

# Annual Report 2012



**Kcell**™



# Contents

## **1 Kcell Company**

- 1.1 Kcell Today
- 1.2 Key Performance Indicators
- 1.3 Addresses of the Management
- 1.4 The Kcell Business
- 1.5 Geographic Reach
- 1.6 Mission, Visions and Values  
of the Company
- 1.7 Market Trends

## **2 Results 2012**

- 2.1 Significant Events for the Reporting Year
- 2.2 Expanding the Subscriber Base
- 2.3 Improving Services
- 2.4 Network and Technology Development
- 2.5 Financial Review

## **3 Corporate Governance**

- 3.1 Corporate Governance Principles and  
Structure
- 3.2 General Shareholders' Meeting
- 3.3 Board of Directors
- 3.4 Executive Management
- 3.5 Risk Management
- 3.6 Share and Dividend Policy



## **4 Sustainability**

4.1 Corporate Social Responsibility:  
the Kcell Approach

4.2 Staff Development

4.3 Corporate Social Responsibility

## **5 International Financial Reporting Standards Consolidated Financial Statements for the year ended 31 December 2012 and Independent Auditor's Report**

## **6 Additional Information**



# 1 Kcell Company

## 1.1 Kcell Today

Kcell Joint Stock Company (further – Kcell or The Company) is the leading provider of cellular communication services in Kazakhstan by market share and in terms of revenue and subscribers. The Company succeeded in defending and retaining its leading market position in spite of changes in the competitive environment.

Kcell has 13.5 million subscribers in Kazakhstan at the end of 2012, representing approximately 47% of the country's total subscriber base. Kcell's consistently high market share in terms of revenue – 54.5% - demonstrates the high quality of services provided by the Company.

Kcell renders communication services, including cellular services, such as voice calls and SMS, data transfer services, Internet access, MMS and other services. The Company has two brands: Kcell, which targets the premium market (including corporate and government clients), and Activ, which targets the mass market. These brands are the strongest in the Kazakhstani mobile market and are ahead of competitors in customer satisfaction, according to research of Extended Performance Satisfaction Index (EPSI Rating) conducted in 2011 and 2012. The Company provides service through an extensive, high quality network that covers almost the entire populated territory of Kazakhstan.

Kcell possesses a number of unique characteristics and is a profitable target for investment:

- Leading operator in Kazakhstan
- Superior network
- Customer-centric approach with a strong local brand and extensive distribution network
- Strategic relationship with TeliaSonera
- International management experience
- Well positioned to capture growth in data transmission services
- High profitability and effective capital management that ensure cash flow
- Strong macroeconomic fundamentals of Kazakhstan



## Kcell and TeliaSonera

Kcell is part of TeliaSonera, the largest Nordic telecommunications company. TeliaSonera has existed since 1853 from Swedish Royal Telegraph Company and is a pioneer in the telecommunications industry, one of the inventors of mobile communications, and the creator of the GSM standard. TeliaSonera provides telecommunication services and network access to help people and companies communicate simply and effectively.

The holding has evolved from separate local operators into the fifth-largest telecommunications group in Europe. TeliaSonera continues to invest in high-quality networks to meet growing demand for services and data transfer, and together with its partners and suppliers offers its clients access to the best solutions. TeliaSonera Group has more than 27.8 thousand employees around the world. In 2012, the groups' sales reached 104,9 billion Swedish kronor (about U.S. \$16.2 billion), EBITDA amounts 36.1 billion Swedish kronor (U.S. \$5.6 billion). TeliaSonera shares are listed on the NASDAQ OMX, Stockholm and Helsinki stock exchanges.

As a part of the group, Kcell enjoys unique benefits of strategic leadership from TeliaSonera. For example, in 2011 the company became a participant of a global re-branding campaign, which led to the creation of a single brand image for 18 different TeliaSonera brands. Every Kcell subscriber now knows he is being served not only by a local operator, but by the international telecommunications holding TeliaSonera, with the corresponding quality of service. The company is also able to cut costs by participating in other TeliaSonera initiatives, such as the international roaming program, through which TeliaSonera group companies offer intra-group discounts on roaming and common end-user pricing, and the joint technology initiative, which includes common procurement across the TeliaSonera group. Kcell also develops its internal policies and guidelines in cooperation with TeliaSonera, including in the area of corporate governance and corporate responsibility.

## The History of Kcell

Kcell is a subsidiary of Fintur Holdings B.V., which designs, constructs and operates a cellular telecommunications network on the GSM standard in the Republic of Kazakhstan. The company was formed as a limited liability company on June 1, 1998, under the name GSM Kazakhstan OJSC "Kazakhtelecom" LLP. Until February 2, 2012, Fintur Holdings B.V. owned 51% of the Company's capital, with the remaining 49% belonging to Kazakhtelecom JSC. The owners of Fintur Holdings B.V. are TeliaSonera Finland Oyj and Turkcell Iletisim Hizmetleri AS; they hold, respectively, 58.55% and 41.45% of shares. On February 2, 2012, the 49% share owned by Kazakhtelecom JSC was sold to Sonera Holding B.V., an entity which is under the control of TeliaSonera. On July 1, 2012, a General Meeting of Participants for GSM Kazakhstan OJSC "Kazakhtelecom" LLP approved the conversion of the Company from a limited liability company into a joint stock company with 200 million common shares, to be transferred



to Fintur and Sonera proportionally to their ownership percentage. The meeting also approved the change of the Company's name to Kcell JSC. On August 27, 2012, the Ministry of Justice registered the Company as a joint stock company.

On December 13, 2012, Kcell successfully listed its GDRs on the London Stock Exchange and its common shares on the Kazakhstan Stock Exchange. The listing was a sale by TeliaSonera of 50 million shares, which constituted 25% of the Company's share capital. IPO was done due to the conditions of the agreement with Kazakhtelecom and Government aimed to develop Kazakhstani capital market.



## 1.2 Key Performance Indicators

### Financial Indicators

	Units of measurement	2009	2010	2011	<b>2012</b>	2012/ 2011
Revenues	KZT million	130,352	152,488	178,786	<b>182,004</b>	+2.9%
EBITDA	KZT million	70,588	87,933	105,794	<b>101,426</b>	-4.3%
EBITDA margin	%	54.2	57.7	59.2	<b>55.7</b>	-5.9%
Capital expenditures	KZT million	24,648	28,575	26,801	<b>26,730</b>	-0.3%
Capital expenditures / Revenue	%	18.9	18.7	15.0	<b>14.7</b>	-0.3 percentage points
Cash flow from operating activities	KZT million	55,137	84,396	81,412	86,187	+5.9%
Net debt / EBITDA	%	-	-	-	<b>0.46</b>	-
Profit	KZT million	43,197	54,768	66,858	<b>61,828</b>	-7.5%
Dividends	KZT million	41,600	58,000	115,877	<b>32,403*</b>	-
Dividends / Profit	%	96.3	105.9	173.0	n/a	n/a

\* Dividends planned for announcement in the second quarter of the fiscal year ending December 31, 2013, in an amount attributable to 100% of the Company's net profits for the period from July 1, 2012 to December 31, 2012



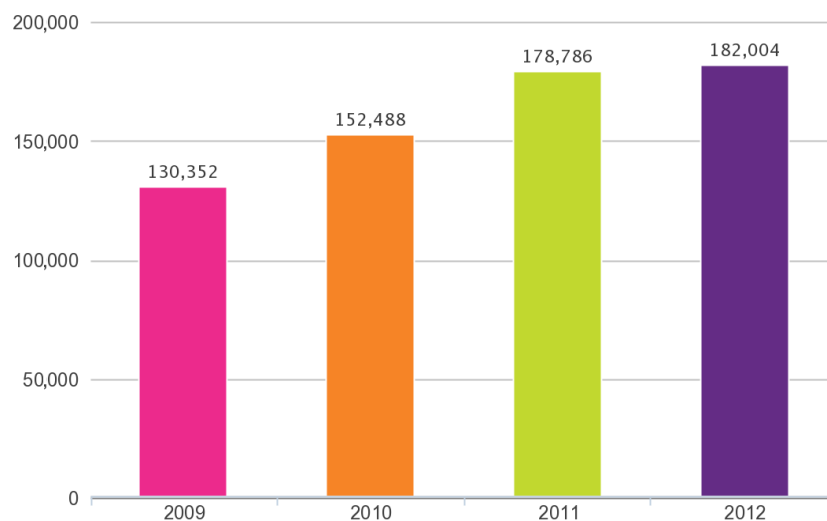
## Operating Indicators

	Units of measurement	2009	2010	2011	<b>2012</b>	2012/ 2011
<b>Subscriber base</b>						
Subscribers	million subscribers	7.165	8.922	10.850	<b>13.463</b>	+24.1%
Kcell subscribers	million subscribers	1.242	1.348	1.497	<b>1.742</b>	+16.4%
Activ subscribers	million subscribers	5.923	7.574	9.353	<b>11.721</b>	+25.3%
Average revenue per user (ARPU)		1,493	1,580	1,472	<b>1,252</b>	-14.9%
Average monthly use of data services	Mb per subscriber	4	5	19	<b>77</b>	305,3%

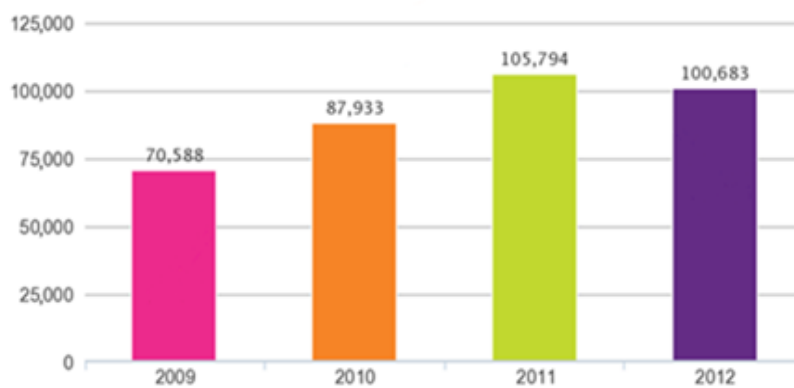




Revenues, KZT million

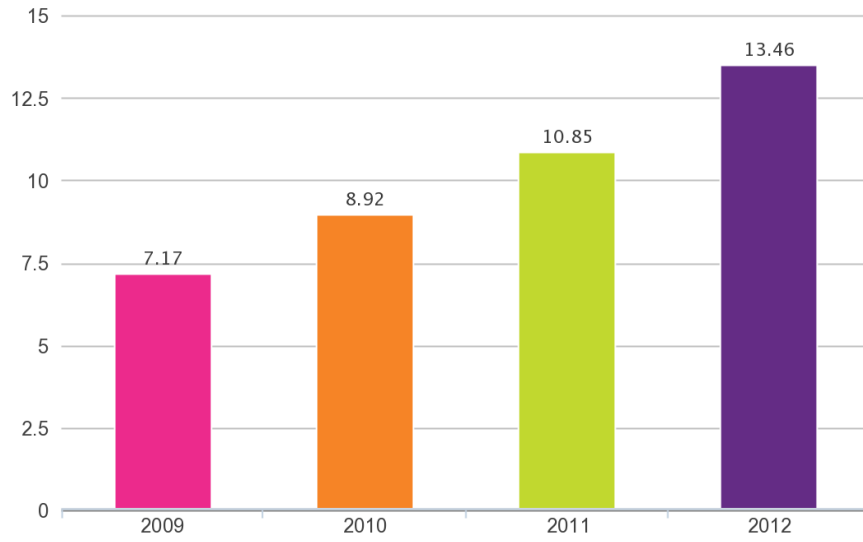


EBITDA, KZT million

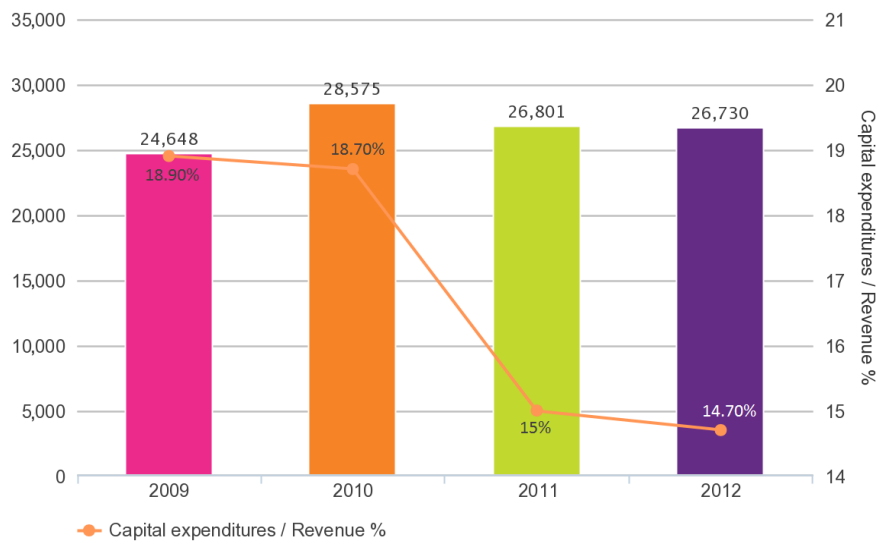




Subscribers, million subscribers

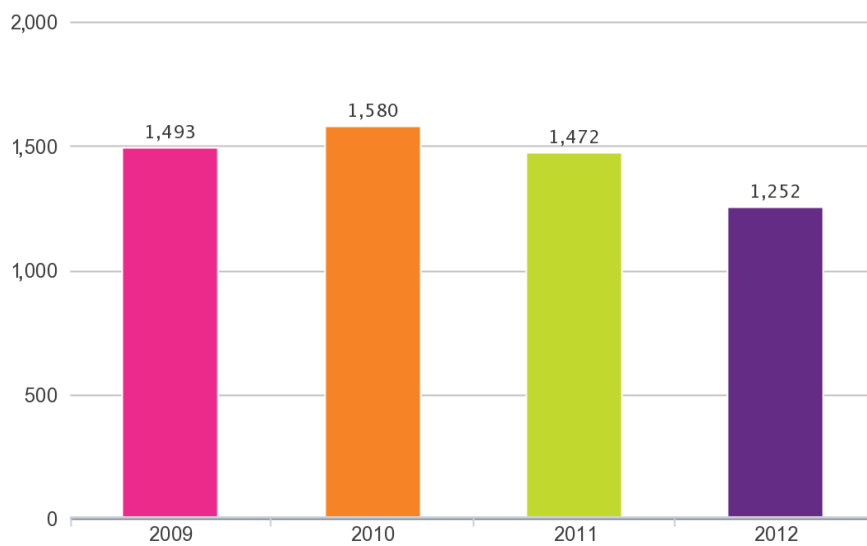


Capital expenditures, KZT million





Average revenue per user (ARPU), KZT





## 1.3 Addresses of the Management



**Dear shareholders,**

2012 was a turning point for the Company in many respects. This is the first annual report for Kcell and I am pleased to welcome the Kazakhstani and international investors who joined our company in the past few months. We started 2012 as a limited liability company with only two shareholders; today Kcell is a company with many shareholders around the world.

### **Successful Listing on Stock Exchanges**

The most important event in 2012 was our entrance into international capital markets following the change in our ownership structure. We had our initial public offering on the London and Kazakhstan Stock Exchanges in December of 2012, and it brought in U.S.\$ 525 million. 25% of shares are in free float. We are pleased that Kcell securities attracted great interest from both Kazakhstani and foreign investors during the IPO. Today, our common shares are listed on the Kazakhstan Stock Exchange, and our GDRs on the London Stock Exchange. I am confident that the success of the last public offering will also further strengthen our corporate brand.

### **The Market Situation**

I am pleased to report that, despite the difficulties we faced in 2012, Kcell remains a confident leader in the Kazakhstani telecommunications market. Our position allows us maintain a high level of profitability, generate strong cash flow, and protect our market share at the same time. The number of Kcell subscribers increased to 13.5 million by the end of 2012. In 2012, the EBITDA margin exceeded 55%, thanks to ongoing cost optimization efforts. Profitability and cash flow generation remain high. Our increase in profitability is affected by rapid growth in the data services segment, which we expect to continue in the current year. Capital expenditure in 2012 amounted to KZT 26.7 billion.

2012 was a year of hard work for Kcell in the increasingly competitive Kazakhstani mobile telecommunications market. While becoming more competitive in the market, we were able to make significant achievements on several fronts. We have a strong position in the corporate sector, where average revenue per user is higher than



in the mass market segment. Our performance for 2012 was also affected by such changes like a reduction in interconnect rates and changes in government regulation during 2011, including establishment of maximum tariffs for on-net and off-net calls and Internet access, and also a change in billing counters.

## Our Consumers

The central focus of our operations are interests of our consumers. Kcell seeks to provide consumers with a wide range of services in a cost efficient manner. In 2012, we have thus optimized and greatly expanded our range of tailored regional tariff plans for subscribers who live in particular regions. These subscribers can make on-net calls at the rate of KZT 1/min or even KZT 0/min starting from the second minute of conversation, and are offered special tariffs for of-net calls and calls to popular international destinations. In addition, with nationwide unlimited calling, subscribers do not need to limit their conversations. Our subscribers value these efforts, as evidenced by a 70% increase in voice traffic on the Kcell network and a 2.6 million subscriber increase in the Kcell client base in 2012. Research on the communications market in Kazakhstan also shows a high level of customer loyalty and customer satisfaction with the quality of service offered by Kcell.

## Corporate Governance

One of the pillars of sustainable development in the long term is a system of corporate governance built on the basis of best international practices. The first General Shareholders' Meeting of Kcell was held in 2012, whereon a number of important corporate decisions were made. It elected a Board of Directors and approved the Kcell Corporate Governance Code. The Board of Directors was joined by independent directors who have the valuable expertise and experience required for effective strategic management of the Company. One of the independent directors is the chairman of the Board of Directors of the Company.

In addition, the Board of Directors created four committees: Internal Audit, Human Resources and Remuneration, Strategic Planning and Social Issues. All these measures are aimed at protecting the interests of our shareholders and increasing operational efficiency.

Social responsibility is a part of Kcell's corporate philosophy. Sponsorship of various projects in the fields of culture, education and sport are essential areas of social activity for the Company. Kcell complies fully with its social obligations to its employees: decent wages, various social programs and nonmaterial forms of compensation.



## Perspectives

Kcell is well positioned to benefit from the potential growth of the Kazakhstani mobile data market in 2013. Revenue from provision of these services is increasing rapidly thanks to an expansion of 3G network, adoption of packages and growing number of smartphones. A developed 3G network with high density coverage in Kazakhstan is our strategic competitive advantage in this segment of the market. We have deployed a 3G network in all of the country's major regional centers and are continuing to develop it by creating additional base stations. We recently completed the second phase of deployment, and 45% of our cell sites are now running on the 3G system. In addition, most of 3G base stations are easily upgradable to LTE. We conduct tests of LTE technology to be ready for future rollout. Kcell seeks to maintain its leading market position in terms of revenue and number of subscribers, raising the value of its brands and increasing cash flow. Increased wealth for Kcell shareholders is our key strategic objective. However, we consider the opportunities we create for our customers and for society in general to be just as important. Voice communications and mobile data open up new horizons for the personal growth of every individual and for the development of the economy as a whole, because they are reliable tools of communication. Investment in infrastructure and the provision of quality telecommunications services at affordable prices for the overwhelming majority of the population is Kcell's contribution.

***Veysel Aral,***  
***Chief Executive Officer, Kcell***



## 1.4 The Kcell Business

### Subscribers

Kcell's customer-centric business approach helps maintain its market-leading position. The Company's Customer Relations Department seeks to maintain long-term relationships with subscribers and dealers by offering a consistently high level of customer service, and provides subscribers with individual support through call-centers and walk-in centers, as well as self-service assistance via the Internet and its interactive voice response (IVR) system. The Company continually monitors the quality of service provided to subscribers. The Company has two brands: the Kcell brand, which is targeted primarily at corporate subscribers (including government subscribers) and high net worth individuals and the Activ brand, which is targeted primarily at mass market subscribers.

### Services

#### Mobile Voice Telecommunications

Kcell offers basic cellular communication services, such as voice calls, which made up a 80.6% share of the Company's revenue for 2012. In addition to primary call services, cellular telecommunications services include voice mail, call waiting, call forwarding, caller identification and conference calls.

#### Value-added Services

Kcell offers a wide range of additional services, including MMS, information and entertainment services (such as ring back tones, financial services weather forecasts, exchange rates, news, and other information). Value-added services are an essential part of the business because they allow the Company to stand out from the competition, strengthen its brands, encourage customers to use Kcell's services more often and increase customer satisfaction.

#### Data Services, including Internet Access

Kcell is the leading provider of data services in Kazakhstan. We see strong potential for growth in mobile data services in Kazakhstan, and believe that the Company is well positioned to take advantage of this expected growth. As a result of developing its 3G networks, Company is able to provide a higher data growth rate.

#### Other Services

Other services consist primarily of telephone and USB modem sales.



## Resources

### Strong Brands

Since 1999, Kcell has placed priority on its brand development and image enhancement as a provider of reliable connectivity and high quality customer service.

