636,939	18,664,606
Accrued salaries and bonuses to employees	2,634,219	2,499,081
Other payables	219,658	93,249
Total trade and other payables	21,490,816	21,256,936

Trade and other payables are denominated in currencies as follows:

In thousands of Kazakhstani Tenge	31 December 2013	31 December 2012
Tenge	17,141,552	17,252,327
US dollar	1,487,285	1,351,326
Euro	2,942	48,438
Other	5,160	12,515
Total financial liabilities	18,636,939	18,664,606

14 Borrowings

In thousands of Kazakhstani Tenge		31 December 2013	31 December 2012
Bank loans from:	– ATF Bank JSC	3,953,783	3,950,000
	– HSBC Kazakhstan JSC	6,007,583	–
	– Syndicated loans from Citibank Kazakhstan JSC and RBS Kazakhstan JSC	14,759,812	45,040,985
Total borrowings		24,721,178	48,990,985

The Group's bank loans mature within one year and are denominated in Kazakhstani Tenge. The Group does not apply hedge accounting and has not entered into any hedging arrangements in respect of interest rate exposures.

The carrying amount of borrowings approximates their fair value.

Bank name	Date of issue	Maturity date	Loan currency	Effective interest rate	Outstanding balance	Total borrowings
Syndicated loan from Citibank Kazakhstan JSC and RBS Kazakhstan JSC						
Kazakhstan JSC	26.09.2013	26.09.2014	KZT	7.70%	14,759,812	14,759,812
HSBC Kazakhstan	25.09.2013	25.09.2014	KZT	6.64%	6,007,583	6,007,583
ATFBank JSC	27.12.2013	27.01.2014	KZT	6.30%	2,752,599	2,752,634
ATFBank JSC	27.12.2013	26.03.2014	KZT	6.10%	1,201,184	1,201,149
Total					24,721,178	24,721,178

On 25 September 2013, the Company signed a credit line agreement with JSC Halyk Savings Bank for a credit line up to 30 billion Tenge with 24 months access period with an interest rate from 5.3 percent to 7.3 percent per annum for 1 month to 12 months tranches, accordingly. At 31 December 2013 the Company has not utilised this credit line.

14 Borrowings continued

On 25 September 2013, the Group signed a credit line agreement with JSC SB HSBC Kazakhstan for a credit line up to 6 billion Tenge with 12 months access period with a fixed interest rate of 6.5 percent.

On 26 September 2013, the Group fully repaid 15 billion Tenge loan under the Loan Facility Agreement with JSC Citibank Kazakhstan and JSC SB RBS Kazakhstan signed on 17 October 2012.

On 26 September 2013, the Group repaid 15.5 billion Tenge part of 30 billion Tenge loan to JSC Citibank Kazakhstan and JSC SB RBS Kazakhstan under the Loan Facility Agreement with JSC Citibank Kazakhstan and JSC SB RBS Kazakhstan signed on 26 September 2012. The outstanding loan balance of 14.5 billion Tenge under the Loan Facility Agreement with JSC Citibank Kazakhstan and JSC SB RBS Kazakhstan was extended with a fixed interest rate of 6.65 percent per annum and a maturity of twelve months from 24 September 2013.

On 21 June 2013 and 23 August 2013, the Group signed credit line agreements with ATFBank JSC for the amounts of 2.75 billion Tenge and 1.2 billion Tenge and on 26 December 2013 the Group fully utilized them by obtaining two tranches maturing on 27 January 2014 and 26 March 2014, correspondingly.

15 Deferred revenue

In thousands of Kazakhstani Tenge	31 December 2013	31 December 2012
Deferred revenue from paid-in-advance subscribers	4,151,515	3,139,459
Deferred revenue from pre-paid subscribers	3,195,171	2,871,563
Total deferred revenue	7,346,686	6,011,022

16 Revenues

In thousands of Kazakhstani Tenge	2013	2012
Voice service	143,731,059	146,668,854
Data service	26,231,953	18,754,610
Value added services	17,426,252	15,195,389
Other revenues	209,952	1,384,650
Total revenues	187,599,216	182,003,503

17 Expenses by nature

Operating expenses are presented on the face of the statements of profit or loss and other comprehensive income using a classification based on the functions "Cost of sales", "Selling and marketing expenses" and "General and administrative expenses". Total expenses by function were distributed by nature as follows.