The Company's branding strategy envisages the development of the Kcell brand as a premium brand targeted primarily at corporate and high net worth individual subscribers and the Activ brand as a brand targeted at the mass market. Such a strategy has allowed the Company to strengthen its presence in the premium segment while maintaining a leading position in the mass market segment, and contributed to the Kcell and Activ brands' market leadership.

### Professionalism

Kcell currently employs more than 1600 people as part of its strong team of high-level specialists, focused on high levels of labor efficiency and customer satisfaction.

The strong senior leadership team has many years of experience in the Kazakhstani and international mobile markets, and expertise in the fields of telecommunications, finance, marketing and information technology.

Over the past few years, the Kcell team, led by the current management team, demonstrated its ability to operate successfully in a growing market, maintain a leading position, and meet the challenges of expanding the network, introducing new services and technologies, and improving the quality of service.

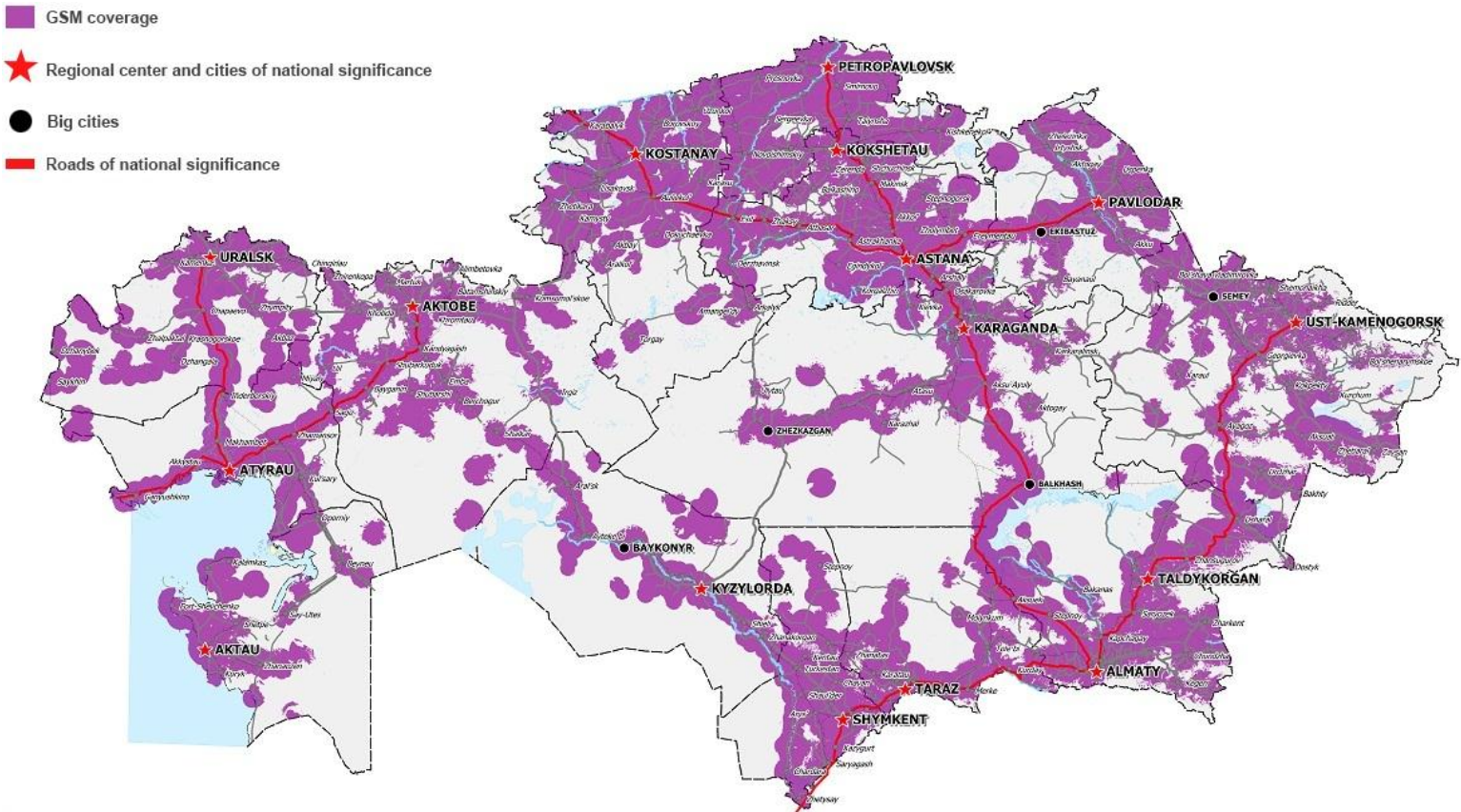
The Kcell team is strongly motivated to achieve peak value in key performance indicators that are consistent with the interests of shareholders in the long-term growth in value of the Company.





## 1.5 Geographic Reach

Detailed map of Kcell's network coverage in Kazakhstan.



### The Kcell network: extensive coverage in Kazakhstan

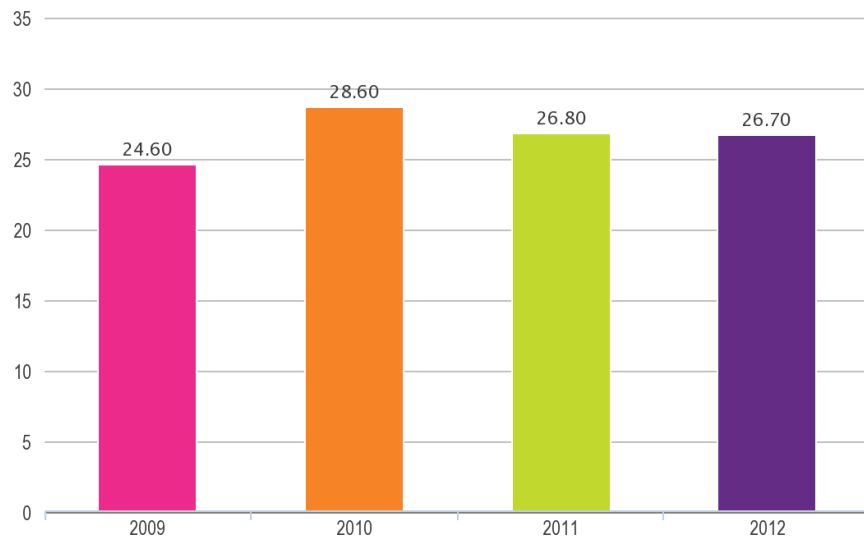
- 95.4% of the population
- 46.2% of the territory
- 5,015 settlements
- 69.1% of all settlements covered with mobile network

Through significant investments in network development, Kcell achieves higher density coverage and better quality service delivery:

- provision of 3G services
- excellent quality voice communications
- high data transmission rate
- low blocked and dropped call rates
- extensive indoor coverage



Capital expenditures, KZT billion





## 1.6 Mission, Visions and Values of the Company

We are a market leader in Kazakhstan and we realize our critical role in the society. We used to operate in favorable market conditions with healthy economic potential and limited competition.

We possess strong capabilities: wide and high quality network, talented and competent people, superior subscriber base with direct relationships with them, frequency licenses, reputable brands and strong cash flow.

However, we are in the fast changing industry with intensive direct and indirect competition. Trends in changing environment, including technological advances of devices and Internet itself, government regulation and changes in people's behavior create new threats but also unique opportunities for us:

- Traditional revenue streams, margins and return on investments are under continuous pressure.
- There is an increasing risk of competition from global internet players (Apple, Skype, Google, Facebook etc.).
- Customer expectations for quality of service (speed, coverage, volume, customization etc.) are continuously increasing.
- Internet is becoming more important and indispensable part in people's lives.
- All devices will be connected to Internet. Significant part of data and services will be in the 'Cloud'.
- Devices will be multifunctional decreasing the value of hardware and increasing value of software.
- Increasing importance of Internet and telecommunications in society results in tough regulations of our processes and prices.
- Increasing role of internet will create new security concerns and needs for informational safety.

**We have a dream to be indispensable for our customers in this changing world.** In order to achieve this dream we will continuously upgrade ourselves and proactively cope with any challenges.

We know that our core business is the source for further company development. In our core business we focus on:

- continuous increase of efficiency
- protection of market share
- aggressive fight for market share in non-voice services

We choose course of company development in entering new markets, creating new products and services to satisfy existing and new customer needs in exciting ways.

We believe we can strengthen the success of our operations by launching innovative services in the following areas:

- Financial services



- Entertainment
- Education
- Business enablement (support of business processes and needs)
- Life automation (intellectual infrastructure of homes, cars etc.)

We will actively work with nationwide state initiatives related to delivering cutting-edge technologies to serve society.

We will stand by our values while making our Dream come true:

- Stable long-term development of the company to increase shareholders value.
- Value individuality and potential of each employee. For us, it is important that our employees are happy both in business and in their personal lives.
- Risk-taking and courage to use new approaches and techniques to achieve our goals
- Fair, equitable and transparent distribution of authorities, responsibilities, information, reward and punishment.
- Bring the benefits and make people's lives more comfortable through innovative services based on our skills in information and communication technologies.
- Appreciate people, who are not afraid of making brave decisions and expressing their opinions, objectively handling feedbacks, taking responsibility for their words, actions and results.
- Build mutually beneficial relationships with our customers and partners.

## Strategy

Kcell's strategy is based on three key pillars – maintaining market leadership in our core business, to lead in the emerging data business in Kazakhstan and finally to focus on cash generation.





## **Maintain Market Leadership in Terms of Revenue and Subscribers**

Kcell intends to maintain its leading positions in the market by offering products and services at competitive prices and expanding the supply of products and services, while maintaining the quality of its networks and strengthening its brands. The Company will focus on a bespoke pricing strategy in order to maintain its leadership in the mass market and corporate segment and to encourage its subscribers to switch from pre-paid to post-paid contracts. In order to maintain the high quality of its networks and its wide coverage, the Company intends to optimize capital expenditures required for investment in equipment and development of infrastructure, including for introduction of new technologies. Kcell's growth strategy also focuses on improving the quality of services, which should increase subscriber satisfaction and retention, and expand the customer base.

## **Continuing to Apply a Regional Business Approach**

The Company intends to continue applying its regional business approach. The Company's regional approach, introduced in 2009, involves devolution of oversight to management teams in each of Kazakhstan's regions. As part of this approach, the Company measures key performance indicators on a regional basis and determines compensation for the regional management teams based on these key performance indicators. Following the introduction of this approach, key performance indicators improved across the majority of the regions and Kcell gained market share. The Company intends to pay particular attention to regions where existing growth is below expectations. In order to improve performance in these areas, the Company plans to optimize personnel, to change staff training systems, to undertake marketing and sales campaigns tailored to particular regions, and to provide other assistance to management teams in the field.

## **Further Strengthening of the Kcell and Activ Brands**

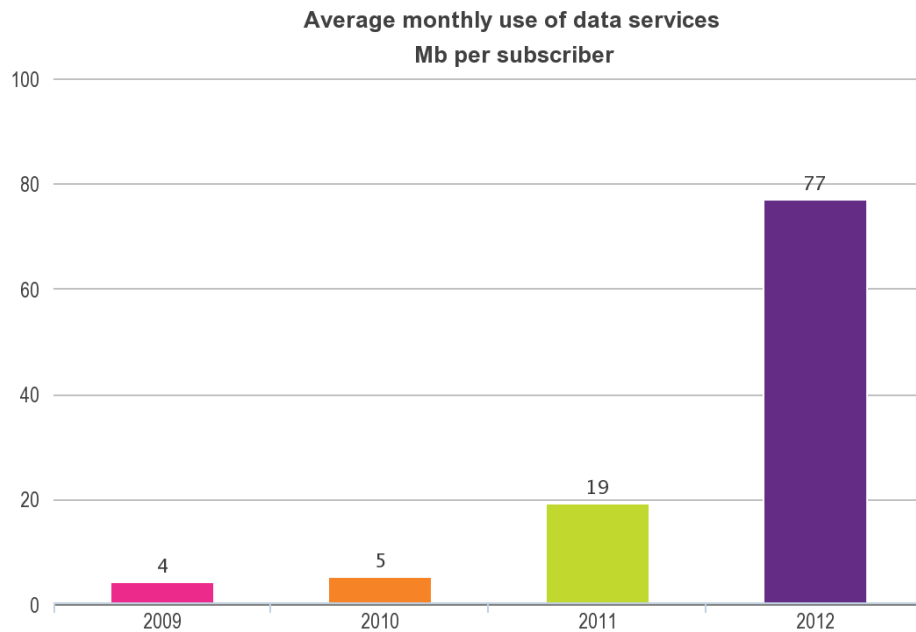
We believe that brand recognition is becoming an increasingly important factor in clients' choice of mobile provider. Kcell intends to continue its brand enhancement efforts. In particular, during the year under review, the Company hired the world's leading brand promotion agency to assist in a rebranding campaign for Activ. Kcell also intends to strengthen the Activ brand by improving the quality of services, particularly since its opportunities to communicate with subscribers in rural areas are relatively limited, given the shortage of media coverage. The Company plans to promote the brand through local sponsorships and advertising and promotional campaigns.

## **Leadership in the Mobile Data Services Segment**

The use of mobile content and data services in Kazakhstan is now at a relatively low level compared to other countries. However, we see significant growth potential for these services and we intend to continue investing in 3G network deployment to expand coverage. The Company also plans to offer new data services and low cost smartphones (especially in the mass market segment) in order to foster increased use



of data services. Kcell plans to promote 3G-compatible devices through USB modem distributions and lock-in contracts sold by dealers and distributors on credit terms. The Company also intends to continue building strategic relationships with leading local and international mobile content suppliers.

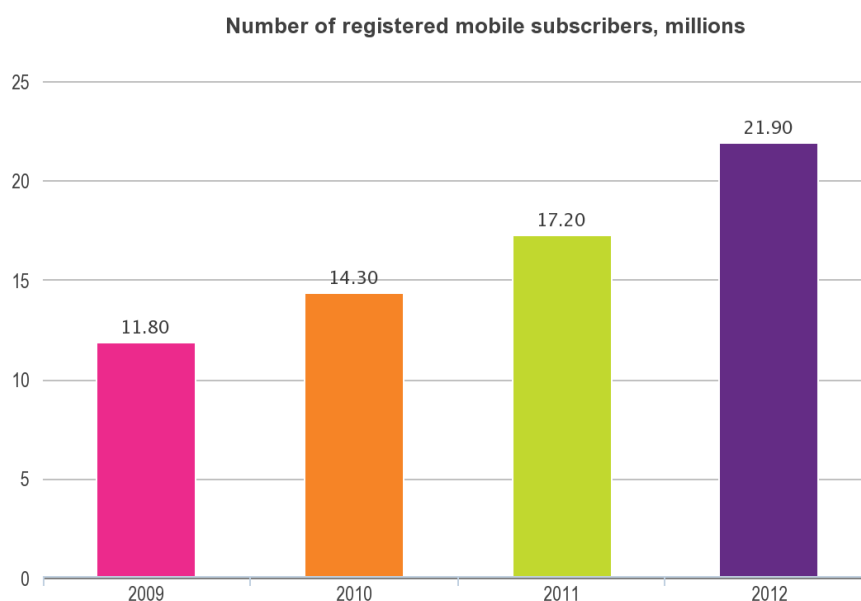




## 1.7 Market Trends

### Features of the Telecommunications Market

The telecommunications market in Kazakhstan generated a total revenue of KZT 598 billion in 2012. The most dynamic market sector is the market for mobile services; the number of subscribers in this market has increased by 84% over the past four years, from 11.8 million in 2009 to 21.9 million in 2012 (as evaluated by the Company based on the 1-month activity rule). The mobile voice communication penetration rate in Kazakhstan was 170% at the end of 2012.



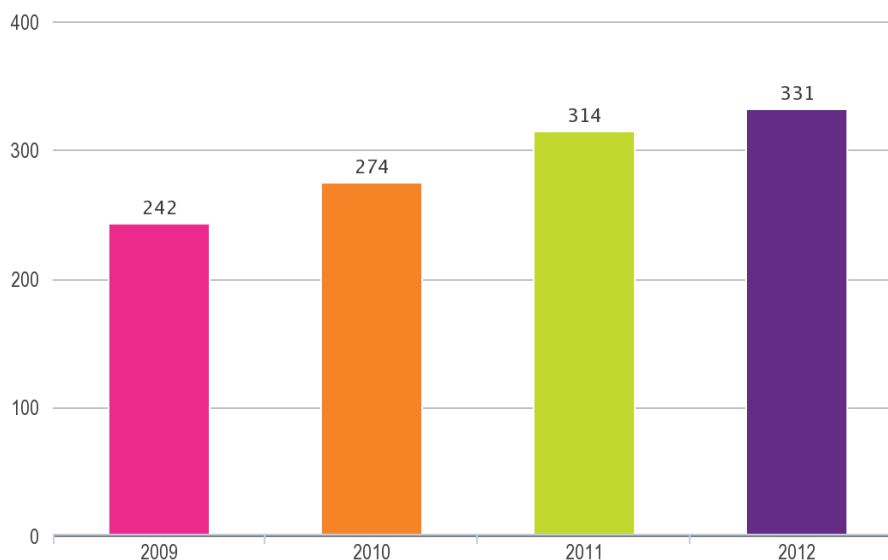
The mobile market in Kazakhstan is predominantly pre-paid. On December 31, 2012, about 99% of subscribers used the Kcell pre-paid system and advance payment system. The most popular payment methods are payments through electronic payment terminals, pre-paid payment cards, payments via the Internet or in mobile operator stores.

The mobile market in Kazakhstan is primarily a voice services market. Despite a declining trend observed in recent years, the share of mobile voice traffic in the total revenue of the mobile communications market is still high, reaching 81% in 2012 (87%, 86% and 82% in 2009, 2010 and 2011, respectively).

Kazakhstan's mobile revenue increased at a compound annual growth rate of 11% from 2009 to 2012, and reached KZT 331 billion in 2012 against KZT 242 billion in 2009 (according to reports published by mobile operators in Kazakhstan).



Voice revenues, KZT billion



The average revenue per minute of use (ARMU) at Kcell was KZT 5.2 for the year 2012, while for the year 2009 it was KZT 14. This dynamics reflects the highly competitive operating environment.

Kcell has three main competitors in the mobile telecommunications market in Kazakhstan: VimpelCom, Tele2 (MTS) and Altel. Kcell maintains its leading position, accounting for 46.9% of the market in terms of subscribers in 2012.

Kcell's average revenue per user (ARPU) for voice services in Kazakhstan was KZT 1,015 in 2012; it was KZT 1,298, KZT 1,363 and KZT 1,227 for 2009, 2010, and 2011, respectively.

Mobile broadband access (BBA) is currently not popular in Kazakhstan compared with other markets. In 2012, average monthly data traffic for the Company was about 77 MB per user, which is currently about 3 times lower than our estimates of the same indicator for mobile operators in Russia. However, compared with 2009, this figure increased for Kcell by a factor of more than 18 times. These figures, together with current active spread of smartphones and similar mobile devices, indicates excellent prospects in this market. This prognosis is also supported by the relatively low penetration rate of fixed broadband in Kazakhstan in 2012, which remained at less than 10% of the population and about 30% of households; constructing the necessary infrastructure for fixed broadband requires more significant monetary and time costs than developing the existing mobile data network. The Company's average revenue per user (ARPU) in the data segment increased by 9.2% in comparison with 2011, reaching KZT 131 in 2012. This indicator grew by 36.5% relative to 2009.





## Industry Regulation

The Ministry of Transport and Communications (MTC) and the Agency for Competition Protection (Competition Agency) are the primary regulators for the Kazakhstan mobile communications market.

In 2000, the Competition Agency included the Company in the State Register as a mobile service provider, as Kcell owned over 35% of the mobile services market for the country. The Company's operations are therefore under the supervision of the Agency with respect to compliance with the Competition Act, and preventing abuse of its market dominant position.

In 2011, the MTC set maximum tariffs for in-network calls, and in February of 2012 set them for out-of-network calls and data services. Interconnection rates are currently determined between operators on a bilateral basis, while the regulatory authority reserves the right to make recommendations to operators. In addition, the MTC is examining the possibility of mobile number portability (MNP), which allows subscribers to retain their telephone number when changing operators.

Mobile virtual network operators (MVNOs) are not provided for under Kazakhstan law and, to the Company's knowledge, no requests have been submitted to the MTC requesting the regulation of MVNOs.



## 2 Results 2012

### 2.1 Significant Events for the Reporting Year

#### February

TeliaSonera acquires 49% of Company shares from Kazakhtelecom JSC and becomes the majority shareholder with 86.9% of shares.

#### August

On August 27, the Company was incorporated as Kcell Joint Stock Company, in accordance with shareholders' decision to reorganize GSM Kazakhstan OAO Kazakhtelecom LLP by converting to Kcell Joint Stock Company.

#### October

The first general meeting of Kcell shareholders was convened on October 17. A Board of Directors was elected and the Company's Corporate Governance Code was approved.

In annual survey conducted by ESPI Rating on customer satisfaction with mobile operators in Kazakhstan, both corporate and private clients chose Kcell as the leader in terms of quality of customer care.