In thousands of Kazakhstani Tenge	2013	2012
Interconnect fees and expenses	28,590,150	27,633,746
Network maintenance expenses	13,300,557	10,868,188
Transmission rent	8,592,273	9,144,685
Frequency usage charges and taxes other than on income	6,358,532	5,797,805
Cost of SIM card, scratch card, start package sales and handsets	1,728,035	2,597,334
Sales commissions to dealers and distributors and advertising expenses	11,699,940	12,365,505
Staff costs	7,581,784	7,653,180
Others	5,121,761	5,649,838
Depreciation of property, plant and equipment and amortization of intangible assets	23,127,323	22,780,745
Total expenses	106,100,355	104,491,026

Notes to the consolidated financial statements

continued

17 Expenses by nature continued

Amortisation and depreciation by function were as follows.

In thousands of Kazakhstani Tenge	2013	2012
Cost of sales	20,628,905	19,787,578
General and administrative expenses	2,498,418	2,993,167
Total depreciation of property, plant and equipment and amortisation of intangible assets	23,127,323	22,780,745

18 Taxes

Income taxes

Income tax expense comprises the following:

In thousands of Kazakhstani Tenge	2013	2012
Current income tax	15,961,763	14,444,580
Deferred income tax	127,230	1,113,283
Total income tax expense	16,088,993	15,557,863

Reconciliation between the expected and the actual taxation charge is provided below:

In thousands of Kazakhstani Tenge	2013	2012
IFRS profit before income tax	79,480,883	77,385,896
Theoretical tax charge at statutory rate of 20 percent (2012: 20 percent)	15,896,178	15,477,179
Non-deductible expenses	192,815	80,684
Income tax expense	16,088,993	15,557,863

The Group paid income tax in amount of 15,199,960 thousands Tenge for the year ended 31 December 2013 (2012: 16,066,945 thousands Tenge).

Differences between IFRS and Kazakhstani statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rates which are expected to be applied to the periods when the temporary difference will reverse.

In thousands of Kazakhstani Tenge	31 December 2012	Charged/ (credited) to profit or loss	31 December 2013
Tax effects of deductible temporary differences			
Deferred revenue	647,891	232,109	880,000
Other	479,087	(202,010)	227,077
Gross deferred tax asset	1,126,978	30,099	1,157,077
Tax effect of taxable temporary differences			
Property, plant and equipment	6,245,993	201,759	6,447,752
Intangible assets	(14,798)	(44,429)	(59,227)
Gross deferred tax liability	6,231,195	157,330	6,388,525
Less offsetting with deferred tax assets	(1,126,978)	(30,099)	(1,157,077)
Recognised deferred tax liability, net	5,104,217	127,231	5,231,448

18 Taxes continued

Income taxes continued

Comparative movements for year ended 31 December 2012 is detailed below:

In thousands of Kazakhstani Tenge	31 December 2011	Charged/ (credited) to profit or loss	31 December 2012
Tax effects of deductible temporary differences			
Deferred revenue	879,627	(231,736)	647,891
Intangible assets	–	14,798	14,798
Other	346,237	132,850	479,087
Gross deferred tax asset	1,225,864	(84,088)	1,141,776
Tax effect of taxable temporary differences			
Property, plant and equipment	5,033,096	1,212,897	6,245,993
Intangible assets	183,702	(183,702)	–
Gross deferred tax liability	5,216,798	1,029,195	6,245,993
Less offsetting with deferred tax assets	(1,225,864)	84,088	(1,141,776)
Recognised deferred tax liability, net	3,990,934	1,113,283	5,104,217

At 31 December 2013 deferred tax asset of 1,049,038 thousand Tenge and deferred tax liability of 1,106,900 thousand Tenge are expected to be recovered within next 12 months (31 December 2012: 862,919 thousand Tenge and 1,246,239 thousand Tenge, respectively).

19 Contingencies, commitments and operating risks

Political and economic conditions in Kazakhstan

The economy in the Republic of Kazakhstan continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of the country and a low level of liquidity of debt and equity securities in the markets.

Additionally, the telecommunication sector in Kazakhstan is impacted by political, legislative, fiscal and regulatory developments in Kazakhstan. The prospects for future economic stability in Kazakhstan are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory and political developments, which are beyond the Group's control.

The financial condition and future operations of the Group may be adversely affected by continued economic difficulties that are characteristic of an emerging market. Management is unable to predict the extent and duration of the economic difficulties, nor quantify the impact, if any, on these consolidated financial statements.

Taxation

Kazakhstani tax legislation and practice is in a state of continuous development and therefore is subject to varying interpretations and frequent changes, which may be retroactive. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Group may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Group may be assessed additional taxes, penalties and interest. Tax periods remain open to retroactive review by the tax authorities for five years.

The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2013 no provision for potential tax liabilities has been recorded (2012: nil).

Notes to the consolidated financial statements

continued

19 Contingencies, commitments and operating risks continued

Capital expenditure commitments

At 31 December 2013, the Group has contractual capital expenditure commitments in respect of property, plant and equipment totalling 5,808,515 thousand Tenge (2012: 4,285,230 thousand Tenge), mostly related to purchase of telecommunications equipment from Ericsson.

Non-cancellable lease commitments

Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

In thousands of Kazakhstani Tenge	2013	2012
Not later than 1 year	4,840,000	4,800,000
From 1 to 2 years	4,780,000	4,840,000
From 2 to 3 years	480,000	4,780,000
Later than 3 years	280,000	760,000
Total non-cancellable lease commitments	10,380,000	15,180,000

Non-cancellable lease agreement is represented by Telecommunication Services Agreement on lease of transparent communication channels and IP VPN network with Kazakhtelecom and the five-year fibre optics lease agreement with KazTransCom JSC.

Acquisitions and investments

(i) Memorandum of understanding with Sonera

On 26 August 2012, Sonera and the Company entered into a memorandum of understanding (the "Buy and Sell MoU"), under which the Company has the right to require Sonera to sell to it, and Sonera has the right to require the Company to acquire from it, all participatory interests owned by Sonera in KazNet Media LLP ("KazNet") together with all rights and obligations of Sonera under a framework agreement to buy all the participatory interests in the charter capital of KazNet (refer to "WIMAX Business Acquisition by Sonera" below) and all the participatory interests owned by Sonera in Rodnik Inc LLP ("Rodnik") together with all rights and obligations of Sonera under the agreements to buy participatory interests in the charter capital of Rodnik (refer to "Investment in Rodnik Inc LLP by Sonera").

Subject to satisfaction of the applicable conditions, each of Sonera and the Company is entitled to exercise its option at any time starting from nine months after the date of the offering of global depositary receipts and listing on local stock exchange, 13 December 2012. The purchase price that the Company will pay to Sonera for the acquisition resulting from the exercise of the option will be the amount of net cost incurred by Sonera in connection with the corresponding investments and acquisition transactions plus interest accrued on such amount.

Sonera has the right to terminate the Buy and Sell MoU at any time by serving a written notice to the Company.

Unless otherwise agreed by Sonera and the Company, exercise of these options is conditional upon Fintur having consented to, authorised or voted in favour of the acquisition to be made by the Company as a result of the exercise of such right. In addition, completion of the acquisition contemplated by the exercise of options is subject to law, regulation and any requisite approvals. Sonera has the option to sell (the "Put Option") and the Company has the option to buy (the "Call Option") the participatory interest. Strike price of both the options equals net costs incurred by Sonera, annually compounded using the interest rate (interest accruals begins when the costs are incurred or the receipts are cashed and ends when the participatory interest are transferred).

Neither the Put Option nor the Call Option can be exercised without the authorisation of Fintur. In addition there is an uncertainty in timing of requires changes in 4G/LTE regulation. Accordingly, there is an uncertainty in valuation of the derivative. The Company measured the derivative at original cost, which is zero.

The value of the Call Option to acquire the assets is nil as Sonera has the option to cancel it by issuing a written notification in this respect.