#### November

A new Board of Directors was formed for Kcell. Two of the six members, Jan Erik Rudberg and Bert Åke Stefan Nordberg, are independent directors. Jan Erik Rudberg was elected Chairman of the Board of Directors.

#### December

Kcell listed global depositary receipts (GDRs) on the London Stock Exchange and common shares on the KASE stock exchange. The placement price was set at U.S.\$10.50 per GDR and KZT 1,578.68 per share, with each GDR representing one share. TeliaSonera sold 50 million shares during the placement, reducing its ownership to 61.9%.

TeliaSonera met the formal conditions to complete the acquisition of the WiMax operations of the Kazakh Company Alem Communications, from Midas Telecom, and an indirect minority investment in KazTransCom, through the purchase of shares from Alatau LLP. With the acquisition of a WiMax network in six cities by its parent company TeliaSonera, Kcell secures valuable frequencies in the 2.5/2.6 GHz band, which are essential for meeting increased demand for mobile data. The frequencies are compatible with mobile data transmission technologies such as 4G.





## Subsequent Events

Key events in the first quarter of 2013:

### January

Kcell shares were included in the official list for the calculation of KASE index starting February 1, 2013

### February

Kcell Chief Executive Officer Veysel Aral was appointed President of the Eurasia division of TeliaSonera.

### March

On March 13, 2013 the Board of Directors of Kcell JSC introduced a function of internal audit in Kcell JSC to perform control over financial and business activity of the Company.



## 2.2 Expanding the Subscriber Base

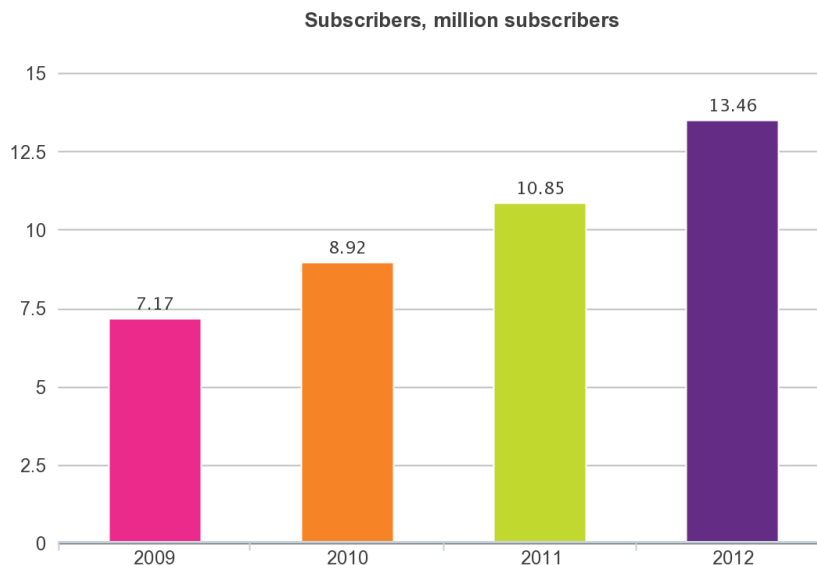
Kcell seeks to maintain its market-leading position in terms of revenue and number of subscribers by offering products and services at competitive prices and by expanding its range of products, providing a high quality network, and increasing the value of its brands. In 2012, the Company's subscriber base increased by 24.1% and reached 13.5 million users.

### Subscriber Base

Kcell is the leading provider of mobile services in Kazakhstan in terms of the market share based on revenues and number of subscribers. In 2012, the Company's customer base increased by 2,612,737 subscribers to 13.5 million users.

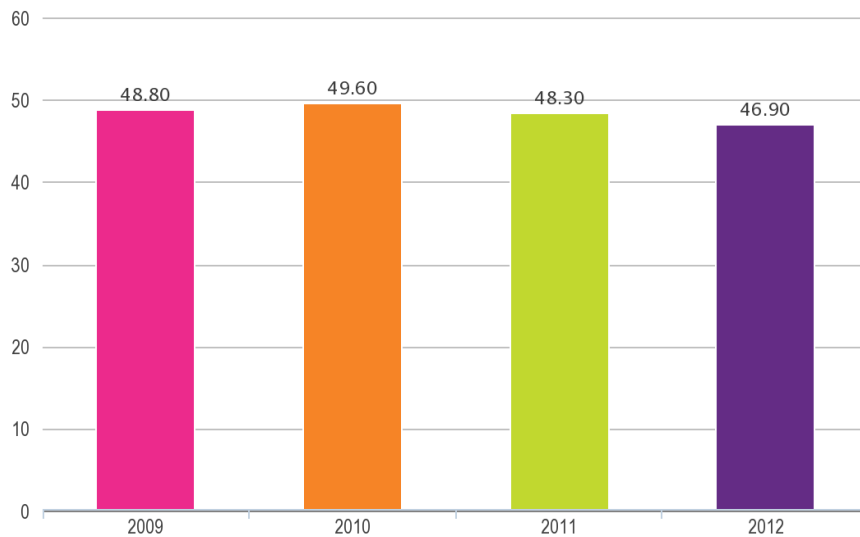
In 2012, Kcell's market share by number of subscribers was 46.9% (calculated by the Company based on the number of subscribers who use the Company's services not less than once a month). Market share in total number of subscribers fell by 1.4% due to increased competition in comparison with 2011. The Company took measures to reduce tariffs in response to competitive pressures.

Due to its advantageous position in the mass segment and corporate segment, average revenue per user (ARPU) is high. The Company's market share in terms of revenue was higher than its market share in terms of subscribers. Kcell's market share in terms of revenue was 54.5% in 2012 (according to data on revenue provided by each of the operators).

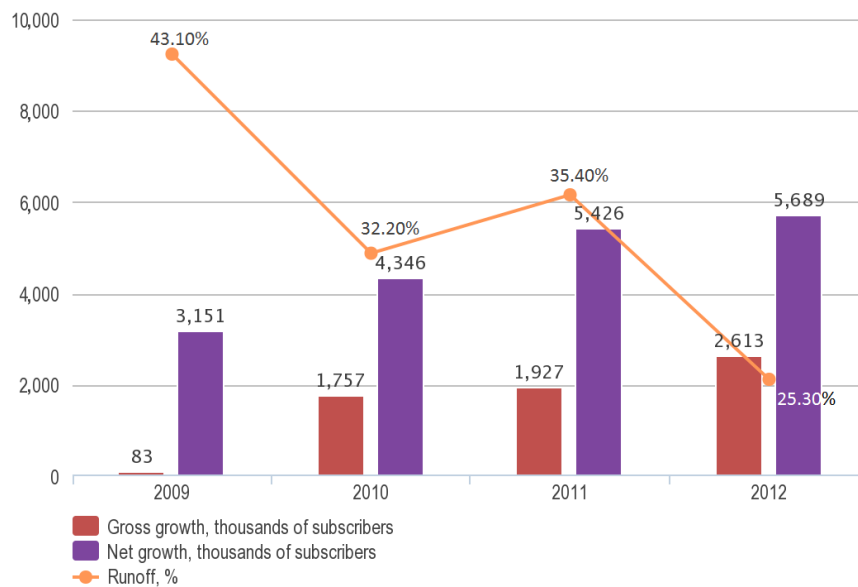




Kcell market share by number of subscribers, %



Growth in the number of subscribers and level of churn



Kcell's market-leading position is supported by its customer-centric approach, strong local brands, extensive distribution network and high quality networks. The Company develops services and tariff plans according to subscribers' needs and preferences. Kcell's Customer Relations Department seeks to maintain long-term relationships with subscribers and dealers by providing high quality customer service and providing individual support to subscribers via call-centers and walk-in centers, as



well as self-service via the Internet and an interactive voice response menu. The Company monitors the quality of customer service on a regular basis.

Kcell was the first operator in Kazakhstan to introduce a decentralized regional management structure. The program to decentralize management of operations was launched in 2009 with the goal of improving efficiency and increasing Kcell's market share in selected regions. As of December 31, 2012, the Company had 18 regional centers, each of which controlled day-to-day operations in the region and reported regularly to the Kcell management. The Company estimates that Kcell has the largest market share in terms of number of subscribers in 11 regions, and the second largest share in seven other regions.

## Subscriber Groups

The Kcell marketing strategy focuses on maintaining and strengthening its leading position by using competitive tariff plans and a personal touch to the market, by improving the quality of its network and services, and through innovation and brand strengthening.

The Company forms its service packages based on characteristics and needs of its subscribers. Market research reveals customer preferences and current trends. The Company uses an internal model to classify subscribers into groups in order to tailor services to the needs of its clients.

Kcell tries to respond flexibly to subscribers' changing needs and provides both pre-paid and post-paid service (including paid-in-advance). As of December 31, 2012, the Company had 13,35 million pre-paid and 0,11 million post-paid subscribers.

## Brand Development

The Company sells products and services under the Kcell and Activ brands, which were established in 1999 and are now widely known in Kazakhstan. The Company's branding strategy envisages the development of Kcell as a premium brand and Activ as a brand for the mass market. Clients associate these brands with local roots, user-friendly products and services, and the high quality of their network and customer service standards.

The Kcell is targeted at corporate clients and high net worth individual subscribers. Kcell's subscribers are predominantly aged 23 to 50 and have an above-average income. In 2012, the Kcell brand's share of the Company's subscriber base was 12.9%.

Since 2011, the Kcell brand was further synchronized with a common concept created by TeliaSonera for its affiliated companies. The rebranding featured a new common logo and color scheme, and also reshaping of some brand values to align with the values of TeliaSonera. At the core of Kcell's updated values were innovation, reliability, efficiency, sustainability and personal approach.



The Activ brand is targeted primarily at the mass market. Activ's subscribers are predominantly 17 to 35 years of age, with average or below-average incomes. In 2012, Activ's share of the Company's subscribers was approximately 87.0%.

Activ is marketed as a creative brand that provides its subscribers with a variety of tariff plans and value for money. The Company plans to re-brand Activ in the near future. The Company expects to develop and implement the rebranding campaign in close collaboration with TeliaSonera.





## 2.3 Improving Services

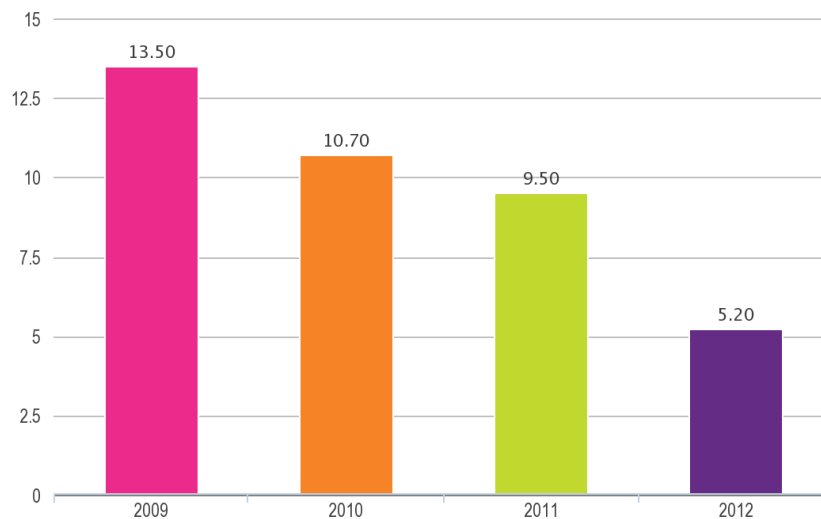
### Voice Services

Revenue from voice services reached KZT 146.7 billion in 2012, an increase of 0.4% from 2011. Revenue from outgoing voice services decreased by 3.1% to KZT 114.8 billion. However, an increase in incoming calls from subscribers of other operators had a positive effect on interconnection services and influenced revenue growth in this market segment. Revenues from interconnection charges increased by 20.2%, reaching KZT 26.9 billion in 2012.

Voice services made up an 80.6% share of the Company's revenue in 2012, a decrease of 1.1% compared with 2011. The volume of voice traffic increased by 70% due to an increase in subscriber base and minutes of use per subscriber per month (MOU). MOU rose from 122 to 168 minutes due to increased accessibility of voice services. However, increased traffic and number of subscribers were offset by lower tariffs due to price competition between operators. As a result, ARMU declined from KZT 9.5 to 5.2 in 2012.

Kcell provides outgoing calls in roaming for subscribers outside of Kazakhstan and incoming calls in roaming for visitors in the country as part of its mobile services. As of December 31, 2012, the Company entered into commercial roaming agreements with 348 operators in more than 149 countries, guided by standard agreements of the GSM Association. In addition, Kcell subscribers enjoy preferential roaming tariffs within the TeliaSonera international roaming network.

Blended ARMU trend, KZT





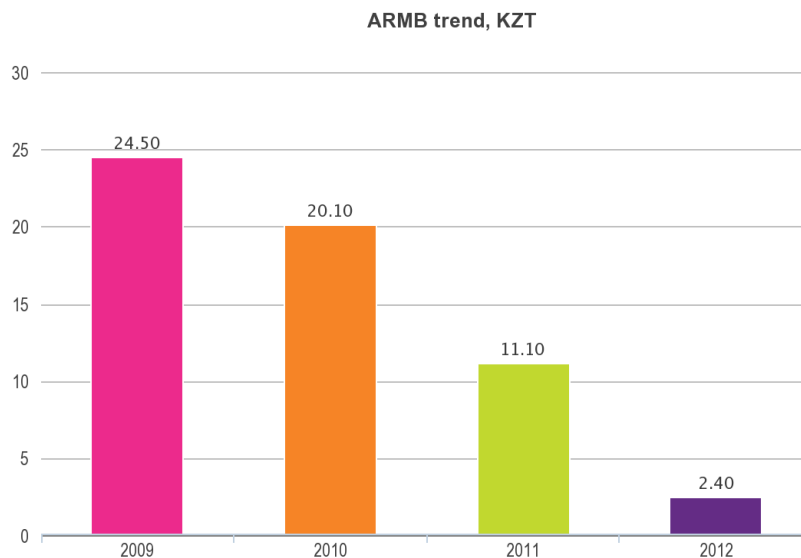
## Data Services

Kcell provides data transmission services, which are primarily Internet access services. Data services have significant growth potential and are an increasingly important source of revenues. Their share of Kcell's total revenue for 2012 increased from 7.9 to 10.3%.

Revenue from data services increased by 33.4% in 2012 compared to the previous year, reaching KZT 18.8 billion. Data volume increased by 471.1%. The Company facilitated this growth by deploying its own 3G network, thereby increasing the data rate and making related services more attractive for users. Prevalence of smartphones, USB-modems and other Internet-enabled devices also led to an increase in data traffic.

Growth in volume of data transmission was partially offset by declines in tariffs. Subscribers were offered a variety of packages at attractive prices in order to increase the use of this service, for example bundled packages with reduced rates per MB of data transferred. This led to an increase in ARPU for data services to KZT 131.

The Company sees potential for growth in demand for data services. Despite rapid growth in 2009-2012, the penetration rate for mobile data services in Kazakhstan remains well below that in more developed countries. Notably, smartphone penetration in the Kcell network is currently 11%. Growing use of Internet-enabled mobile devices and the relatively young population of Kazakhstan will facilitate growth in the number of mobile data users.



Kcell owns the most extensive 3G network in Kazakhstan. Launching a 3G network allowed the Company to increase its subscribers' data growth rate and offer new data services, like mapping services, access to social networks and media consumption services, and other services. Kcell will continue to invest in 3G network development in order to extend its range of coverage



## 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. Value added services encourage users to use Company services more often and increase customer satisfaction, and are thus an important part of Kcell's business.

Revenues from value added services in 2012 increased by 4.6% from KZT 14.5 billion to KZT 15.2 billion. Most of this increase is due to higher revenues from content services such as ring back tones and other information and entertainment. Kcell is expanding its selection of services and provides its subscribers with access to some services offering 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.

Revenue from value added services was offset by a drop in SMS revenue from KZT 8 billion in 2011 to KZT 6.8 billion in 2012. The reduction in SMS traffic can be explained first by the increased availability of voice and data services, including communication through social networks and the use of specialized applications such as iMessage and WhatsApp for instant messaging. Kcell offers SMS packages, including SMS bundling with other services, in order to minimize the decrease in SMS revenues.



## 2.4 Network and Technology Development

Kcell seeks to maintain excellent network quality in order to ensure high quality service for its subscribers. The Company has substantial network coverage (95.4% of the population of Kazakhstan), with particularly high rates of coverage in major cities, including Almaty and Astana. In addition, the Company's aggressive roll-out of 3G services, especially in Almaty and Astana, has positioned it as the leading operator in the provision of 3G services. In order to maintain its advantage in terms of quality of service and network coverage, the Company has installed more base stations than any of its competitors.

The Company has a digital mobile network based on GSM technology. This dual-band network, which operates at three frequencies (900 MHz, 1800 MHz and 2100 MHz), provides both data and voice communications. The Company's data services are based on GPRS, EDGE and UMTS/WCDMA technologies.

### 2G

The 2G GSM/ GPRS/ EDGE 900 MHz and 1800 MHz network allows voice calls, data transmission and value added services. The Company's GSM/ GPRS/ EDGE technology is an advanced 2G technology. Packet data rates vary from 50 Kbit per second to 200 Kbit per second, depending mainly on the handset and type of content used, as well as use patterns.

The Company's GSM/ GPRS/ EDGE network is constantly expanding and increasing its capacity. Currently, the Company is selectively optimizing and expanding its GSM/ GPRS/ EDGE network, especially in urban areas. By the end of 2012, the GSM/ GPRS/ EDGE network covered 100% of settlements in Kazakhstan with a population of over a thousand people. Equipment for the GSM/ GPRS/ EDGE network was supplied and continues to be maintained by Ericsson and ZTE Corporation.

### 3G

The 3G UMTS/WCDMA network, considered to be an HSPA+ technology, offers full interactive multimedia capabilities with current potential data rates of up to 21 Mbit per second on the downlink path and up to 5.7 Mbit per second on the uplink path.

By the end of 2012, the UMTS/ WCDMA network covered 100% of settlements with a population of over 50,000 people. Under the terms of the general license, the Company's UMTS/ WCDMA network must cover all settlements in Kazakhstan with a population of over 10 thousand people by the end of 2014. The UMTS/ WCDMA network is usually combined with the 2G network. This network uses primarily the same basic network equipment as the existing GSM/ GPRS/ EDGE network.





Kcell's primary objective going forward is to complete the build-out of its UMTS/WCDMA network and achieve quality and coverage parameters similar to those for its other networks. Kcell also intends to continue performing extensive optimization of its support networks for mobile data technologies.

## Network Quality

Kcell seeks to meet the high standards of customer service, and so maintaining a quality network is a strategic priority. The Company invests and will continue to invest significant capital in developing its network. During the period from 2009 to 2012, Kcell invested a total of KZT 104 billion in network infrastructure.

The Company uses high-tech systems in its network management centers to monitor the status of all switches and cell sites, identify failures and dispatch technicians to resolve problems. Operations support systems are utilised to monitor system quality and identify devices that fail to meet performance thresholds. These platforms generate statistics on system performance such as dropped calls, blocked calls and network failures. The Company's network operations centers are located in Almaty and Astana.



Kcell continuously optimises its network in order to meet key performance indicators for its services, including reduction in the number of dropped calls, voice quality, accessibility and availability and packet success rate. The Company uses modern means of planning, monitoring and analysis to achieve high network performance with minimal disruptions.



## 2.5 Financial Review

### Key Highlights

#### Full year

- Revenue increased 1.8% to KZT 182,004 million in 2012 (KZT 178,786 million - hereinafter in this section value of the index for the year 2011 to be indicated in brackets).
- EBITDA, excluding non-recurring items, decreased 4.1% to KZT 101,426 million in 2012 (105,794). EBITDA margin decreased to 55.7% (59.2).
- Operating income, excluding non-recurring items, decreased 5.1% to KZT 78,645 million (82,898), and net income decreased 7.5% to KZT 61,828 million (66,858).
- Free cash flow increased to KZT 61,155 million (54,108).
- Subscriber base increased by 2,612,737 to 13.5 million.

### Financial Highlights

<b>KZT in millions, except key ratios, per share data and changes</b>	<b>2012</b>	<b>2011</b>	<b>Chg (%)</b>
Revenue	182,004	178,786	1.8
EBITDA excl. non-recurring items	101,426	105,794	-4.1
Margin (%)	55.7	59.2	
Operating income	77,902	82,898	-6.0
Operating income excl. non-recurring items	78,645	82,898	-5.1
Net income attributable to owners of the parent	61,828	66,858	-7.5
Earnings per share (KZT)	309.14	334.29	-7.5
CAPEX-to-sales (%)	14.7	15.0	
Free cash flow	61,203	54,108	



## Revenue

Revenue increased 1.8% to KZT 182,004 million in 2012 (178,786). Revenue, excluding a one-off phone campaign in 2011 increased 3.7% to KZT 181,551 million (175,019).

The revenue increase was primarily due to the 33.4% increase in revenue from data services. Revenue from voice services and from value-added services increased slightly.

### Revenue Breakdown 2011-2012

<b>KZT in millions, except percentages</b>	<b>2012</b>	<b>% of total</b>	<b>2011</b>	<b>% of total</b>
Voice services	146,669	80.6	146,077	81.7
Data services	18,755	10.3	14,064	7.9
Value added services	15,195	8.3	14,532	8.1
Other revenues	1,385	0.8	4,114	2.3
<b>Total revenues</b>	<b>182,004</b>	<b>100.0</b>	<b>178,786</b>	<b>100.0</b>

### Voice Services

Voice services revenue increased 0.4% to KZT 146,669 million in 2012 (146,077). Voice traffic increased 70% to 21,901 million minutes (12,891) as a result of an increase in the subscriber base to 13.5 million (10.9) as well as an increase in MOU to 168 (122). However, growth in traffic and in the number of subscribers was offset by price competition, which caused ARMU to decrease to KZT 5.2 (9.5) as Kcell decreased its tariffs primarily in response to government regulation and competitors' aggressive tariff reductions.

Outgoing voice revenue decreased 3.1% to KZT 114,747 million in 2012 (118,370).

Interconnect revenue increased 20.2% to KZT 26,945 million in 2012 (22,415). This increase resulted from growth in the volume of incoming calls from the subscribers of other mobile operators, which was in turn due to the increase in the number of subscribers in Kazakhstan and the price competition.

### Data Services

Data services revenue increased by 33.4% to KZT 18,755 million (14,064). Data traffic increased 471.1% to 7,589,056 Gb (1,631,947). Growth in data traffic was partially offset by lower tariffs, which led to a decrease in ARMB to KZT 2.4 (11.1). 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 Revenue***

Value-added services revenue increased 4.6% to KZT 15,195 million (14,532). The increase was primarily due to an increase in revenue from the provision of content services, such as ring back tones and other information and entertainment services.

### ***Other Revenue***

Other revenue decreased 66.3% to KZT 1,385 million in 2012 (4,114). The decrease was attributable to the one-off phone campaign in 2011.

## **Expenses**

### ***Cost of Sales***

Cost of sales increased 9.1% to KZT 76,291 million (69,955). The increase was primarily attributable to an increase in interconnect fees and expenses to KZT 24,604 million (17,012) as well as an increase in site rental and energy expenses.

This increase was partially offset by a decrease in cost of handsets to KZT 493 million (3,727) following a one-off phone campaign in 2011.

### ***Selling and Marketing Expenses***

Selling and marketing expenses increased 9.1% to KZT 17,195 million (15,763). The increase is primarily attributable to the increase of commissions for cash collection to KZT 3,922 million (2,723) due to subscribers increasingly using electronic payment terminals instead of scratch cards to top up their account balances and an increase in advertising and sales promotion expenses to KZT 13,273 million (13,039).

### ***General and Administrative Expenses***

General and administrative expenses increased 10.7% to KZT 11,005 million (9,943) primarily due to an increase in consulting expenses primarily related to the Offering to KZT 894 million (39), and an increase in staff cost to KZT 2,227 million (2,069).





## Earnings, Financial Position and Cash Flow

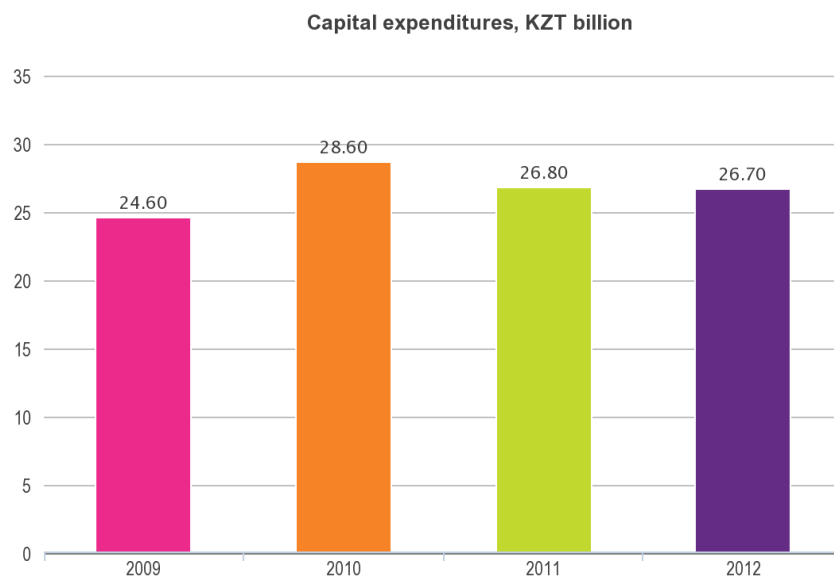
**EBITDA**, excluding non-recurring items, decreased 4.1% to KZT 101,426 million (105,794). The EBITDA margin decreased to 55.7% (59.2). The EBITDA margin, excluding interconnect revenue and cost is 65.4% (66.3).

**Non-recurring items** affecting operating income totaled KZT 743 million, mainly consulting costs related to the Offering.

**Income tax expense** decreased by 7.2% to KZT 15,558 million (16,765). The decrease in the income tax expense was primarily attributable to a decrease in taxable income.

**Net income attributable to owners of the parent company** decreased by 7.5% to KZT 61,828 million (66,858) and earnings per share decreased by 7.5% to KZT 309.14 (334.29).

**Capital expenditures (CAPEX)** in 2012 decreased by KZT 0.1 billion to KZT 26.7 billion. The ratio of capital expenditure and revenue decreased from 15% in 2011 to 14.7% in 2012.



As in previous periods, much of Kcell's capital expenditure was used to finance investments in radio equipment, which amounted to KZT 15.4 billion. In addition, investments are made to purchase telecommunications licenses and licenses and rights to software. The Company is developing a capital expenditure budget which takes into account marketing plans, subscriber base growth forecasts, launch of new services and coverage expansion plans.

**Financial items** totaled KZT -516 million (725) mainly related to net interest expenses and net interest income.



**Free cash flow** increased to KZT 61,203 million (54,108).

**Net cash flow** from operating activities increased by KZT 4.8 billion from KZT 81.4 billion in 2011 to KZT 86.2 billion in 2012. The increase was primarily attributable to a to positive changes in working capital.

In addition, trade and other payables increased by KZT 9.5 billion in 2012 and were primarily represented by advance payments received from dealers and distributors for payment cards and cell phones. Trade receivables from distributors increased from KZT 5.3 billion in 2011 to KZT 7.4 billion in 2012.

Net cash used in investing activities decreased from KZT 27.3 billion in the previous year to KZT 25.0 billion in 2012. This decrease was primarily due to a cost growth on tangible and intangible assets. Net cash used in financing activities increased by KZT 1.5 billion from KZT 58 billion to KZT 59.5 billion in 2012, which was due to dividends paid by the Company.

**Net debt/equity ratio** was 74.0%. The Company did not have any net debt in 2011; a loan facility was entered into 2012.

**The equity/assets ratio** was 44.2% (82.9). The drop is explained by dividends paid in 2012.

### Condensed Consolidated Statements of Comprehensive Income

KZT in millions, except per share data, number of shares and changes	2012	2011	Chg (%)
Revenues	182,004	178,786	2
Cost of sales	-76,291	-69,955	9
<b>Gross profit</b>	<b>105,712</b>	<b>108,831</b>	<b>-3</b>
Selling and marketing expenses	-17,195	-15,763	9
General and administrative expenses	-11,005	-9,943	11
Other operating income and expenses, net	389	-227	
<b>Operating income</b>	<b>77,902</b>	<b>82,898</b>	<b>-6</b>
Finance costs and other financial items, net	-516	725	
<b>Income after financial items</b>	<b>77,386</b>	<b>83,624</b>	<b>-8</b>
Income taxes	-15,558	-16,765	-7
<b>Net income</b>	<b>61,828</b>	<b>66,858</b>	<b>-8</b>
EBITDA	100,683	105,794	-5
EBITDA excl. non-recurring items	101,426	105,794	-4
			-1
Depreciation, amortization and impairment losses	-22,781	-22,896	
Operating income excl. non-recurring items	78,645	82,898	-5



## Condensed Consolidated Statements of Financial Position

KZT in millions	31 Dec, 2012	31 Dec, 2011
<b>Assets</b>		
Intangible assets	16,140	18,434
Property, plant and equipment	110,337	100,372
Other non-current assets	3,121	6,759
<b>Total non-current assets</b>	<b>129,598</b>	<b>125,565</b>
Inventories	978	1,836
Trade and other receivables	15,990	16,229
Cash and cash equivalents	3,075	1,353
<b>Total current assets</b>	<b>20,043</b>	<b>19,418</b>
<b>Total assets</b>	<b>149,641</b>	<b>144,983</b>
<b>Equity and liabilities</b>		
Share capital	33,800	3,915
Retained earnings	32,403	116,338
<b>Total equity attributable to owners of the parent</b>	<b>66,203</b>	<b>120,252</b>
Deferred tax liabilities	5,104	3,991
Other long-term liabilities	988	495
<b>Total non-current liabilities</b>	<b>6,092</b>	<b>4,486</b>
Short-term borrowings	48,991	-
Trade payables, and other current liabilities	28,355	20,245
<b>Total current liabilities</b>	<b>77,346</b>	<b>20,245</b>
<b>Total equity and liabilities</b>	<b>149,641</b>	<b>144,983</b>

## Condensed Consolidated Statements of Cash Flows

KZT in millions	2012	2011
Cash flow before change in working capital	85,324	89,071
Change in working capital	863	-7,658
<b>Cash flow from operating activities</b>	<b>86,187</b>	<b>81,413</b>
Cash CAPEX	-24,984	-27,305
<b>Free cash flow</b>	<b>61,203</b>	<b>54,108</b>
<b>Total cash flow from investing activities</b>	<b>-24,984</b>	<b>-27,305</b>
<b>Cash flow before financing activities</b>	<b>61,203</b>	<b>54,108</b>
<b>Cash flow from financing activities</b>	<b>-59,481</b>	<b>-58,000</b>
<b>Cash flow for the period</b>	<b>1,722</b>	<b>-3,892</b>
<b>Cash and cash equivalents, opening balance</b>	<b>1,353</b>	<b>5,245</b>
Cash flow for the period	1,722	-3,892
<b>Cash and cash equivalents, closing balance</b>	<b>3,075</b>	<b>1,353</b>



## Non-recurring Items

<b>KZT in millions</b>	<b>2012</b>	<b>2011</b>
<b>Within EBITDA</b>		
Restructuring charges, synergy implementation costs, etc.	743	-
<b>Total</b>	<b>743</b>	<b>-</b>

## Investments

<b>KZT in millions</b>	<b>2012</b>	<b>2011</b>
<b>CAPEX</b>		
Intangible assets	2,325	2,711
Property, plant and equipment	24,405	24,090
<b>Total</b>	<b>26,730</b>	<b>26,801</b>

## Net Debt

<b>KZT in millions</b>	<b>Dec 31, 2012</b>	<b>Dec 31, 2011</b>
Long-term and short-term borrowings	-	48,991
Less short-term investments, cash and bank	1,353	3,075
<b>Net debt</b>	<b>-1,353</b>	<b>45,916</b>

## Loan Financing

Prudent liquidity risk management assumes maintaining sufficient supply of cash. Due to the dynamic nature of its underlying businesses, the Company seeks to maintain flexibility in financing by keeping sufficient cash available.

Kcell's bank loans are obtained in KZT and mature within one year. As of December 31, 2012, total loans amount to KZT 49 billion.

On September 26, 2012, a term loan facility agreement with JSC Citibank Kazakhstan and JSC SB RBS Kazakhstan was signed for a loan in the amount of KZT 30 billion with a fixed interest rate of 4.6% per annum, a one-off transaction fee of 1% of the loan amount and a maturity of twelve months, with a possible extension of up to an additional twelve months.

On October 17, 2012, additional loan facility agreement with JSC Citibank Kazakhstan and JSC SB RBS Kazakhstan was signed for a loan in the amount of KZT 15 billion with a fixed interest rate of 3.9% per annum, a one-off transaction fee of 1% of the loan amount and a maturity date of September 26, 2013, with a possible extension of up to an additional twelve months. The KZT 15 billion facility is guaranteed by



TeliaSonera AB. The Company is subject to the payment of an annual fee in the amount of up to KZT 112.5 million per annum to TeliaSonera AB for its provision of the guarantee in respect of the KZT 15 billion facility.



## 3 Corporate Governance

### 3.1 Corporate Governance Principles and Structure

**Kcell is a recognized leader in the telecommunications industry in Kazakhstan. As an innovative, reliable and customer-friendly company, we act responsibly and in accordance with a firm set of values and business principles. Kcell's unique corporate culture is reflected in its Code of Corporate Governance, and combines a global standard of ethics and advanced foreign standards introduced by TeliaSonera and reflected in its Code of Ethics and Conduct with the highest national business standards.**

#### Principles of 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.

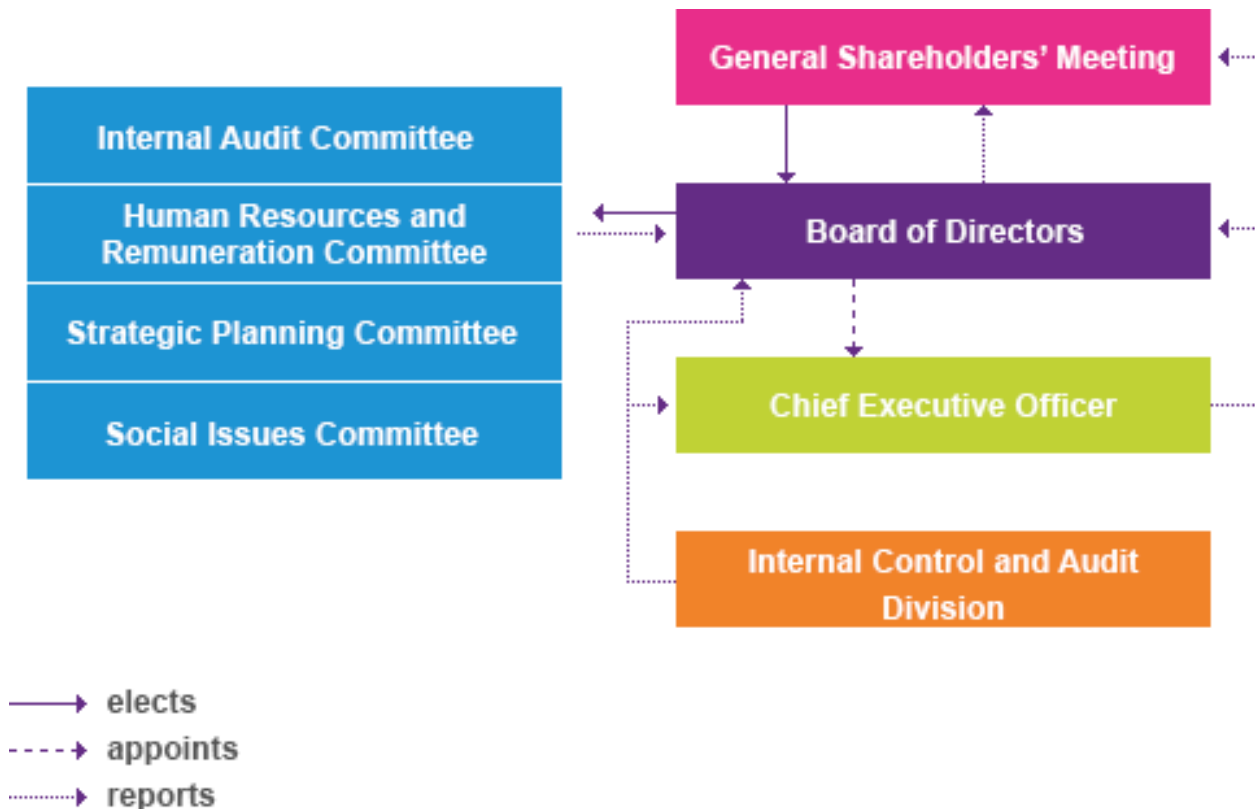
<b>Kcell Corporate Governance Principles</b>	
Protecting the rights and interests of shareholders	The Company guarantees fair and equitable treatment of all shareholders and assists in effective participation of its shareholders in key decisions, and provides detailed information relevant to their interests.
Effective management of the Company by the Board of Directors and Chief Executive Officer	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 Chief Executive Officer 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	Information on the Company is disclosed so as to help potential investors to make reasonable decisions about purchase of Company securities and participation in its share capital. Disclosure of information ensures maximum transparency of Company management.
Legality and ethics	The Company operates in strict accordance with the law, the Code of Ethics and Conduct of the TeliaSonera



	Group, 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 divided 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 Code of Ethics and Conduct of the TeliaSonera Group.
Settlement of corporate disputes	In the event of a corporate dispute, the participants seek resolution of the conflict through negotiations, in order to effectively protect the rights of all shareholders and the reputation of the Company.



## Corporate Governance Structure



## Improving Corporate Governance in 2012

- Members to the first Board of Directors of Kcell were elected.
- On August 27, 2012, Kcell was converted into a joint stock company in accordance with the decision of the General Members Meeting of “GSM Kazakhstan OJSC “Kazakhtelecom” LLP”.
- On October 17, 2012, the first General Shareholders’ Meeting of Kcell elected the new members to the Board of Directors and approved the main internal Company documents, which regulate management and control bodies. The meeting also approved the Kcell Code of Corporate Governance.
- On November 9, 2012, an extraordinary General Shareholders’ Meeting of Kcell elected the new members to the Board of Directors, which included two independent directors, one of them is a chairman of the Board. The meeting also approved the Regulation on the Amount and Terms of Remuneration and Compensation of Expenses paid to the Board of Directors’ Members for the Fulfillment of their Duties.





- Four committees of the Board of Directors were created and launched: the Internal Audit Committee, the Human Resources and Remuneration Committee, the Strategic Planning Committee, and the Social Issues Committee. Corresponding provisions for regulation of committee operations were approved.



## 3.2 General Shareholders' Meeting

According to the Kcell Charter, the General Shareholders' Meeting is the Company's supreme governing body, and has exclusive jurisdiction over the following issues:

- introduction of changes and amendments to the Charter and the Code of Corporate Governance or approval of modified editions thereof;
- voluntary reorganization (including the reorganization of the Company into a joint stock company) and liquidation of the Company;
- decision to increase the number of authorized Company shares, or changing the type of unallocated Company shares;
- changing methods for determining the value of Company shares as of their redemption by the Company;
- appointing auditors to perform Company audits;
- determining the composition and term of the Board of Directors, electing its members and terminating their powers before the predetermined date, and determining the amount and terms of payment of compensation to the Company's Board of Directors;
- approving annual financial statements and the amount of dividends paid on shares (if applicable);
- approving related party transactions in the case that the Board of Directors is unable to take a decision.

Decisions on matters specified in the first four points require the approval of a qualified majority (3/4 of the votes) of the total number of voting shares.

The General Shareholders' Meeting has the right to cancel any decision regarding the internal organization of the Company adopted by another body of the Company.

Shareholders shall be notified of the convention of the General Shareholders' Meeting at least 30 days prior to its starting date, or in the case of a remote assembly and other situations, not less than 45 days before the starting date.

The General Shareholders' Meeting shall be convened at the initiative of the Board of Directors or at the written request of a major shareholder<sup>1</sup>.

The Company's Board of Directors has the right at its own initiative to amend the agenda or suggest the order of a General Shareholders' Meeting convened at the request of major shareholders. The Board of Directors also has the right to include additional issues in the agenda of such a meeting at its own discretion.

---

<sup>1</sup> A shareholder or several shareholders acting on the basis of mutual agreement, who own (in the aggregate) ten or more percent of voting shares.



**In 2012, the Company conduct 11 General Shareholders' Meetings before reorganization into JSC and 2 after reorganization.**



## 3.3 Board of Directors

The Board of Directors ensures general management of Company activities. Members to the Board of Directors are elected by the General Shareholders' Meeting, which also decides on the term of office of such members. The current members of the Board of Directors are elected for the term until the next Meeting of Shareholders, 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 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, 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

***Membership of the Board of Directors, elected by an Extraordinary General Meeting of Kcell Shareholders on November 9, 2012.***

#### **Jan Erik Rudberg, Year of birth 1945**



Chairman of the Board of Directors at Kcell, Independent Director<sup>2</sup>, and a member of the Board of Directors since October 17, 2012.

Chairman of the Board of Directors of Hogia AB.

Member of the Board of Directors of OJSC Megafon (Independent Director) and Chairman of the Audit Committee.

From 1994 to 2003 held a variety of top executive positions at Telia AB.

Previously he was the CEO of Tele2, Executive Vice President at Nordbanken AB and CEO of Enator AB.

Graduated in 1969 from the Gothenburg School of Business Administration and Economics.

---

<sup>2</sup> 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.



## **Veysel Aral, Year of birth 1968**

Chief Executive Officer at Kcell and member of the Board of Directors since November 9, 2012.

Vice President and Regional Head of Central Asia within TeliaSonera since 2011. Currently works in Kazakhstan.

Member of TeliaSonera Group Management Team.

Member of the supervisory committee for Central Asian Telecommunications Development B.V.

Chairman of the Board of Directors at TeliaSonera Uzbek Telecom Holding B.V.

Graduated in Physics engineering from the Middle East Technical University (Turkey).

From 1989 to 1992, held a position as a Telecommunications Engineer at Turkish State Railways.