19 Contingencies, commitments and operating risks continued

Acquisitions and investments continued

(ii) WIMAX Business Acquisition by Sonera

On 13 August 2012, Sonera entered into a framework agreement with a third party to buy all the participatory interests in the charter capital of KazNet for a total consideration of US\$170 million. The acquisition was completed on 14 January 2013.

As a condition precedent to Sonera's purchase of the participatory interests in KazNet, KazNet acquired two limited liability partnerships in Kazakhstan, namely Aksoran LLP ("Aksoran") and Instaphone LLP ("Instaphone"). Aksoran and Instaphone each holds certain radio frequency permits that are capable of being deployed for the operation of a WIMAX business in Kazakhstan. The KazNet group will own and operate a WIMAX business in Kazakhstan.

(iii) Investment in Rodnik by Sonera

Sonera negotiated an agreement with a third party to acquire 25% of the participatory interests in the charter capital of Rodnik. Rodnik owns 79.92% of the total share capital of KazTransCom JSC ("KTC").

The purchase price for acquisition is US\$20 million, subject to adjustments to be made based on the amount of net debt of Rodnik and KTC at the time the acquisition is completed.

On 13 August 2012, Sonera entered in a call option agreement with a third party under which Sonera has a call option to acquire another 75% participatory interest in Rodnik. Pursuant to the terms of that call option agreement, the call option exercise price will be calculated based on fair market value of the participatory interest in Rodnik.

The acquisition of 25% of the participatory interests in the charter capital of Rodnik was completed on 14 January 2013.

Legal proceedings

The Group is party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding that, upon final disposition, will have a material adverse effect on the financial position of the Group.

Anti-monopoly legislation

On 18 October 2011, the Agency issued an order mandating inclusion of the Company in the State Register of Dominant and Monopolistic Entities of the Republic of Kazakhstan (the "State Register") in respect of certain services provided by the Company, including interconnection services. The Company challenged its inclusion in the State Register.

In April 2013 the Appellate Judicial Panel for Civil and Administrative Cases of Astana Court cancelled the Order. However, in June 2013 Cassation Board of Astana court cancelled the April decision of Appellate Judicial Panel for Civil and Administrative Cases. The Company continued to appeal against inclusion in the State Register in the Supervisory Board of the Supreme Court, however in November 2013 the Company's application had been cancelled.

Starting from June 2013 the Company is subject to regulation by the Ministry of Transport and Communication (the "Ministry"). The Ministry can reduce the Company's interconnection tariffs, while interconnection tariffs of other mobile operators that have not been included in the State Register would remain unregulated. The Ministry did not change interconnection tariffs of the Company in 2013 and cannot do it retrospectively.

Telecommunication regulation

In January 2013 the Ministry required lowering the maximum tariff plans. When Company refused to fulfill the requirements, the Order had been issued on violation of fulfilling the requirements. The Company challenged the Order and requirements in Specialized Inter-District Economic Court of Astana city (SIEC), which in June cancelled the Order and requirements. Subsequently Appeal decision dated 28 August 2013 and Cassation decision dated 15 January 2014 confirmed the decision of SIEC. The Ministry has a right to further appeal to Supreme Court.

Management believes that the Company would defend its position if the Ministry applies to Supreme Court. No provision has been recorded as of 31 December 2013.

Notes to the consolidated financial statements

continued

19 Contingencies, commitments and operating risks continued **“Always Available” investigation on alleged violation**

In 2013, certain subscribers of the Company complained on charging for voicemail services provided by the Company but they had not signed for. The Agency of Competition Protection (ACP) made an investigation and the Company can be fined for 10,906,022 thousand KZT by Administrative Court. The amount of fine was considered to be excessive by the Company as it was calculated from total voice revenues, rather than from specific revenue in question and therefore, the Company filed a petition to the court, which required ACP to reconsider the amount of the fine. The Company provided information on revenues from “Always Available” services for 2012 and 2013 to ACP.

On 19 March 2014, first instance court granted the Company’s petition and required ACP to provide more detailed information on claimed violation. The Company expects to receive a new order from ACP with the revised amount of fine. However, due to lack of clarity in the legislation, the amount of potential fine is subject to varying interpretations by ACP, including methodology of calculation and wide range of time period application. Therefore, management believes that due to this uncertainty, it is not possible to estimate reliably the amount of potential fine.