From 1992 to 2001, held various managerial positions at Ericsson Telekomünikasyon A.Ş. and was involved heading telecommunication projects in Turkey, Iran and Pakistan.

From 2001 to 2006, served as Regional Manager (Azerbaijan, Georgia and Turkmenistan), Vice President and Customer Relations Manager with Fintur at Ericsson AB.

2007 - Vice President and Key Customer Relations Manager at Ericsson Telekomünikasyon A.Ş.





### **Berndt Kenneth Karlberg, Year of birth 1954**



Member of the Board of Directors at Kcell since November 9, 2012.

Member of the Board of Directors and Managing Director at Karnet AB, member of the Board of Directors at Relacom AB and Relacom International Holding AB, Chairman of the Board of Directors at MobiU AB and Billboo Added Dimension AB. Currently works in Sweden.

Graduated from the Military Academy in 1976 and was appointed as an officer in the Swedish army. In 1987, took a training course in the same institution and returned to the army as a senior officer.

From 1998 to 2002, held the position of Managing Director of Telia Mobile at Telia AB.

From 2003 to 2004, held the position of Managing Director of TeliaSonera.

From 2004 to 2006, held the position of Regional Head of Denmark, Norway, the Baltic States and Spain at TeliaSonera.

From 2006 to 2010, held the position of Head of Mobile Services at TeliaSonera.

### **Tolga Kokturk, Year of birth 1977**



Member of the Board of Directors at Kcell since August 27, 2012.

Chief Financial Officer for Eurasia at TeliaSonera since 2011. Currently works in Turkey.

Member of the Board of Directors at TeliaSonera Uzbek Telecom Holding B.V., Azertel Telekomünikasyon Yatirim ve Diş Ticaret A.S., Azercell Telekom MMC, and Geocell LLC, and a member of the Supervisory Board of Central Asian Telecommunications Development B.V.

Graduated in economics from Koç University (Istanbul, Turkey).

From 2006 to 2011, held the position of Financial Director at Kcell.



From 2004 to 2006, held the position of Chief Financial Officer of the mobile operator Azercell Telecom JV, founded in Azerbaijan with participation of TeliaSonera.

**Bert Åke Stefan Nordberg, Year of birth 1956**

Chairman of the Board of Directors of Sony Mobile Communications AB, Independent Director, and Member of the Board of Directors at Kcell since November 9, 2012. Currently works in Sweden.



Graduated in electronic engineering from Malmö Technical High School (Malmö Tekniska Läroverk, Sweden) and studied engineering at a naval base in Sweden (Berg, Sweden).

From 2009 to 2012, held the positions of Member of the Board, President and Chief Executive Officer of Sony Ericsson Mobile Communications AB.

From 2004 to 2009, held the position of Executive Vice President at LM Ericsson AB.

**Mats Göran Salomonsson, Year of birth 1950**

Member of the Board of Directors at Kcell since August 27, 2012

Since 2011, held positions as Vice-President of Market and Business Development for Eurasia at TeliaSonera, Chairman of the Board of Directors and Member of Audit and Remuneration Committee at AS Eesti Telekom, and member of the Board of Directors of TeliaSonera Försäkring AB, TeliaSonera, UTA Holding BV, TeliaSonera Asia Holding BV, Airbell Services Ltd, and Nepal Satellite Telecom Pvt Ltd. Currently works in Sweden.



Graduated with an MBA from the Stockholm School of Economics (Sweden).

From 1996 to 2001, held the position of Financial Officer and Managing Director at Telia Nära AB.

From 2001 to 2002, worked for Telia Mobile AB.

From 2003 to 2007, held the position of Chief Financial Officer at TeliaSonera (Norway, Denmark and Baltic States Division).



From 2007 to 2009, held the position of Chief Financial Officer at TeliaSonera (mobile services segment).

From 2010 to 2011, held the position of Chief Financial Officer at TeliaSonera (Eurasia business segment). Previously, Mr. Salomonsson held several managerial positions at AGA AB, working in Sweden, and at ABB AB, working in Sweden, Italy and the U.S., as well as at Lagan Press AB (Sweden) and SAAB Automobile AB (Sweden).

### **During 2012, no members of the Board of Directors held shares of Kcell.**

Membership of the Board of Directors of Kcell , elected by the General Shareholders' Meeting on October 17, 2012, valid until November 9, 2012:

- Mats Göran Salomonsson
- Tolga Kokturk
- Jan Erik Rudberg, independent director

Membership of the Board of Directors of Kcell, elected by the resolution passed by the general meeting of members of "GSM Kazakhstan OJSC "Kazakhtelecom" LLP" on August 27, 2012, within the course of Company reorganization into a joint-stock company, valid until October 17, 2012:

- Mats Göran Salomonsson
- Tolga Kokturk
- Mohamed Amersi, independent director

## **Committees of the Board of Directors**

According to the Law on Joint Stock Companies of the Republic of Kazakhstan, the following committees should be established in the Company to consider important issues and prepare recommendations for the Board of Directors: a Strategic Planning Committee, a Human Resources and Remuneration Committee, an Internal Audit Committee, and a Committee on Social Issues. The chairmen should be independent directors. The law grants the Board of Directors the right to create other committees at its discretion. The law also indicates that committees shall consist of members of the Board of Directors and experts with the necessary expertise to serve on the given committee. All committees have been created at Kcell as per the legislative requirements. All committees are advisory bodies of the Board of Directors.





	<b>Strategic Planning Committee</b>	<b>Human Resources and Remuneration Committee</b>	<b>Internal Audit Committee</b>	<b>Committee on Social Issues</b>
<b>Committee Membership</b>	Bert Åke Stefan Nordberg, Chairman, Independent Director Berndt Kenneth Karlberg Mats Göran Salomonsson	Bert Åke Stefan Nordberg, Chairman, Independent Director Tolga Kokturk Mats Göran Salomonsson	Jan Erik Rudberg, Chairman, Independent Director Kenneth Berndt Karlberg Tolga Kokturk	Jan Erik Rudberg, Chairman, Independent Director Tolga Kokturk, Member Mats Göran Salomonsson
<b>Committee Role</b>	The Committee on Strategic Planning makes recommendations to the Board of Directors on the Company's strategic development.	The Human Resources and Remuneration Committee makes recommendations to the Company's Board of Directors on qualification requirements for employees, appointment and dismissal of some employees, bonuses and salary for management bodies, and internal documents evaluating staff fitness, training and motivation of employees.	The Audit Committee makes recommendations to the Company's Board of Directors on financial statements, internal controls and risk management, and internal and external audits.	The Committee on Social Issues 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.



## Activity Report on the Board of Directors

The first Board of Directors of Kcell was created on August 27, 2012 after the Company had been reorganized into a joint-stock company. From that moment and until the end of 2012, the Board of Directors held 6 meetings. Major resolutions passed by the Board of Directors during this period, include:

- September – the Board approved the execution of a major transaction by Kcell JSC, which comprised several interconnected deals in connection with the Company's borrowing of a syndicated loan from banks in the amount of KZT 45 billion.
- October – the Board passed a number of resolutions, connected with Kcell's IPO: resolution on the inclusion of the Kcell JSC ordinary shares to the first highest category of the KASE official list; approval of the calendar of corporate events; conclusion of a depositary agreement with Deutsche Bank Trust Company Americas.
- October – the Board elected the Company's executive body: the Board unanimously renewed the term of Veysel Aral's office as Chief Executive Officer, who have been fulfilling this duty at Kcell since 2007.
- December – the Board approved the Investment Memorandum (GDR issue prospectus) in order to enter LSE and KASE, international and local agreements with underwriters and Resolutions of the Board of Directors' Committees.

## Remuneration of Board Members

In accordance with the Kcell Regulation on the Amount and Terms of Remuneration and Compensation of Expenses paid to the Board of Directors' Members for the Fulfillment 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 job duties.

An extraordinary General Shareholders' Meeting held on November 9, 2012, approved the following remuneration amount for independent directors and directors, who are not employed at TeliaSonera:

- fixed annual remuneration in the amount of USD 75,000 (before tax);
- auxiliary annual remuneration for chairing the Company Board of Directors in the amount of USD 25,000 (before tax), for participating in the Audit Committee in the amount of USD 15,000 (before tax) and for participating in any other committee of the Board of Directors in the amount of USD 6,000.



In 2012, the remuneration was not paid, and the Board of Directors' performance was not evaluated, because according to the terms and conditions for the payment of remuneration as per the Regulation on the Amount and Terms of Remuneration and Compensation of Expenses paid to the Board of Directors' Members for the Fulfillment of their Duties approved by resolution of the Kcell General Shareholders' Meeting dd. November 9, 2012, 50% of the fixed annual remuneration is paid six months after the corresponding director took office. The remaining part of the fixed annual remuneration is paid one year after the corresponding director took office.



## 3.4 Executive Management

The Chief Executive Officer 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 General Shareholders' Meeting of Kcell. In addition, the CEO is responsible for executing decisions taken by the General Shareholders' Meeting and the Board of Directors.

Top management of Kcell is a highly professional team of experts with an extensive experience of work on the Kazakhstani and international mobile services markets, proficient in the field of telecommunications, finance, marketing and information technology.

For the past few years, the Kcell team headed by the current members of management proved its capability to work on the developing market, sustain leadership and extend the network, implement new services and technology and improve the quality of service.

### Senior Management Team

#### **Veysel Aral, Year of birth 1968**

Chief Executive Officer at Kcell since 2007, member of the Board of Directors at Kcell.

Vice President and Regional Head of Central Asia within TeliaSonera since 2011. Member of the supervisory committee for Central Asian Telecommunications Development B.V.

Member of TeliaSonera Group Management Team.

Chairman of the Board of Directors at TeliaSonera Uzbek Telecom Holding B.V.

Graduated in Physics engineering from the Middle East Technical University (Turkey).

From 1989 to 1992, held a position as a Telecommunications Engineer at Turkish State Railways.

From 1992 to 2001, held various managerial positions at Ericsson Telekomünikasyon A.Ş. and was involved heading telecommunication projects in Turkey, Iran and Pakistan.

From 2001 to 2006, served as Regional Manager (Azerbaijan, Georgia and Turkmenistan), Vice President and Customer





Relations Manager with Fintur at Ericsson AB.

2007 - Vice President and Key Customer Relations Manager at Ericsson Telekomünikasyon A.Ş.

### **Bauyrzhan Ayazbayev, 1978 year of birth**



Chief Financial Officer at Kcell since 2011.

Graduated as a lawyer from the Kazakh State Law University. Received an MBA from KIMEP University.

From 2001 to 2005, served as Senior Auditor for the Kazakhstan Branch of PricewaterhouseCoopers LLP.

From 2005 to 2006, served as Manager of Operational and Financial Accounting for JSC PetroKazakhstan Oil Products (Kazakhstan).

Has held a number of positions at Kcell since 2006, including Deputy Chief Accountant, Chief Accountant and Deputy Finance Director.

### **Aida Dossayeva, Year of birth 1960**



Corporate Communications Department Director at Kcell since 2008.

Graduated from the Almaty Institute of National Economy. Received a Ph.D. in economics from Kazakh State National University, and graduated from the University of KIMEP in Public Relations and International Journalism.

From 1994 to 1997, served as a Director of the admission committee and financial aid at KIMEP University.

From 1997 to 1998, served as Account Manager representing Oracle BV in Kazakhstan.

From 1999 to 2004, worked at the Eurasia Foundation, funded by the U.S. Agency for International Development.

From 2004 to 2008, held the position of Manager for Client Relations, and later Director of Sales Department at Microsoft Kazakhstan LLP.



### **Aliya Kishkimbayeva, Year of birth 1975**

Legal Department Director at Kcell since 2010

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.

Has worked at Kcell since 2007, where she started to work at the position of senior associate. Later served as Company Head of Contracts and Litigation. Prior to joining Kcell, worked as a lawyer at CJSC “AralParker” (Joint Venture) and PetroKazakhstan Inc. (Joint Ventures).



### **Kaspars Kukelis, Year of birth 1971**

Marketing Department Director at Kcell since 2008.

Chairman of the Board of Directors of JSC “KAPS INTL”.

Graduated in economics from the Kazakh State Academy of Management.

From 1996 to 2005, held the position of Chief Executive Officer at LLP Panda Advertising.

From 2002 to 2003, held the position of President of the Kazakhstan Association of Advertising Agencies.

Chairman of the Board of JSC “KAPS INTL” since 2004.

From 2006 to 2007, held the position of Chief Executive Officer at LLP Kazyna Invest.

From 2007 to 2008, held the position of Deputy Director at LLP Easy World MG.



### **Ajay Mathur, Year of birth 1956**

Human Resources Department Director at Kcell since 2008.



Received a degree in Humanitarian Sciences from Jawaharlal Nehru University (India) and graduated with a military major from the University of Madras (India).

From 1977 to 1997, served in the Indian Army.

From 1997 to 2005, worked in consulting and training as a private entrepreneur.

Joined the Company in April 2005, and was responsible for implementing the standards of the International Organization for Standardization.

### **Dilyara Mckay, Year of birth 1971**

Customer Relations Department Director at Kcell since 2009.



Graduated from Semipalatinsk State Pedagogical Institute as a teacher of physical education.

From 2002 to 2005, held the position of Customer Relations Director at Sky Mobile LLC (Bitel brand, Kyrgyzstan).

In 2007, held the position of Service Center Director at Sotel Ltd.

Has worked at Kcell since June of 2008, and has held various positions, including as a specialist, then as a manager in the Company's Commercial Program Unit of the Program Management Office, and then as Acting Director of the Customer Relations Department.



### **Vyacheslav Penskiy, Year of birth 1972**



Information Communication Technologies Department  
Director and Manager of Planning and Development of  
Information Technology at Kcell since 2012.

Graduated from Azerbaijan Technical University in Computer  
Technology, Systems and Networks.

Joined the Company in 2008 as Manager of Information  
Technology and Head of Services and Product Development.  
Prior to joining Kcell, worked at Azercell Telecom (JV), Astelit  
LLC, and Ericsson Turkey AS.

### **Nurlan Sargaskayev, Year of birth 1971**



Chief Commercial Officer at Kcell since 2012.

Graduated from the Almaty Institute of Energy and  
Communication in industrial electronic engineering.

From 1995 to 1998, headed the Private Networks  
Department at the Siemens AG representative office in  
Kazakhstan.

From 1998 to 2000, held the position of Chief Technical  
Officer at Kcell; subsequently served as Director of Sales and  
Marketing.

From 2000 to 2002, held the position of Chief Executive  
Director at Orbit Plus, a company offering mobile satellite  
communications services.

In 2002, returned to Kcell as Manager of Sales and Marketing  
and Manager of Projects and Development.

From 2005 to 2012, served as the Company's Director of  
Business Development.





## Information on Shareholding and Remuneration

During 2012, 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 programs. 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.

For the year ended on December 31, 2012, the total amount of remuneration paid to the Chief Executive Officer and the senior management members equaled KZT 326,824 thousand.



## 3.5 Risk Management

### The Risk Management System

Kcell's operations are subject to various risks. Working in these conditions and achieving goals set by shareholders and the Kcell Board of Directors is impossible without an effective system of risk management. Kcell's risk management system is designed not only to identify and assess the risks faced by the Company in a timely manner, but also to identify potential risks in order to further manage and minimize their impact on the Company.

In order to classify risk management processes, Kcell approved the Regulation on Risk Management. The main purpose of this Regulation is to create an effective integrated system and a comprehensive process of risk management, as part of corporate management and ongoing improvement of activities, on the basis of a unified standard approach to the methods and procedures of risk management. Applied risk management methods are described in the Regulation.

Risk management process includes identification of current and potential risks, their evaluation, reaction and the development of a plan to reduce the risk, as well as the preparation of reports on risks and their monitoring.



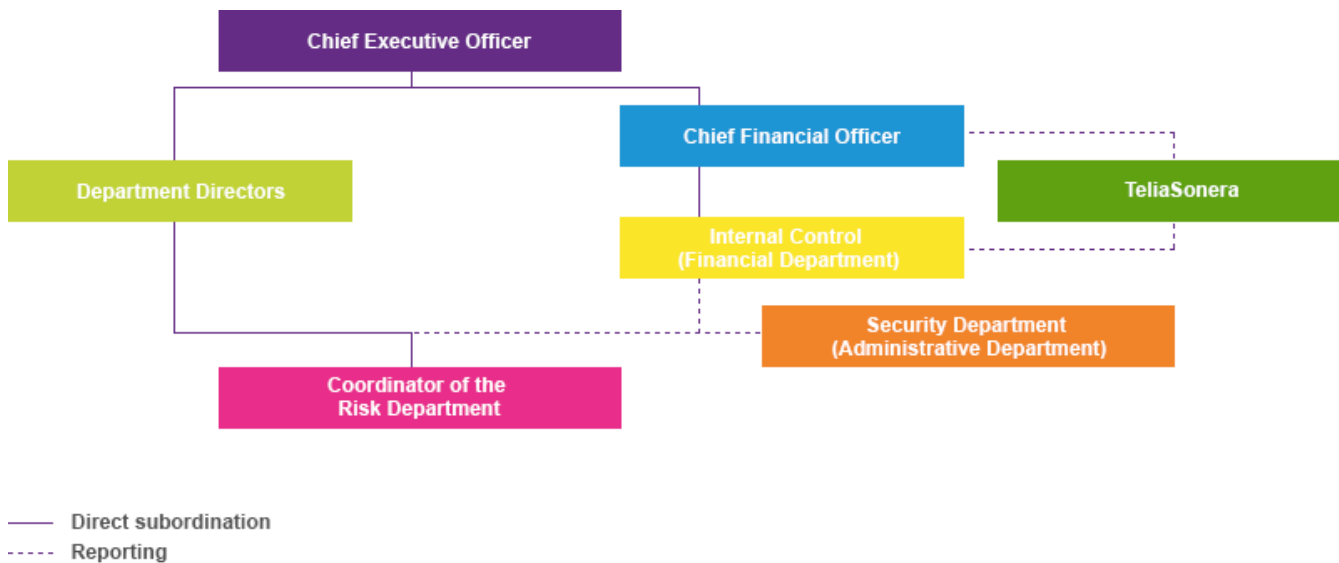


Risks of each Company department are identified on the basis of its goals and includes the following:

- Identification of the risk type: strategic, operational, financial, legal or force-majeure;
- Short description of the risk;
- Influence of the risk on the Company's activities.

Once the risk is identified, it is rated on the basis of two criteria – probability and the level of damage. The risk is evaluated follow a 5\*5 model: probability (very high, high, average, low, very low) \* level of damage (catastrophic, very significant, significant, minimum, insignificant).

For the risks rated “High” and “Average” a plan is developed to reduce the risk level. This plan includes the affected parties, reaction strategy, actions necessary to reduce the risk, terms, the list of employees responsible for taking actions, necessary resources and the status of actions.





<b>Kcell structural division</b>	<b>Role in the risk management system</b>
Top management	<ul style="list-style-type: none"> <li>– Approval of the Kcell Regulation on Risk Management.</li> <li>– Review of the consolidated register of risks and control over the implementation of the risk reduction plan.</li> <li>– Submission of the risk report for the office of TeliaSonera Eurasia.</li> <li>– Maintenance of the risk awareness in the Company.</li> </ul>
Department directors	<ul style="list-style-type: none"> <li>– Appointment of risk coordinators within the department.</li> <li>– Monitoring of the fulfillment of requirement contained in the Regulation on Risk Management within the department.</li> <li>– Review and approval of the risk registers, submitted by the risk coordinator.</li> <li>– Ensuring effective management and the reduction of risk level with regard to current and new risks.</li> <li>– Implementation of procedures within the department aimed at promoting risk management culture; determination of powers and remuneration of personnel within the course of risk management.</li> </ul>
Security Department	<ul style="list-style-type: none"> <li>– Preliminary approval of the departments' risk registers with regard to the risk evaluation accuracy every six months.</li> <li>– Review and approval of the consolidated risk register</li> <li>– Participation in the implementation of corporate risk preventive measures, which necessitates the participation of the Security Department, in other cases at the department's discretion.</li> </ul>
Internal Control (Financial Department)	<ul style="list-style-type: none"> <li>– Coordination of the risk reporting process across the Company.</li> <li>– Updating the consolidated risk register and submitting of the reports to the Chief Financial Officer and TeliaSonera.</li> <li>– Monitoring of the risk reduction plans' implementation by the departments.</li> </ul>
Risk coordinators	<ul style="list-style-type: none"> <li>– Identification and evaluation of risks, development of risk reduction plans, risk monitoring and preparation of risk reports within his/her department.</li> <li>– Preparing and submitting updated risk registers to the Department Director, the Internal Control Group and the Security Department.</li> <li>– Submitting the updated risk reduction plan upon request of the management, the Internal Control Group and the Security Department.</li> </ul>
Affected parties	<ul style="list-style-type: none"> <li>– Assistance with the preparation, review and updating of the risk register within their powers.</li> <li>– Ongoing monitoring of new and current risks within their powers.</li> <li>– Notification of the risk coordinator of the changes to the risks on a regular basis.</li> <li>– Review, updating and control over the implementation of the risk reduction plan within their powers.</li> </ul>
All Kcell employees	<ul style="list-style-type: none"> <li>– Fulfillment of the risk management functions in accordance with the Regulation on Risk Management.</li> </ul>



## 3.6 Share and Dividend Policy

### Share Capital

The authorized share capital of Kcell amounts to KZT 33.8 billion, divided into 200,000,000 ordinary shares with a par value of KZT 169.00. The number of issued and outstanding common shares is 200 million. All issued and outstanding common shares were fully paid. The Company does not have any authorized or issued preference shares or any convertible securities, exchangeable securities or securities with warrants in issue.

All shares are registered in the share register of the Company, which is maintained by Integrated Securities Registrar JSC (Central Registrar). Ownership of the Company's shares is evidenced by an extract from the shareholders' register of the Company.

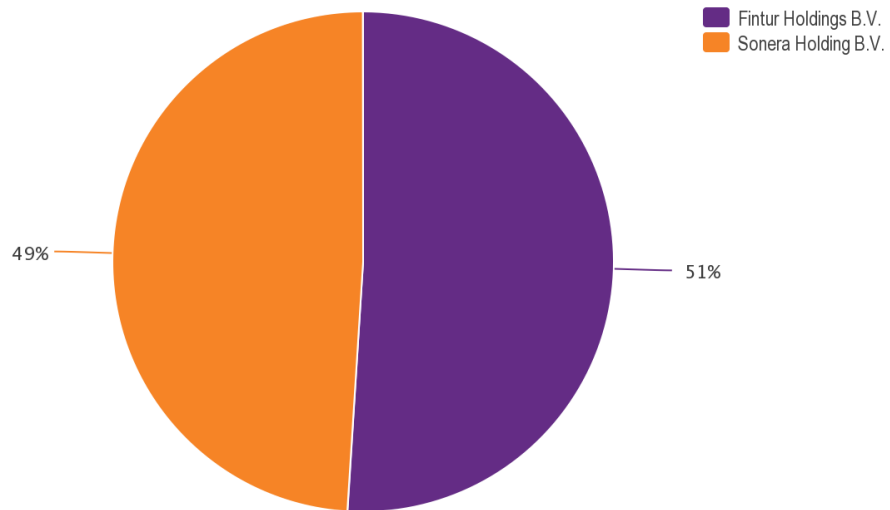
In December 2012, Kcell launched its initial public offering on the Kazakhstan Stock Exchange (KASE) with the trading code KCEL and initial Global Depositary Receipts (GDR) offering on the Main Market of the London Stock Exchange (LSE). Until the IPO, 100% of Kcell's shares were owned by Fintur and Sonera. After the IPO, their aggregate share fell to 75%, so Fintur and Sonera continue to exercise primary control over the Company, for example in election of members to the Board of Directors, declaration of dividends, changes to the Charter and control over virtually all decisions falling within the exclusive competence of the General Shareholders' Meeting of Kcell.

The Joint Global Coordinators and Joint Bookrunners for international offering of GDRs were Credit Suisse, UBS Investment Bank and Visor Capital. Renaissance Capital acted as Joint Bookrunner and Halyk Finance as Co-manager. Visor Capital was responsible for organizing the offering of Kcell shares in Kazakhstan.

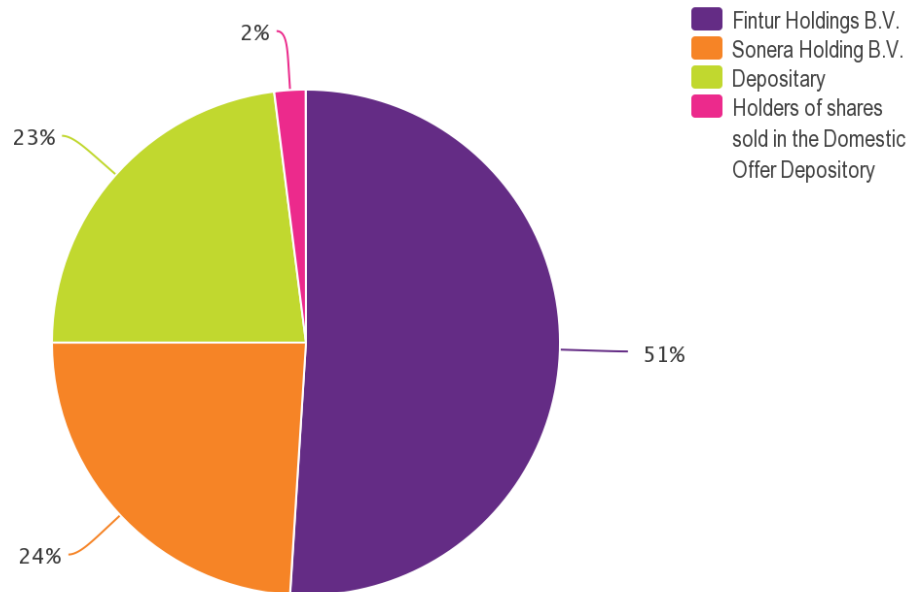
Shareholder	Ownership of shares before IPO		Ownership of shares after IPO	
	Quantity	%	Quantity	%
Fintur Holdings B.V.	102,000,000	51	102,000,000	51
Sonera Holding B.V.	98,000,000	49	48,000,000	24
Depository	-	-	45,123,528	22,6
Holder of shares sold in the Domestic Offer (including shares deposited with Central Securities Depository JSC)	-	-	4,876,472	2,4
<b>Total:</b>	200,000,000	100	200,000,000	100



### Kcell equity structure before IPO

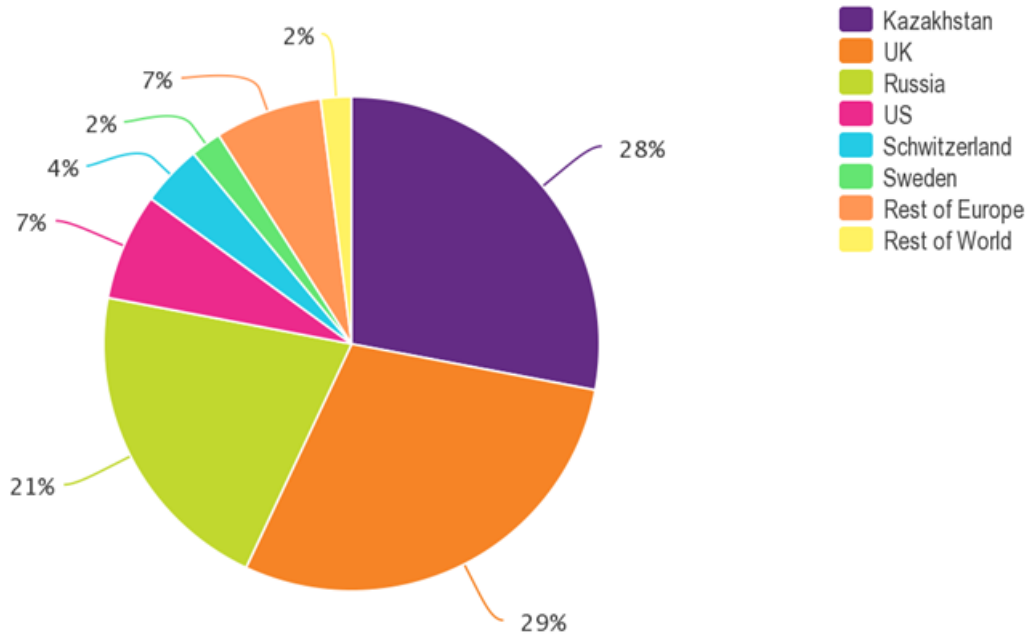


### Kcell equity structure after IPO

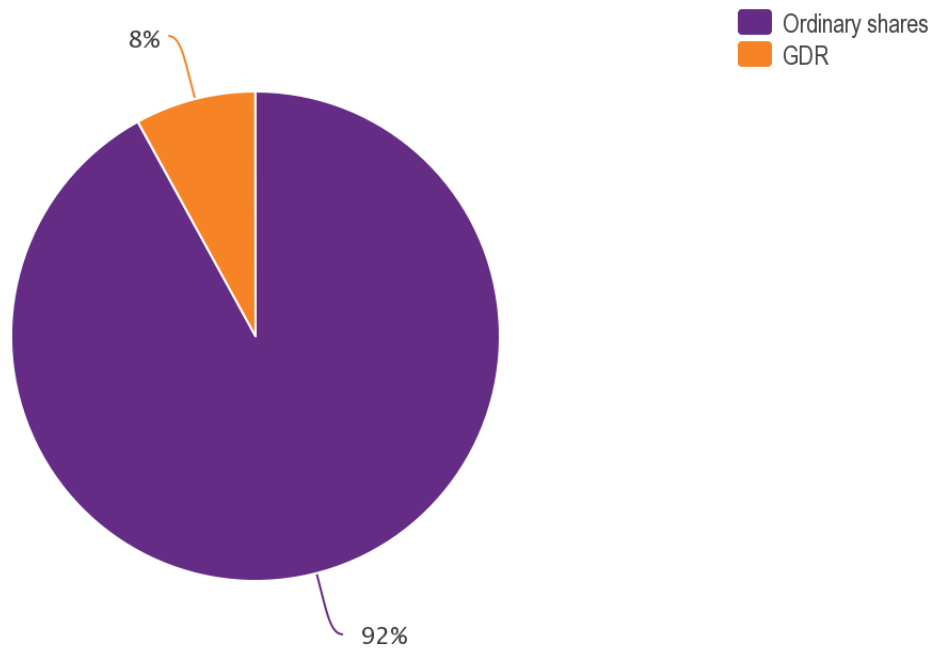




Investors breakdown by countries as of December 31, 2012, %



Distribution of trading on the types of securities of Kcell, %





## Dividend Policy

On October 17, 2012, the Kcell General Shareholders' Meeting approved the dividend policy, which is part of the Corporate Governance Code and will apply to all dividends declared.

### Dividend policy

**Ordinary dividend shall be at least 70% of the net income of the Company for the previous financial year**

**A special dividend is expected to be declared in Q2 2013 and paid as at a record date to be set within the second quarter of 2013**

**The Company intends to pay 100% of the 2012 net income generated from 1 July 2012 to 31 December 2012**

According to the dividend policy, if the Kcell shareholders do not decide otherwise, the size of the annual dividend on Kcell's common shares will be at least 70% of net income for the previous fiscal year. Resolution of the General Shareholders' Meeting shall be based on the proposals of the Board of Directors regarding payment and amount of dividends. In making recommendations to the General Meeting of Shareholders, the Board of Directors shall take into account the current state of the Company, available cash, cash flow estimates and investment plans in the medium term, as well as the state of the capital market. Kcell plans to pay dividends annually.

Results of the year	2009	2010	2011	2012
Total amount of declared dividends, KZT million	41,600	58,000	115,877	32,403*
Net income, KZT million	41,197	54,768	66,858	61,828
Dividends declared as a share of net income, %	96%	106%	173%	n/a
Total amount of dividends paid, KZT million	41,000	58,000	115,877	0*

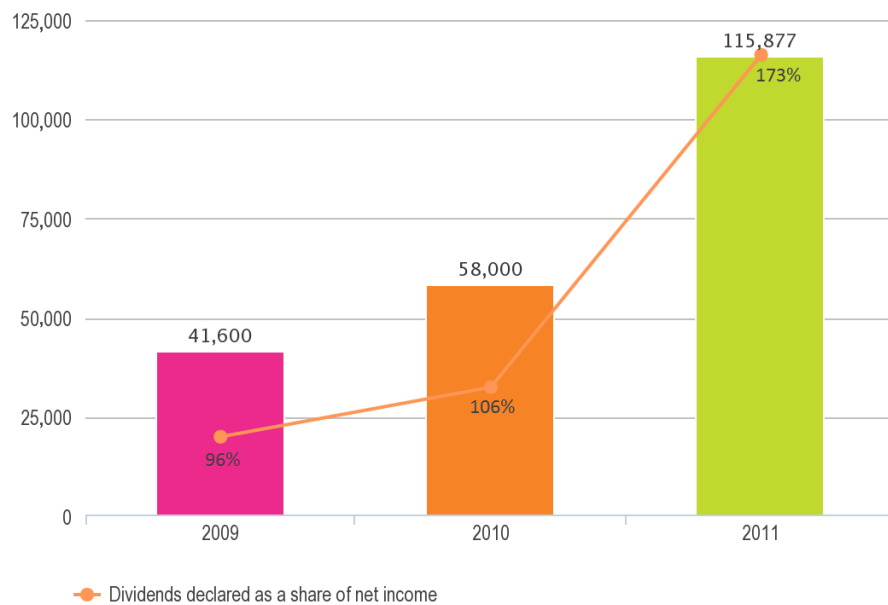
\* All net income earned by the Company after reorganization into a JSC from July 1, 2012 till December 31, 2012, which can be allocated.

\*\* The payment of dividends will be made not later than June 30, 2013.





### Total amount of declared dividends, KZT million





## 4 Sustainability

**Social projects are an integral part of the mission and strategy of Kcell. The Company sees its main social role in business development and contribution to the growth of the national economy. By introducing and promoting high-tech telecommunications products and services, we promote the development of an innovative economy in the Republic of Kazakhstan and diversification of the economy in conditions of global competition.**

### 4.1 Corporate Social Responsibility: the Kcell Approach

Kcell's position as a socially responsible company is manifested through constant dialogue with all stakeholders: customers, partners, employees, government agencies, regulators and shareholders. Through this dialogue, the Company responds effectively to emerging issues among stakeholders.

Kcell uses the following principles when selecting projects to support:

- Transparency in decision-making and reporting on ongoing projects.
- Effective use of funds provided, and resulting contributions to the improvement of society.
- Building positive and stable reputation for the Company and for aid recipients.
- Compliance with standards for sustainable development and social responsibility.

We believe that these principles promote implementation of projects that will provide real benefits to the society and people of Kazakhstan.

Kcell is not only part of the economy of Kazakhstan, but also an active participant in the social and cultural life of the nation. During its 11 years in the cellular market, Kcell has consistently followed socially responsible business principles. The Company believes that being socially responsible means contributing to the development and improvement of the country's social processes and creating a role model for socially responsible business in Kazakhstan. The Company cares about the quality of life of its employees and their families, as well as our customers and the residents of the country as a whole.

Kcell implements more than 40 social programs annually, with the total amount of investment in the social sector in the last 5 years exceeding KZT 905 million. Each year, more than 100,000 people from the most vulnerable groups, specifically children, orphans, people with disabilities and those who retired, participate in Company programs.

Kcell has identified several key priority areas for corporate social responsibility based on an analysis of stakeholders and their needs. The selected areas allow us to focus on issues that promote our long-term sustainable business growth:

- Increasing availability of digital technology to the general public.



- Expertise of managers and employees.
- Privacy and network security.
- Fair business practices.
- Responsible supply chain.
- Responsible marketing operations.

Kcell seeks to meet the highest international standards for sustainable development and social responsibility, implementing these principles in its daily operations. In 2007, Kcell was the first mobile operator in Kazakhstan to join the United Nations Global Compact, which brings together 3,800 of the largest companies and businesses in 100 countries to pursue and implement common principles of corporate social responsibility in business.



## 4.2 Staff Development

Our employees are the main capital ensuring stable operations in the Company, implementation of new ideas, execution of business plans, and ultimately, leadership in the telecommunications market. 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 wages. Thanks to effective personnel management, the Company is developing dynamically and strengthening its reputation as a responsible employer.

As of December 31, 2012, the Company had 1,612 employees. During the reporting year, the staff grew by 2% due to regional business development

### Staff Incentives

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

Kcell's incentive system focuses on optimizing employee performance. The Company's senior management is reviewing and approving plans to incentivize employees using bonuses.

The incentive scheme has a fixed and a variable component. 77% of the Company's employees are entitled to receive base pay and an annual bonus, the amount of which is determined based on annual results and personal achievements. In addition, the salaries of most customer service employees include a base and a variable component tied to KPIs for the month (these employees are also entitled to an annual bonus).

### 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. Trainings are conducted in the Business School by professional coaches on invitation, and by experienced and knowledgeable trainers who have received special teaching certifications and are retained as part of the Kcell staff. Employees receive training based on individual development plans. The Kcell Business School is slated to expand in the future.

The Company cooperates with higher and secondary educational institutions in Kazakhstan that train communications industry specialists, in order to improve training programs.



## Employee Benefits and Occupational Safety

In an effort to create a positive and motivating work environment for its team in all areas of operations, Kcell provides benefits as required by the legislation of Kazakhstan, and also a number of additional social protection measures, in order to improve quality of life for employees and their families.

The Company provides a benefits package that includes voluntary medical insurance, meals, access to a fitness room and provision of mobile communications.

All employees receive financial aid in a variety of situations, including at the birth of a child, the death of close relatives, and if necessary, to pay for high-cost medical treatments. In some cases, employees are granted an additional short paid leave of absence.

Kcell takes responsibility for the lives and health of its employees and provides them with voluntary health insurance and compulsory insurance against accidents.

Kcell provides employees with voluntary health insurance and compulsory social insurance against accidents occurring during performance of professional duties. As part of the agreement, the Company provides a field medical insurance policy in case of illness of the employee or family members during business trips and trips abroad.

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 the following:

- safety training for employees;
- providing employees with protective clothing, footwear and other personal protective equipment;
- guaranteeing optimal labor conditions;
- standardizing sanitary labor conditions;
- health care services for employees;
- communications outreach on occupational health and safety;
- monitoring compliance with occupational safety and health standards.

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 regarding occupational safety



## 4.3 Interaction with Society

As a socially responsible business, Kcell cannot develop separately from society and its interests. An established system of communication with stakeholders provides us with a reasonably accurate understanding of their expectations, and allows us to make timely adaptations to those interests.

Cooperation between Kcell and society is demonstrated in its attitudes toward employees, support for educational and cultural establishments, regulation of environmental effects of Company operations, and relations with local communities.

By harmoniously combining business development interests with the interests of all stakeholders, we achieve more for the Company and improve the social climate.





## **Stakeholder Dialogue**

### ***Customers***

More than 13 million residents of Kazakhstan currently use Kcell services, and we are doing everything possible to retain these customers. We are guided by responsible marketing principles, and we strive to make communication with customers simpler and more convenient and our services more accessible and better suited to customers' needs.

### ***Business Partners***

We focus on long-term, mutually beneficial cooperation with our partners. With their help, we are able to provide better service as well as new opportunities for our customers. Kcell's relationships with suppliers and service providers are based on transparency, honesty and trust. We use a system of tenders when purchasing equipment and supplies and ordering services, which ensures convenience, ease and speed of procurement, and also reduces corruption risks during the bidding process.

### ***Employees***

The Company's employees are its most valuable asset. For this reason, caring for employees is one of our most important priorities. We offer our employees fair wages, additional benefits, safe working conditions, and opportunities for professional and personal growth.

### ***Shareholders***

Kcell is an open joint stock company and its securities are listed on stock exchanges. We are targeted to increase the Company's shareholder value, and so we are guided by the foremost standards of corporate governance and transparency.

### ***State and Local Authorities***

We cooperate actively with federal and regional authorities and consider their professional and social interests. Such considerations are a mandatory part of operations. Kcell has proven itself to be a reliable partner, meticulously complying with statutory regulations and making significant tax contributions. By implementing large scale projects, we address significant social issues and promote the country's economic growth.

### ***Society***

As part of cooperation with social organizations and local communities, Kcell supports vulnerable segments of the population, projects with especially important economic benefits for society, and significant social, cultural and scientific charity projects. A portion of Kcell's proceeds regularly goes toward financing such projects,



including joint projects with social organizations in regions where the Company operates.

### ***Stock Exchanges and the Investment Community***

When cooperating with investors, the Company considers its primary objective to be creating an effective mechanism for planning and implementing investment projects, and ensuring the highest level of transparency for investors. This is especially relevant because Kcell is a public company, and thus obligated to provide shareholders and investors with comprehensive information on its operations.

## **Social Responsibility**

**«We believe in Kcell that projects in the field of the corporate social responsibility not only create strong and viable communities throughout the country – they also help to get an alternative access to the markets and increase the efficiency of the company».**

**Veysel Aral  
Chief Executive Officer  
Kcell**

Within the framework of corporate responsibility we single out some of the most priority directions, which were defined on the basis of the exhaustive analysis of interested parties and reality. The chosen directions allow us to solve the issues promoting the long-term steady growth and guaranteeing that our work within the scope of corporate responsibility will solve problems and focused on the problems being most essential to our business:

- Increase of availability of digital technologies for wider population;
- Long-term steady growth;
- Competence of the top management and employees;
- Confidentiality and security of networks;
- Honest business practice;
- Responsible deliveries network;
- Responsible marketing activity;
- Responsible employee.

Aspiring to correspond to the highest international standards of sustainable development and social responsibility, introducing these directions in our daily activities, we defined three spheres, in which we focused our efforts on:

1. Education;
2. Cultural heritage;
3. Social sphere of support of children and disabled, promotion of the healthy lifestyle, physical culture and sports.





In 2007 our company one of the first telecommunication companies joined the Global Compact of the United Nations.