Besides, on 27 November 2013, ACP issued an order prescribing to eliminate violations of the competition law. According to this order, Kcell JSC is to, by 27 December 2013, cease to provide the Always Available service if no consent of the subscriber has been obtained. On 26 December 2013, Kcell JSC filed an application with Specialized Interdistrict Economic Court of Astana seeking cancellation of the said order. The Company disagrees with the alleged violation and will challenge the position of ACP in court. On 12 March 2014, the Specialized Interdistrict Economic Court of Astana has dismissed the Company’s petition. The Company intends to challenge the decision of the Specialized Interdistrict Economic Court of Astana. No provision has been recorded as of 31 December 2013.

“Daytime Unlimited” investigation on alleged violation

In September 2013 ACP initiated investigations on alleged violation by the Company of the anti-monopoly law in respect to “Daytime Unlimited” tariff plan. In January 2014, ACP finished the investigation and claimed abuse of market dominant position by the Company which led to violation of customers rights, and the Company received investigation findings with proposed penalty in the amount of 16,053,502 thousands Tenge based on the total voice revenue.

The Company does not agree with the allegations and applied to Specialized Interdistrict Administrative Court of Almaty (SMAS) to limit the fine to be based on the Code of Administrative Offence Article 147 (part 3). On 7 March 2014 SMAS supported ACP claim against the Company.

On 18 March 2014 the ACP addressed to the Company an Order on cessation and elimination of consequences of violation of the competition laws, pursuant to which it ordered that the Company shall have on or before 21 April 2014: 1) to stop collection of the subscription fee under the tariff plan “Daytime Unlimited” in case of insufficiency of funds on the account; 2) to ensure interruption of connection (radiotelephone conversation or the service of access to the Internet) when the funds on the accounts of subscribers come to an end; 3) to ensure refund of funds to subscribers, received as a result of failure to interrupt the connection (radiotelephone conversation or the service of access to the Internet) when the funds on the accounts of subscribers come to an end. The Company intends to challenge this order.

On 28 March 2014 Kcell JSC appealed against the ruling of SMAS regarding the ‘Daytime Unlimited’ service and failure to disconnect calls on Kcell network in the Almaty City Court. On 15 April 2014 the Board of Appeals of the Almaty City Court (Board of Appeals) announced its determination. The court has determined to partially grant the complaint, alter the decision of SMAS and, pursuant to Part 3 of art. 147 of RK Code of Administrative Offence, impose a fine on Kcell JSC in the amount of 325,850 thousand Tenge. However, on these financial statements’ issuance date the official notification from the Board of Appeals has not been received yet.

Due to different interpretations of the potential fine calculation methodology and wide range of time scope ACP may use for calculations, management believes that the outcome and amount of fine is uncertain. Therefore, no provision has been recorded as at 31 December 2013.

20 Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk), liquidity risk and credit risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not use derivative financial instruments to hedge risk exposures.

Risk management is carried out by management under policies approved by the management committee. The management committee provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk.

Credit risk

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's sales on credit terms and other transactions with counterparties giving rise to financial assets.

The Group's maximum exposure to credit risk by class of assets is as follows:

In thousands of Kazakhstani Tenge	Note	31 December 2013	31 December 2012
Cash and cash equivalents		18,916,258	3,075,138
Trade receivables	11	5,905,771	11,269,608
Due from related parties	7	306,862	29,546
Restricted cash	10	125,574	75,211
Total maximum exposure to credit risk		25,254,465	14,449,503

The Group has policies in place to ensure that sales of products and services are made to customers and distributors with an appropriate credit history. If corporate customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer taking into account its financial position, past experience and other factors. The Group's management reviews ageing analysis of outstanding trade receivables and follows up on past due balances. Customers that fail to settle their liabilities for mobile services provided are disconnected until the debt is paid. Management provides ageing and other information about credit risk in Note 11. The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount of trade receivables exposed to credit risk. The Group has no significant concentrations of credit risk since the customers portfolio is diversified among a large number of customers, both individuals and companies. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provisions already recorded.