Education is one of the key directions in the field of corporate social responsibility of Kcell. We give particular attention to this sphere, providing our employees with access to the most advanced knowledge on the basis of the Kcell Business School and offering opportunities for professional development in the conditions of the innovative culture. Besides care of our employees, we also pay attention to the youth within the scope of the project “Kcell Academy”, which purpose is to rise the education level in Kazakhstan, especially in the field of information technologies and telecommunications.

In this sphere our work is focused on preparation of students for the life in the business world, and we create the conditions for career enrichment, motivating and showing our capabilities and resources. Our partners within the scope of the project “Kcell Academy” are the leading higher education institutions of the country, such as: KazNU named after Al-Farabi, KBTU, University named after S.Demirel, KIMEP, KAZNTU named after K.I. Satpayev, Almaty Institute of Energy and Communications, International IT University, Karaganda State Technical University, Karaganda State University named after E.A. Buketov, Kazakh National Conservatory named after Kurmangazy, Kostanay State University named after A. Baitursynov, Public Institution “Republican specialized physical and mathematical boarding school named after O.A. Zhautykov under the Ministry of Education and Science of the Republic of Kazakhstan”. Besides, we actively support student's initiatives (debate tournaments, creative initiatives, sporting events etc.), carry out joint scientific and practical conferences and seminars.



Within the scope of implementation of the republican project “Trinity of languages” our company together with the British Council in Kazakhstan launched the service on studying the English, Kazakh and Russian languages “Phrase of the day” on the basis of short text SMS messages.

Aspiring to make a feasible contribution to support and preservation of the national cultural heritage, we support Public Fund “Federation ‘Kyran’” for revival of the ancient Kazakh tradition - hunting with hunting birds. Annually, in Settlement Nura, Enbekshikazakhsky region of Almaty oblast, there carried out the tournaments with hunting birds “Sonar” and the tournament in the memory of Aben Toktasynuly - the oldest berkutchi-hunter. Tournaments are held in two stages. The first stage – a selection round, where skills of hunting birds and also the skills of kusbegi (hunters with hunting birds) on domestication and control of the bird is assessed: coming of the golden eagle at call being apart from the hunter and on a bait. At the second stage the judiciary board assesses the level of skills of kusbegi during hunting with hawks and



falcons on pigeons and hares, and with golden eagles on a fox. The best young berkutchi, following the results of the tournament, get a grant for improvement of skills of kusbegi. In addition, with financial support of Kcell, “Federation ‘Kyran’” together with Center “Zhalaiyr shora” organized the unique workshop in Kazakhstan on manufacturing of ammunition for hunting with hunting birds.

For the purpose of promotion of the healthy lifestyle and sports among population of the Republic of Kazakhstan, our company actively cooperates with the Republican Federation of ju-jitsu and mixed types of single combats. With support of Kcell in 2012 there were carried out: the Eurasian Forum of Martial Arts, open tournament “Snow leopards of blue mountains”, there were enlarged the youth sections in 5 regions (Karaganda, Kokchetav, Atbasar, Aktau, Petropavlovsk).

Besides the aforesaid, our company throughout the entire period of its existence actively supports the international movement “Special Olympics Kazakhstan”, Public



Fund “Eldani”, which is our partner in supply of souvenirs in the national style, SE “Boarding School No. 17” of Almaty, charitable SMS project “Make a present of life to children” and many other social projects.

With a view of promotion of the healthy lifestyle in 2011 together with POO “Association of business women of Kazakhstan”, supported by the Ministry of Health of the RK and Kcell, the project “Services of the advisory telephone line concerning contraception and prevention of STD/HIV” was launched. During the period of effect of the project about 15000 calls were received.

In order our involvement into the projects of corporate social responsibility was the most effective, and the resources were used purposefully and target-focused, we in each particular case consider an opportunity of such participation, proceeding from available financial resources and exclusively towards the above-stated directions, reserving the right of choice of priority projects.



## **5 KCELL JSC**

# **International Financial Reporting Standards Consolidated Financial Statements for the year ended 31 December 2012 and Independent Auditor's Report**



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and shareholders of Kcell JSC

We have audited the accompanying consolidated financial statements of Kcell JSC and its subsidiaries which comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's responsibility for the consolidated financial statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

---

*PricewaterhouseCoopers LLP*  
34 Al-Farabi Ave., Building A, 4<sup>th</sup> floor, 050059, Almaty, Kazakhstan  
T: +7 (727) 330-3200, F: +7 (727) 244 6868, [www.pwc.com/kz](http://www.pwc.com/kz)



**INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

Page 2


*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kcell JSC and its subsidiaries as at 31 December 2012 and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

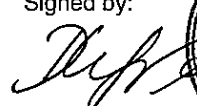
*Pricewaterhousecoopers LLP*

Almaty, Kazakhstan  
28 January 2013

Approved and signed by:

  
Zhanbota Bekenov  
Managing Director PricewaterhouseCoopers LLP  
(General State License from the Ministry of Finance of  
the Republic of Kazakhstan  
№ 0000005 dated 21 October 1999)

Signed by:

  
Dana Inkarbekova  
Auditor in charge  
(Qualified Auditor's Certificate  
№ 0000492 dated 18 January 2000)



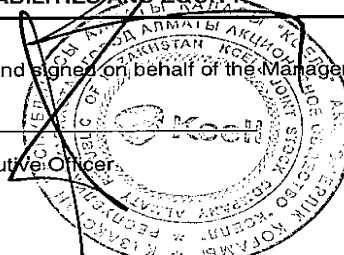


## Consolidated Statement of Financial Position

<i>In thousands of Kazakhstani Tenge</i>	<b>Note</b>	<b>31 December 2012</b>	<b>31 December 2011</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	110,336,802	100,371,648
Intangible assets	8	16,139,754	18,433,691
Other non-current assets	9	3,121,627	6,759,364
<b>Total non-current assets</b>		<b>129,598,183</b>	<b>125,564,703</b>
<b>Current assets</b>			
Inventories		977,772	1,836,256
Trade and other receivables	10	14,364,046	14,032,421
Prepaid current tax		1,596,283	-
Due from related parties	6	29,546	2,196,784
Cash and cash equivalents		3,075,138	1,352,996
<b>Total current assets</b>		<b>20,042,785</b>	<b>19,418,457</b>
<b>TOTAL ASSETS</b>		<b>149,640,968</b>	<b>144,983,160</b>
<b>EQUITY</b>			
Share capital	11	33,800,000	3,914,895
Retained earnings		32,403,052	116,337,563
<b>TOTAL EQUITY</b>		<b>66,203,052</b>	<b>120,252,458</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred income tax liability	17	5,104,217	3,990,934
Other non-current liabilities		988,203	494,881
<b>Total non-current liabilities</b>		<b>6,092,420</b>	<b>4,485,815</b>
<b>Current liabilities</b>			
Borrowings	13	48,990,985	-
Trade and other payables	12	21,256,936	11,733,602
Due to related parties	6	318,187	380,946
Deferred revenue	14	6,011,022	7,183,871
Taxes payable		768,366	946,468
<b>Total current liabilities</b>		<b>77,345,496</b>	<b>20,244,887</b>
<b>TOTAL LIABILITIES</b>		<b>83,437,916</b>	<b>24,730,702</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>149,640,968</b>	<b>144,983,160</b>

Approved and signed on behalf of the Management on 28 January 2013

VeyseI Aral  
Chief Executive Officer



Baurzhan Ayazbaev  
Chief Financial Officer

The accompanying notes on pages 5 to 34 are an integral part of these consolidated financial statements



## Consolidated Statement of Comprehensive Income

<i>In thousands of Kazakhstani Tenge</i>	<b>Note</b>	<b>2012</b>	<b>2011</b>
Revenues	15	182,003,503	178,786,235
Cost of sales	16	(76,291,475)	(69,955,346)
<b>Gross profit</b>		<b>105,712,028</b>	<b>108,830,889</b>
Selling and marketing expenses	16	(17,194,652)	(15,762,920)
General and administrative expenses	16	(11,004,899)	(9,943,026)
Other operating income		570,694	157,159
Other operating expenses		(181,237)	(383,876)
<b>Operating profit</b>		<b>77,901,934</b>	<b>82,898,226</b>
Finance income		131,088	725,286
Finance expense		(647,126)	-
<b>Profit before income tax</b>		<b>77,385,896</b>	<b>83,623,512</b>
Income tax expense	17	(15,557,863)	(16,765,408)
<b>Profit for the year</b>		<b>61,828,033</b>	<b>66,858,104</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<b>61,828,033</b>	<b>66,858,104</b>
<b>Earnings per share (Kazakhstani Tenge), basic and diluted</b>	11	<b>309.14</b>	<b>334.29</b>

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





## Consolidated Statement of Changes in Equity

<i>In thousands of Kazakhstani Tenge</i>	<i>Charter / Share capital</i>	<i>Retained earnings</i>	<i>Total equity</i>
<b>Balance at 1 January 2011</b>	<b>3,914,895</b>	<b>107,479,459</b>	<b>111,394,354</b>
Total comprehensive income for the year	-	66,858,104	66,858,104
<b>Dividends declared (Note 11)</b>	-	(58,000,000)	(58,000,000)
<b>Balance at 31 December 2011</b>	<b>3,914,895</b>	<b>116,337,563</b>	<b>120,252,458</b>
Total comprehensive income for the year	-	61,828,033	61,828,033
<b>Transformation from LLP to JSC (Note 1,11)</b>	29,885,105	(29,885,105)	-
<b>Dividends declared</b>	-	(115,877,439)	(115,877,439)
<b>Balance at 31 December 2012</b>	<b>33,800,000</b>	<b>32,403,052</b>	<b>66,203,052</b>



## Consolidated Statement of Cash Flows

<i>In thousands of Kazakhstani Tenge</i>	Note	2012	2011
<b>Cash flows from operating activities</b>			
Net income		61,828,033	66,858,104
Adjustments for:			
Depreciation of property, plant and equipment	7	18,812,111	19,908,209
Amortisation of intangible assets	8	3,968,634	2,987,696
Income taxes	17	(509,082)	(1,082,241)
Impairment of trade receivables	10	440,768	268,785
Finance costs		647,126	-
Losses less gains on disposal of property, plant and equipment and intangible assets		136,797	130,249
<b>Operating cash flows before working capital changes</b>		<b>85,324,387</b>	<b>89,070,802</b>
Trade and other receivables		(772,393)	(4,824,993)
Due from related parties		2,167,238	(860,786)
Inventories		858,484	(787,561)
Taxes payable		(152,020)	(252,606)
Trade and other payables		105,384	(966,398)
Due to related parties		(62,759)	40,723
Deposits received from subscribers		19,519	255,733
Deferred revenues		(1,192,368)	(266,460)
Restricted cash		(56,047)	4,137
<b>Cash generated from operations</b>		<b>86,239,425</b>	<b>81,412,591</b>
Interest paid		(52,494)	-
<b>Net cash from operating activities</b>		<b>86,186,931</b>	<b>81,412,591</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(23,263,472)	(24,543,828)
Purchase of intangible assets		(1,720,231)	(2,760,636)
<b>Net cash used in investing activities</b>		<b>(24,983,703)</b>	<b>(27,304,464)</b>
<b>Cash flows from financing activities</b>			
Proceeds from bank borrowing	13	53,395,353	-
Repayment of borrowing	13	(4,999,000)	-
Dividends paid	11	(107,877,439)	(58,000,000)
<b>Net cash used in financing activities</b>		<b>(59,481,086)</b>	<b>(58,000,000)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>			
Cash and cash equivalents at beginning of the year		1,722,142	(3,891,873)
Cash and cash equivalents at end of the year		1,352,996	5,244,869
<b>Cash and cash equivalents at end of the year</b>		<b>3,075,138</b>	<b>1,352,996</b>



# Notes to the Consolidated Financial Statements

## 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 2012 for Kcell JSC (the “Company”) and its subsidiaries (together referred to as the “Group”).

The Company is a subsidiary of Fintur Holdings B.V., and was formed 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 was established as a limited liability partnership on 1 June 1998 with the short name, GSM Kazakhstan LLP. As disclosed in Note 11 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”). Owners of Fintur are TeliaSonera Finland Oyj (“TeliaSonera”) and Turkcell Iletisim Hizmetleri A.S. (“Turkcell”) holding 58.55 percent and 41.45 percent, respectively. On 2 February 2012 the 49% stake in the Company owned by Kazakhtelecom was sold directly to Sonera Holding B.V. (“Sonera”), which is entity under common control of TeliaSonera. On 1 July 2012 the General Meeting of Participants of GSM Kazakhstan approved a conversion of the Company from Limited Liability Partnership to Joint Stock Company with 200,000,000 common shares to be transferred to Fintur and Sonera (hereinafter “Conversion”) proportionally to their ownership percentage (Note 11). The meeting also approved changing the Company’s name to Kcell JSC. Pursuant to Kazakh law, upon Conversion, total equity as of the date of Conversion became share capital of the Group and ceases to be available for distribution to shareholders. On 27 August 2012 the Ministry of Justice registered the Company as a Joint Stock Company. The Group’s ultimate parent and ultimate 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 radiofrequencies 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 8). 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 8).

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 11).

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.

## **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 and loss for the year.

At 31 December 2012 the principal rate of exchange used for translating foreign currency balances was USD 1 = Tenge 150.74 (31 December 2011: USD 1 = Tenge 148.40). 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:

	<u>Useful lives in years</u>
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.

### *(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 0, 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 radiofrequencies (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:

	<u>Useful lives in years</u>
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 o) 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.

### ***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 shown in equity as a deduction, net of tax, from the proceeds. 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, inforservices 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.

*(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.

*(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 infor services, 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.

### ***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 9), trade receivables (Note 10), due from related parties (Note 6) 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 12) and due to related parties (Note 6).

*(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.

## **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 61,080,559 thousand Tenge (Note 7) as of



31 December 2012 (2011: 51,300,430 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 2012 is 126,476,556 thousand Tenge (2011: 118,805,339 thousand Tenge).

Management has considered whether there are any indications of impairment of property, plant and equipment and intangible assets as of 31 December 2012 and concluded that no impairment indications existed at this date.

## **New Accounting Pronouncements**

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2013 or later, and which the Group has not early adopted.

***IFRS 9, Financial Instruments: Classification and Measurement.*** IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:

- 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.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

***IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)***, replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation – special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

***IFRS 12, Disclosure of Interest in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)***, applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly





influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

***IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)***, aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

***Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012)***, changes 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 'statements of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its financial statements, but have no 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 will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2013 or later, and not applicable to the Group's operations.

***IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)***, replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures.

***IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013)***, was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares



separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements.

**IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013).** The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged.

**Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013),** makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. Management believes the amended standard to have no effect on the financial statements.

**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, the impact on the Group and the timing of its adoption by the Group.

**Other revised standards and interpretations:** The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, the amendment to IAS 12 "Income taxes", which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, and IFRIC 20, "Stripping Costs in the Production Phase of a Surface Mine", which considers when and how to account for the benefits arising from the stripping activity in mining industry, will not have any impact on these consolidated financial statements.

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2012 or later and which the Group has not early adopted.

Unless otherwise described above, these new standards, interpretations and improvements are not expected to significantly affect the Group's consolidated financial statements.



## 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 2012 and a reconciliation of segment's measures of profit and loss to profit for the year is provided as follows:

<i>In thousands of Kazakhstani Tenge</i>	<b>2012</b>	<b>2011</b>
Revenue	182,003,503	178,786,235
EBITDA	100,682,679	105,794,130
Depreciation, and amortisation	(22,780,745)	(22,895,904)
EBIT	77,901,934	82,898,226
Finance income	131,088	725,286
Finance cost	(647,126)	-
Profit before income tax	77,385,896	83,623,512
Profit for the year	61,828,033	66,858,104



The Group's revenue for each service is presented in the Note 14. 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.

## 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 2012 and 2011 are as follows:

<i>In thousands of Kazakhstani Tenge</i>		<b>31 December 2012</b>	<b>31 December 2011</b>
Kazakhtelecom (owner prior to 2 February 2012)	Interconnect and transmission	-	2,156,411
Turkcell (owner of Parent)	Roaming	3,697	10,536
Entities of TeliaSonera group	Roaming	25,849	29,837
<b>Total due from related parties</b>		<b>29,546</b>	<b>2,196,784</b>

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 29,546 thousand will be fully repaid in 2013.

Amounts due to related parties at 31 December 2012 and 2011 are as follows:

<i>In thousands of Kazakhstani Tenge</i>		<b>31 December 2012</b>	<b>31 December 2011</b>
Fintur Holding B.V. (Parent)	Technical assistance	284,503	349,724
Kazakhtelecom (owner prior to 2 February 2012)	Interconnect and transmission	-	831
TeliaSonera (ultimate parent)	Roaming	8,688	6,229
Turkcell (Owner of Parent)	Roaming	4,464	6,138
Entities of TeliaSonera group	Roaming	20,532	18,024



<b>Total due to related parties</b>	<b>318,187</b>	<b>380,946</b>
-------------------------------------	----------------	----------------

The income items with related parties for the years ended 31 December 2012 and 2011 were as follows:

<i>In thousands of Kazakhstani Tenge</i>		<b>2012</b>	<b>2011</b>
<i>Revenues</i>			
Kazakhtelecom (owner prior 2 February 2012)	Interconnect	232,297	4,448,717
Turkcell (owner of Parent)	Roaming	48,481	66,445
Entities of TeliaSonera group	Roaming	132,183	164,800
<b>Total revenues – related parties</b>		<b>412,961</b>	<b>4,679,962</b>

The expense items with related parties for the years ended 31 December 2012 and 2011 were as follows:

<i>In thousands of Kazakhstani Tenge</i>		<b>2012</b>	<b>2011</b>
<i>Operating expenses</i>			
Kazakhtelecom (owner prior 2 February 2012)	Interconnect and transmission	538,025	6,254,613
Turkcell (owner of Parent)	Roaming	168,033	168,097
Fintur Holding B.V. (Parent)	Technical assistance	92,454	66,045
Telia Sonera (ultimate parent)	Roaming	21,054	39,087
Entities of TeliaSonera group	Roaming	357,620	213,670
<b>Total expenses – related parties</b>		<b>1,177,186</b>	<b>6,741,512</b>

The Group has an interconnect contract with Kazakhtelecom dated 1 March 1999 (“Interconnect contract”). Kazakhtelecom charges the Group for outgoing local and international public switched telephone networks (“PSTN”) calls and transit traffic from the Group’s networks. The Group charges Kazakhtelecom for incoming calls to our GSM networks from PSTN and international and local transit traffic through the equipment of Kazakhtelecom. Additionally, the Group has entered into transmission contracts with Kazakhtelecom, dated 26 February 1999 and 18 January 2000, under which the Group leases international digital communication channels and digital duplex communication channels in Kazakhstan.

The contracts are valid for one year from the contract date. If neither of the parties has declared its intention to discontinue the contract thirty days prior to expiry of this term,



the contract automatically prolongs for one year. The cancellation of the contract can take place thirty days after receipt of written notice by either of the parties.

The majority of transmission channels leased by the Group are rented from Kazakhtelecom.

On 22 December 2010, the Group signed a Telecommunication Services Agreement (the "Agreement") with Kazakhtelecom and amended it in December 2011. Based on this agreement the Group fixed the capacity and the annual costs of lease of digital transparent communication channels and IP VPN network except for the international channels and in-city channels till the year 2020. The Agreement is non-cancellable till 31 December 2015. (Note 18).

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.

### ***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 18).

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.



Therefore, the Group should recognise a liability for the written (contingent) put options and measure it at their fair value (i.e. at the future acquisition cost). As of 31 December 2012 the value of the options was assessed as nil by management.

### **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, share options, 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 comprehensive income is equal to 326,824 thousand Tenge for the year ended 31 December 2012 (2011: 182,408 thousand Tenge). Directors classified as key management personnel include ten positions for 2012, including six members of Board of Directors, and three positions for 2011.

## **Property, Plant and Equipment**

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

<i>In thousands of Kazakhstani Tenge</i>	<b>Freehold land</b>	<b>Buildings</b>	<b>Switches and transmission devices</b>	<b>Other</b>	<b>Constructio n in progress</b>	<b>Total</b>
Cost at 31 December 2010	655,455	13,528,338	112,811,815	15,330,937	16,299,687	158,626,232
Accumulated depreciation	-	(2,826,206)	(56,624,432)	(10,175,116)	-	(69,625,754)
<b>Carrying amount at 31 December 2010</b>	<b>655,455</b>	<b>10,702,132</b>	<b>56,187,383</b>	<b>5,155,821</b>	<b>16,299,687</b>	<b>89,000,478</b>
Additions	1,284,175	8,077,526	932,337	3,263,315	17,852,275	31,409,628
Transfers	-	1,153,504	10,630,040	312,804	(12,096,348)	-
Disposals	-	(21,572)	(91,723)	(16,954)	-	(130,249)
Depreciation charge	-	(791,828)	(16,357,607)	(2,758,774)	-	(19,908,209)
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)
<b>Carrying amount at 31 December 2011</b>	<b>1,939,630</b>	<b>19,119,762</b>	<b>51,300,430</b>	<b>5,956,212</b>	<b>22,055,614</b>	<b>100,371,648</b>
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)

<b>Carrying amount at 31 December 2012</b>	<b>1,993,267</b>	<b>22,477,722</b>	<b>61,080,559</b>	<b>8,692,560</b>	<b>16,092,694</b>	<b>110,336,802</b>
--	------------------	-------------------	-------------------	------------------	-------------------	--------------------

At 31 December 2012, the gross carrying value of property, plant and equipment, which has been fully depreciated and still in use, was approximately 27,007,160 thousand Tenge (31 December 2011: 20,730.913 thousand Tenge).