The Group has established relationships with a number of banks, which are considered at time of deposit to have minimal risk of default. The Group accepts only those banks in Kazakhstan that have highest credit ratings.

The Group reviews credit ratings of those banks periodically to decrease credit risk exposure. As the Republic of Kazakhstan continues to display some characteristics of an emerging market certain risks inherent to the country are also inherent to the banks where the Group placed its cash and cash equivalents and term deposits at the end of the reporting period.

Foreign exchange risk

The majority of the Group's purchases of property, plant and equipment and inventories, as well as certain services such as roaming are denominated in US Dollars. Hence, the major concentration of foreign exchange risk arises from the movement of the US Dollar against the Tenge. Due to the undeveloped market for financial instruments in Kazakhstan, the management does not hedge the Group's foreign exchange risk.

At 31 December 2013, if the US Dollar had weakened/strengthened by 10% percent against Tenge with all other variables held constant, after-tax profit for year ended 31 December 2013 would have been 26,776 thousand Tenge lower/higher (2012: 42,517 thousand Tenge lower/higher), mainly as a result of foreign exchange gains/losses on translation of US Dollar denominated bank balances, receivables and payables. Profit is less sensitive to movement in Tenge/US Dollar exchange rates at 31 December 2013 than at 31 December 2012 because of the increased amount of US Dollar denominated cash and cash equivalents in 2013.

Notes to the consolidated financial statements

continued

20 Financial risk management continued

Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group does not have floating interest bearing assets and liabilities as of 31 December 2013.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash. Due to the dynamic nature of the underlying businesses, the Group's treasury aims to maintain flexibility in funding by keeping sufficient cash available.

The table below shows financial liabilities at 31 December 2013 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the reporting date.

The maturity analysis of financial liabilities at 31 December 2013 is as follows:

In thousands of Kazakhstani Tenge	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Total
Liabilities				
Borrowings	2,752,599	1,201,184	20,767,395	24,721,178
Trade payables	18,636,939	–	–	18,636,939
Due to related parties	502,045	–	–	502,045
Total future payments	21,891,583	1,201,184	20,767,395	43,860,162

Comparative maturity analysis of financial liabilities at 31 December 2012 is detailed below:

In thousands of Kazakhstani Tenge	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Total
Liabilities				
Borrowings	2,750,000	1,200,000	45,040,985	48,990,985
Trade payables	10,664,606	–	–	10,664,606
Dividends payable	–	–	8,000,000	8,000,000
Due to related parties	318,187	–	–	318,187
Total future payments	13,732,793	1,200,000	53,040,985	67,973,778

Management believes that the payments of the borrowings, the remaining of the dividends and other financial liabilities will be financed by cash flows from operating activities and that the Group will be able to meet its obligations as they fall due. The Company can extend borrowings up to an additional twelve month, subject to consent of the lenders (Note 14).

20 Financial risk management continued

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for owners and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to owners, return capital to owners, issue new capital and sell assets to reduce debt.

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2013:

	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c) = (a) – (b)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		
				Financial instruments (d)	Cash collateral received (e)	Net amount of exposure (c) – (d) – (e)
Assets						
Trade receivables from interconnect services	3,766,647	(2,536,862)	1,229,785	–	–	1,229,785
Trade receivables from roaming services	1,424,153	(1,060,298)	363,855	–	–	363,855
Total assets subject to offsetting, master netting and similar arrangement	5,190,800	(3,597,160)	1,593,640	–	–	1,593,640
Liabilities						
Trade payables for interconnect services	2,536,862	(2,536,862)	–	–	–	–
Trade payables for roaming services	1,060,298	(1,060,298)	–	–	–	–
Total liabilities subject to offsetting, master netting and similar arrangement	3,597,160	(3,597,160)	–	–	–	–

Notes to the consolidated financial statements

continued

20 Financial risk management continued

Capital management continued

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2012:

	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c) = (a) – (b)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure (c) – (d) – (e)
				Financial instruments (d)	Cash collateral received (e)	
Assets						
Trade receivables from interconnect services	4,918,803	(3,034,756)	1,884,047	–	–	1,884,047
Trade receivables from roaming services	1,289,700	(731,214)	558,486	–	–	558,486
Total assets subject to offsetting, master netting and similar arrangement	6,208,503	(3,765,970)	2,442,533	–	–	2,442,533
Liabilities						
Trade payables for interconnect services	3,034,756	(3,034,756)	–	–	–	–
Trade payables for roaming services	731,214	(731,214)	–	–	–	–
Total liabilities subject to offsetting, master netting and similar arrangement	3,765,970	(3,765,970)	–	–	–	–

The amount set off in the statement of financial position reported in column (b) is the lower of (i) the gross amount before offsetting reported in column (a) and (ii) the amount of the related instrument that is eligible for offsetting. Similarly, the amounts in columns (d) and (e) are limited to the exposure reported in column (c) for each individual instrument in order not to understate the ultimate net exposure.

The Group has master netting arrangements with telecom operators, which are enforceable in case of default. In addition, applicable legislation allows an entity to unilaterally set off trade receivables and payables that are due for payment, denominated in the same currency and outstanding with the same counterparty. These fall in the scope of the disclosure as they were set off in the statement of financial position.

21 Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Republic of Kazakhstan continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value

Financial derivatives are carried in the consolidated statement of financial position at their fair value.

Financial assets carried at amortised cost

The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of cash and cash equivalents, trade receivables and due from related parties approximate fair values due to their short-term maturities.

Financial liabilities carried at amortised cost

The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Carrying amounts of trade payables, dividends payable and due to related parties approximate fair values due to their short term maturities.

22 Subsequent events

Tenge devaluation

On 11 February 2014 National Bank of the Republic of Kazakhstan decided to stop supporting the Tenge exchange rate and decreased currency interventions. As a result, the exchange rate of Tenge depreciated to 185 tenge for 1 US Dollar and the Group recognised a foreign exchange loss of 530 million Tenge in 2014 prior to authorisation of these financial statements for issue. At 31 December 2013, the exchange rate of USD 1 was 153.61 Tenge.

Corporate information

This annual report provides information on Kcell JSC. Comparative information about Kcell's competitors and other organisations, and the macroeconomic overview, was gathered from publicly available sources (statistics, research, international agencies, company reports).

Contact information

Kcell Joint Stock Company (Kcell JSC)
Registered office: Building 100, Samal-2, Almaty, 050051, Republic of Kazakhstan
Mailing address: 2G, Timiryazev Street, Almaty, 050013, Republic of Kazakhstan
Tel: +7 (727) 258 2755
Fax: +7 (727) 258 2768
www.kcell.kz

Investor Relations

Irina Shol
Tel: +7 (727) 2582755, ext. 1205
Email: Irina.Shol@kcell.kz
Investor_Relations@kcell.kz

Register

JSC The Integrated Securities Register
141 Abylai Khan Prospect Almaty 050000, Republic of Kazakhstan
Tel: +7 (727) 272-47-60
Fax: +7 (727) 272-47-66
www.tisr.kz

Auditor

PricewaterhouseCoopers LLP
34/A Al-Farabi Avenue Almaty 050059, Republic of Kazakhstan
Tel: +7 (727) 330 3200
Fax: +7 (727) 244 6868
www.pwc.com/kz

Disclaimer

This annual report is drawn up using information which is relevant as of date of drawing up the report. Some statements in this report may have an estimating nature and relate to various risks and uncertainties. Some of these statements may include the usage of estimating terms such as 'estimates', 'supposes', 'expects', 'may', 'according to estimations', 'intends to', 'will', 'will continue to', 'must', 'would', 'is planning to', 'roughly' or other similar statements or their negative forms, derivatives or other similar terms. Such estimations include information which is not historical fact. They are to be found in several sections of this annual report and include statements referring to intentions, estimations or current expectations of the Company with regard to the results of its activities, financial standing, liquidity, prospective development, growth, Company strategies as well as the industry in which it operates. Owing to their nature, such estimations are connected with risks and uncertainties since they refer to events and depend of circumstances which may or may not occur in future.

Estimations do not guarantee future performance indicators, and actual performance results, financial standing, liquidity of the Company and the changes to the industry, in which the Company operates, may be significantly different from the ones specified in the estimations contained in this claim. At the same time, even if performance results, financial standing, liquidity of the Company or the changes to the industry, in which the Company operates, correspond to the estimations, contained in this annual report, such results or changes may not serve as evidence of certain results or changes in subsequent periods. Significant factors that may cause such differences may include, among other things, general economic conditions and the market condition, including prices of goods and the demand for the Company services; circumstances connected with competition in sectors, where the Company and its clients compete; changes to state regulations and state policies with regard to the maintenance of the telecommunications sector in Kazakhstan; changes to the requirements of the tax laws, including changes to the tax rates, new tax laws and changes to the interpretation of the tax laws; fluctuations of the interest rates and other capital market conditions; fluctuations of the exchange rates; economic and political conditions on international markets, including changes to the government, as well as time factors, consequences and other uncertainties of future actions.

Estimates concerning the Company's development are current only on the date when they are made. Except in cases where it is required by law, Kcell is under no obligation to update them in the light of new information or future events.

The Company accordingly does not assume any liability for losses that may be incurred by persons or entities acting based on estimates in this annual report. Such estimates should not be regarded as the most probable outcomes, since they represent only one of many scenarios.

Glossary

List of abbreviations used in the annual report

JSC	joint stock company
GHZ	gigahertz
MB	megabyte
MHz	megahertz
MNP	mobile number portability

Explanation of key financial terms and figures

ARMU	Average revenue per minute.
ARPU	Average revenue per user.
ARMB	Average revenue per MB.
CAPEX	Capital expenditure and advances paid for property, plant and equipment as well as software and licences including investments in tangible and intangible non-current assets, but excluding goodwill and fair value adjustments recognised in acquisitions, and excluding the recording of assets retirement obligations.
EBITDA	Earnings before interest, taxes, depreciation and amortisation.
Operating leverage	A measurement of the degree to which a company incurs a combination of fixed and variable costs.

Explanation of industry-specific terms

3G	The third generation of cellular wireless standards providing high-speed data transmissions and supporting multimedia applications such as full-motion video, video conferencing and Internet access.
4G	The fourth generation of cellular wireless standards.
Call centre	Centre for servicing calls.
EDGE	GSM evolution with enhanced data rates. It is an evolution of GPRS and enables throughput at rates that are three to four times faster than GRPS.
EPSI Rating	An independent organisation that conducts research for the Pan-European Customer Satisfaction Index.
GPRS	General packet radio service is provides direct connections of the base stations to the internet, thus bypassing the switching systems typically used to connect mobile traffic to fixed networks. GPRS provides users of mobile communications services better data access capability with virtually instant and permanent connections, at speeds almost ten times higher than GSM.
GSM	The global system for mobile communications. GSM systems operate primarily in the 900 MHz (GSM 900) and 1800 MHz (GSM 1800, also referred to as DCS 1800) frequency bands.
HSPA	Evolved high-speed packet access (high-speed packet data transfer).
IVR	Interactive voice response is a system of pre-recorded voice messages that route calls within the call centre.
LTE	Long Term Evolution. A standard for improving mobile data transfer technologies developed by 3GPP (3rd Generation Partnership Project).
LTE TDD	Advanced time-division duplexing technology.
MMS	Multimedia messaging service is a standard for advanced wireless terminals that allows users to send and receive messages with multimedia content, such as images, audio and video clips, in non-real time.
MOU	Minutes of use of voice services by a caller.
MVNO	Mobile virtual network operator is a cellular operator that uses existing infrastructure of another operator but sells services under its own brand.
SMS	Short message service is a mobile communication system that allows users to share alphanumeric messages up to 160 characters between mobile devices through a short message service centre.
Subscribers	The number of subscribers are calculated based on 6 months' activity rule.
UMTS	Universal mobile telecommunications system.
VAS-services	Value-added services.
WCDMA	Wideband code division multiple access.
WIMAX	Worldwide Interoperability for Microwave Access is the successor to Wi-Fi; it is a general term used to describe any network with an IEEE 802.16 standard radio signal with radius up to 80 km and with a capacity of up to 75 bits per second.