## Intangible Assets

<i>In thousands of Kazakhstani Tenge</i>	<b>GSM network license and rights</b>	<b>Computer software and software license rights</b>	<b>Other telecom licenses</b>	<b>Other</b>	<b>Total</b>
Cost at 31 December 2010	14,462,162	12,601,920	3,317,778	6,575	30,388,435
Accumulated amortisation	(6,080,379)	(5,236,611)	(758,981)	(3,020)	(12,078,991)
<b>Carrying amount at 31 December 2010</b>	<b>8,381,783</b>	<b>7,365,309</b>	<b>2,558,797</b>	<b>3,555</b>	<b>18,309,444</b>
Additions	-	3,111,943	-	-	3,111,943
Transfers	-	725	-	(725)	-
Disposals (net)	-	-	-	-	-
Amortisation charge	(1,081,649)	(1,574,141)	(331,778)	(128)	(2,987,696)
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)
<b>Carrying amount at 31 December 2011</b>	<b>7,300,134</b>	<b>8,903,836</b>	<b>2,227,019</b>	<b>2,702</b>	<b>18,433,691</b>
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)
<b>Carrying amount at 31 December 2012</b>	<b>6,334,193</b>	<b>7,907,745</b>	<b>1,895,241</b>	<b>2,575</b>	<b>16,139,754</b>





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 4.5 billion Tenge and is valid for 15 years, commencing June 1998. On 28 August 2008, the Group obtained a radiofrequency 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 2.5 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 radiofrequency band of 20 MHz (receipt/transit) in the range of 1920-1980 MHz and 2110-2170 MHz. The radiofrequencies were provided in the form of addendum to the existing GSM license. The acquisition cost was 5 billion Tenge.

## Other Non-Current Assets

<i>In thousands of Kazakhstani Tenge</i>	31 December 2012	31 December 2011
Restricted cash	75,211	19,164
<b>Total financial assets</b>	<b>75,211</b>	<b>19,164</b>
Prepayments for property, plant and equipment	3,046,416	6,740,200
<b>Total other non-current assets</b>	<b>3,121,627</b>	<b>6,759,364</b>



## Trade and Other Receivables

<i>In thousands of Kazakhstani Tenge</i>	<b>31 December 2012</b>	<b>31 December 2011</b>
Trade and other receivables from dealers and distributors	7,406,783	5,324,152
Trade receivables from subscribers	2,396,607	1,989,370
Trade receivables for interconnect services	1,884,047	1,789,144
Trade receivables from roaming operators	558,486	540,696
Less: provision for impairment of trade receivables	(976,315)	(669,224)
<b>Total financial assets</b>	<b>11,269,608</b>	<b>8,974,138</b>
Advances to suppliers	1,067,051	3,380,910
VAT recoverable (net)	867,166	278,895
Prepaid other taxes	514,644	1,023,630
Deferred expenses	162,068	356,410
Other receivables	483,509	18,438
<b>Total trade and other receivables</b>	<b>14,364,046</b>	<b>14,032,421</b>

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:

<i>In thousands of Kazakhstani Tenge</i>	<b>31 December 2012</b>	<b>31 December 2011</b>
Tenge	10,711,122	8,433,442
US dollar	558,486	540,696
<b>Total financial assets</b>	<b>11,269,608</b>	<b>8,974,138</b>

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

<i>In thousands of Kazakhstani Tenge</i>	<b>31 December 2012</b>	<b>31 December 2011</b>
<i>Total neither past due nor impaired</i>	10,110,622	8,374,523
<i>Past due but not impaired</i>		
due for 1 month	269,526	224,326
due for 2 months	134,853	127,137
due for 3 months	184,394	100,439
due for 4 to 6 months	148,045	73,172



due for more than 6 months	422,168	74,541
<i>Total past due but not impaired</i>	<i>1,158,986</i>	<i>599,615</i>
<i>Impaired</i>		
30 to 60 days	6,440	6,692
60 to 90 days	15,133	11,160
90 to 120 days	21,254	6,483
120 to 150 days	16,719	12,913
150 to 200 days	32,698	14,849
over 200 days	884,071	617,127
<i>Total impaired</i>	<i>976,315</i>	<i>669,224</i>
<i>Provision for impairment of trade receivables</i>	<i>(976,315)</i>	<i>(669,224)</i>
<b>Total financial assets</b>	<b>11,269,608</b>	<b>8,974,138</b>

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 10,110,622 thousand will be fully repaid in 2013.

Reconciliation of movements in the financial assets impairment provisions:

<i>In thousands of Kazakhstani Tenge</i>	
At 31 December 2010	752,338
Charge for the year	268,785
Receivables written off during the year as uncollectible	(351,899)
<b>At 31 December 2011</b>	<b>669,224</b>
Charge for the year	440,768
Receivables written off during the year as uncollectible	(133,677)
<b>At 31 December 2012</b>	<b>976,315</b>



## Share Capital

Charter / Share capital of the Group at 31 December 2012 and 2011 is as follows:

	31 December 2012		31 December 2011
	Shareholders	Number of shares	Ownership
Fintur	51 percent	102,000,000	51 percent
Sonera	24 percent	48,000,000	-
Kazakhtelecom	-	-	49 percent
JSC Central Securities Depository	22.56 percent	45,113,528	-
JSC Grantum Accumulative Pension Fund	0.95 percent	1,900,000	-
Public	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 thousand 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.

<i>In thousands of Kazakhstani Tenge</i>	31 December 2012	31 December 2011
Profit for the period attributable to equity shareholders	61,828,033	66,858,104
Number of common shares	200,000,000	200,000,000
<b>Earnings per share (Kazakhstani Tenge), basic and diluted</b>	<b>309.14</b>	<b>334.29</b>



Dividends declared and paid during the years 2012 and 2011 were as follows:

*In thousands of Kazakhstani Tenge*

<b>Dividends payable at 31 December 2010</b>	-
Dividends declared during the year	58,000,000
Dividends paid during the year	(58,000,000)
<b>Dividends payable at 31 December 2011</b>	-
Dividends declared during the year	115,877,439
Dividends paid during the year	(107,877,439)
<b>Dividends payable at 31 December 2012</b>	<b>8,000,000</b>

## Trade and Other Payables

<i>In thousands of Kazakhstani Tenge</i>	<b>31 December 2012</b>	<b>31 December 2011</b>
Trade payables	10,664,606	9,283,506
Dividends payable	8,000,000	-
<b>Total financial liabilities</b>	<b>18,664,606</b>	<b>9,283,506</b>
Accrued salaries and bonuses to employees	2,499,081	2,411,223
Other payables	93,249	38,873
<b>Total trade and other payables</b>	<b>21,256,936</b>	<b>11,733,602</b>

Trade and other payables are denominated in currencies as follows:

<i>In thousands of Kazakhstani Tenge</i>	<b>31 December 2012</b>	<b>31 December 2011</b>
Tenge	17,252,327	7,419,896
US dollar	1,351,326	1,737,797
Euro	48,438	125,813
Other	12,515	-
<b>Total financial liabilities</b>	<b>18,664,606</b>	<b>9,283,506</b>



## Borrowings

<i>In thousands of Kazakhstani Tenge</i>	<b>31 December 2012</b>	<b>31 December 2011</b>
Bank loans from: - ATF Bank JSC	3,950,000	-
- Syndicated loans from Citibank Kazakhstan JSC		
and RBS Kazakhstan JSC	45,040,985	-
<b>Total borrowings</b>	<b>48,990,985</b>	<b>-</b>

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.

<b>Bank name</b>	<b>Date of issue</b>	<b>Maturity date</b>	<b>Loan currenc y</b>	<b>Effective interest rate</b>	<b>Outstandin g balance</b>	<b>Total borrowing s</b>
Syndicated loan from Citibank Kazakhstan JSC and RBS Kazakhstan JSC	26.09.2012	26.09.201 3	KZT	4.60%	30,033,070	30,033,070
Syndicated loan from Citibank Kazakhstan JSC and RBS Kazakhstan JSC	17.10.2012	26.09.201 3	KZT	3.85%	15,007,915	15,007,915
ATFBank JSC	27.12.2012	27.01.201 3	KZT	5.75%	2,000,000	2,000,000
ATFBank JSC	28.12.2012	28.03.201 3	KZT	6.00%	1,200,000	1,200,000
ATFBank JSC	28.12.2012	28.01.201 3	KZT	5.75%	750,000	750,000

On 26 September 2012, the Company signed a Term Loan Facility Agreement with the JSC Citibank Kazakhstan and JSC SB RBS Kazakhstan on provision of 30 billion Tenge to the Company on the terms of a fixed interest rate of 4.6% per annum, one-off transaction fee at 1% of loan amount and the maturity of twelve months, with an extension of up to an additional twelve months, subject to consent of the lenders.

On 17 October 2012, the Company signed a Term Loan Facility Agreement with JSC Citibank Kazakhstan and JSC SB RBS Kazakhstan in connection with a loan in the amount of 15 billion Tenge to the Company on the terms of a fixed interest rate of 3.85% per annum, one-off transaction fee at 1% of loan amount and the maturity date of 26 September 2013, with the extension of up to an additional twelve months, subject to



consent of the lenders. The 15 billion Tenge facility is guaranteed by TeliaSonera AB. The Company is subject to the payment of an annual fee in the amount of up to 112.5 million Tenge per annum to TeliaSonera AB for its provision of the guarantee in respect of the KZT 15 billion facility.

## Deferred Revenue

<i>In thousands of Kazakhstani Tenge</i>	<b>31 December 2012</b>	<b>31 December 2011</b>
Deferred revenue from pre-paid subscribers	3,139,459	4,331,827
Deferred revenue from paid-in-advanced subscribers	2,871,563	2,852,044
<b>Total deferred revenue</b>	<b>6,011,022</b>	<b>7,183,871</b>

## Revenues

<i>In thousands of Kazakhstani Tenge</i>	<b>2012</b>	<b>2011</b>
Voice service	146,668,854	146,076,600
Value added services	15,195,389	14,531,776
Data service	18,754,610	14,063,721
Other revenues	1,384,650	4,114,138
<b>Total revenues</b>	<b>182,003,503</b>	<b>178,786,235</b>

## Expenses by nature

Operating expenses are presented on the face of the statements of 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.

<i>In thousands of Kazakhstani Tenge</i>	<b>2012</b>	<b>2011</b>
Interconnect fees and expenses	27,633,746	20,301,197
Network maintenance expenses	10,868,188	9,400,289
Transmission rent	9,144,685	7,767,549
Frequency usage charges and taxes other than on income	5,797,805	5,785,612
Cost of SIM card, scratch card, start package sales and handsets	2,597,334	5,735,296
Sales commissions to dealers and distributors and advertising expenses	12,365,505	12,992,203
Staff costs	7,653,180	6,977,131
Others	5,649,838	3,806,111
Depreciation of property, plant and equipment and amortization of intangible assets	22,780,745	22,895,904
<b>Total expenses</b>	<b>104,491,026</b>	<b>95,661,292</b>



Amortization and depreciation by function were as follows.

<i>In thousands of Kazakhstani Tenge</i>	2012	2011
Cost of sales	19,787,578	19,907,408
General and administrative expenses	2,993,167	2,988,496
<b>Total depreciation of property, plant and equipment and amortization of intangible assets</b>	<b>22,780,745</b>	<b>22,895,904</b>

## Taxes

### Income taxes

Income tax expense comprises the following:

<i>In thousands of Kazakhstani Tenge</i>	2012	2011
Current income tax	14,444,580	16,860,806
Deferred income tax	1,113,283	(95,398)
<b>Total income tax expense</b>	<b>15,557,863</b>	<b>16,765,408</b>

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

<i>In thousands of Kazakhstani Tenge</i>	2012	2011
<b>IFRS profit before income tax</b>	<b>77,385,896</b>	<b>83,623,512</b>
Theoretical tax charge at statutory rate of 20 percent (2011: 20 percent)	15,477,179	16,724,702
Non-deductible expenses	80,684	40,706
<b>Income tax expense</b>	<b>15,557,863</b>	<b>16,765,408</b>

The Group paid income tax in amount of 16,066,945 thousands Tenge for the year ended 31 December 2012 (2011: 17,847,649 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.

<i>In thousands of Kazakhstani Tenge</i>	31 December 2011	Charged/(credite d) to profit or loss	31 December 2012





<b>Tax effects of deductible temporary differences</b>			
Deferred revenue	879,627	(231,736)	647,891
Other	346,237	132,850	479,087
<b>Gross deferred tax asset</b>	<b>1,225,864</b>	<b>(98,886)</b>	<b>1,126,978</b>
<b>Tax effect of taxable temporary differences</b>			
Property, plant and equipment	5,033,096	1,212,897	6,245,993
Intangible assets	183,702	(198,500)	(14,798)
<b>Gross deferred tax liability</b>	<b>5,216,798</b>	<b>1,014,397</b>	<b>6,231,195</b>
Less offsetting with deferred tax assets	(1,225,864)	98,886	(1,126,978)
<b>Recognised deferred tax liability, net</b>	<b>3,990,934</b>	<b>1,113,283</b>	<b>5,104,217</b>

Comparative movements for year ended 31 December 2011 is detailed below:

<i>In thousands of Kazakhstani Tenge</i>	<b>31 December 2010</b>	<b>Charged/(credited) to profit or loss</b>	<b>31 December 2011</b>
<b>Tax effects of deductible temporary differences</b>			
Deferred revenue	919,658	(40,031)	879,627
Other	399,835	(53,598)	346,237
<b>Gross deferred tax asset</b>	<b>1,319,493</b>	<b>(93,629)</b>	<b>1,225,864</b>
<b>Tax effect of taxable temporary differences</b>			
Property, plant and equipment	5,176,048	(142,952)	5,033,096
Intangible assets	229,777	(46,075)	183,702
<b>Gross deferred tax liability</b>	<b>5,405,825</b>	<b>(189,027)</b>	<b>5,216,798</b>
Less offsetting with deferred tax assets	(1,319,493)	93,629	(1,225,864)
<b>Recognised deferred tax liability, net</b>	<b>4,086,332</b>	<b>(95,398)</b>	<b>3,990,934</b>

At 31 December 2012 deferred tax asset of 862,919 thousand Tenge and deferred tax liability of 1,246,239 thousand Tenge are expected to be recovered within next 12



months (31 December 2011: 1,031,709 thousand Tenge and 1,625,688 thousand Tenge).

## **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.

### ***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.

### ***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 2012 no provision for potential tax liabilities has been recorded (2011: nil).

### ***Government investigations***



During 2010-2012 the Company was subject to a number of investigations by various government authorities aimed at a reduction of the Company's roaming tariffs and elimination of the roaming threshold:

*(i) Roaming threshold investigation*

In 2010, the Company was subject to an investigation by the Agency of Competition Protection of the Republic of Kazakhstan (the "Agency") related to alleged infringement of the antimonopoly legislation by GSM operators of CIS countries.

On 3 July 2010, the Agency filed a protocol based on respective conclusion to an administrative court charging the Company with impingement of consumers' rights by setting threshold for the subscribers' minimum cash balance to access roaming services.

The claimed penalty amount was 15,783,472 thousand Tenge calculated as 10% of the Company's total revenues generated from 1 January 2009 to 31 March 2010.

After several claims and counterclaims filed during 2010, the Company was able to defend its position and conclusion of the Agency was cancelled by the judgment of the court of cassation and entered into legal force immediately.

The Agency filed a claim to higher court instances and in August 2011, the Supreme Court returned the case to the first instance for additional investigation. On 24 August 2012, the Almaty Administrative Court ruled in favour of the Company and terminated the proceedings. The Agency is, however, entitled (but not obliged) to file a petition to the Prosecutor's Office of Almaty or General Prosecutor's Office seeking reinstatement of the case via Prosecutor's Office or General Prosecutor's Office protest.

The Company believes it will be able to defend its position as it believes that setting such threshold for prepaid subscribers was in line with market terms and is not considered to be expression of dominant position of the Company. The Company's management believes that current legislation does not contain any restrictions on setting the thresholds for access to roaming services. Accordingly, no provision has been recorded in these consolidated financial statements as of 31 December 2012 (31 December 2011: nil).

*(ii) Roaming tariffs investigation*

The Agency has also performed an examination of the Company's roaming tariffs for the period from 1 January 2009 to 31 March 2010. Based on the results of the examination, in November 2010, the Agency issued a protocol on administrative violation alleging the Company misused its dominant position through setting overstated



roaming tariffs for subscribers from the Russian Federation. The Agency applied to administrative court to initiate the administrative case.

The claim amount was 15,783,472 thousand Tenge, calculated as 10% of the Company's total revenues generated during the examined period, plus revenues from roaming services for the year 2009 of 2,554,940 thousand Tenge.

After several claims and counterclaims filed during 2010, the Company was able to defend its position and conclusion of the Agency was cancelled by the judgment of the court of cassation, which entered into legal force immediately.

In February 2011, the court of first instance ruled in favour of the Group with respect to the investigation of roaming tariffs. The Agency filed a claim to higher court instances and in January 2012, the Supreme Court returned the case to the first instance court for additional investigation.

On 1 March 2012, Specialized Inter District Administrative Court of Almaty ruled to terminate the administrative case against the Company for lack of elements of offense. Even though the Agency has a right (but not the obligation) to appeal through the General Prosecutor's Office, the Company believes that it has not violated any laws and regulations with respect to roaming tariffs.

The Company believes that it has not violated any laws and regulations with respect to roaming tariffs. The Company has been consistently reducing its roaming tariffs recently and taking other measures in this respect. Management is confident that the Company's position will be fully sustained. Accordingly, no provisions have been recorded in these consolidated financial statements as of 31 December 2012 (31 December 2011: nil).

*(iii) Preliminary examination of relationships with cash payments service companies*

The Company has received the Resolution of the Agency on preliminary examination of the antimonopoly legislation violation dated 22 June 2012. In accordance with the Resolution the Agency considers charging the Company with violation of the antimonopoly legislation in respect of relationships with cash payments service companies, which primarily operate self-service terminals.

In November 2012, the Agency completed the investigation. On 13 November 2012, the Agency issued an order for the Company. In its order, the Agency requested that the Company cease its violation of antimonopoly legislation by 4 December 2012 and notify the Agency of its remediation with the order by 10 December 2012. The Company has provided its response to the Agency, asserting that the Company is in compliance with antimonopoly legislation.

If the Agency challenges the Company's position, it may issue additional instructions for the Company to cease its violation of antimonopoly legislation and assess a fine in the amount of approximately 3,236 thousand Tenge.



The management believes that no provision should be recorded in these consolidated financial statements of the Group as of 31 December 2012 as the Company believes that it has not violated antimonopoly legislation and that the allegations against it are unfounded.

*(iv) Investigation on alleged concerted action in setting and maintaining excessively high Interconnect tariffs*

In late 2012, the Agency initiated an inquiry into a potential violation by the Company of antimonopoly legislation. Specifically, the Agency alleged that the Company and Kar-tel (Beeline trademark), as dominant market participants, engaged in concerted action in setting and maintaining excessively high interconnection tariffs, which were aimed at weakening their competitors, and determined to launch an investigation. However, by its Resolution dated 7 January 2013, the Agency appointed an expert examination to be carried by the Ministry of Communication and Information of the Republic of Kazakhstan to assess the interconnect rates applied by Kar-Tel and the Company, with a breakdown of all costs attributed by them to this service.

If, in the course of its investigation, the Agency determines that the Company violated antimonopoly legislation, it may assess penalties in the amount of 10% of total revenue generated for the period during which the violation occurred, and may seek the confiscation of income earned as a result of the monopolistic activity (subject to the limitation that the period for which the confiscation of income is sought may not exceed one calendar year). Currently, it is not possible to quantify the amount of penalties to be sought, because the Agency has not yet determined certain key factors required to calculate the amount of penalties such as the period during which the possible alleged violation occurred.

As the Company has received only the Resolution on appointment of the experts, which does not constitute any further legal proceedings and used for decision making of the Agency for further actions whether to terminate the case or impose the fine, the management believes that no provision should be recorded in these consolidated financial statements as of 31 December 2012.

***Capital expenditure commitments***

At 31 December 2012, the Group has contractual capital expenditure commitments in respect of property, plant and equipment totalling 4,285,230 thousand Tenge (2011: 2,608,078 thousand Tenge), mostly related to purchase of telecommunications equipment from Ericsson and ZTE Corporation.

***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*

**2012**

**2011**



Not later than 1 year	4,800,000	4,162,000
From 1 to 2 years	4,840,000	4,200,000
From 2 to 3 years	4,780,000	4,300,000
Later than 3 years	760,000	4,300,000
<b>Total non-cancellable lease commitments</b>	<b>15,180,000</b>	<b>16,962,000</b>

Non-cancellable lease agreement is represented by the Telecommunication Services Agreement on lease of transparent communication channels and IP VPN network with Kazakhtelecom (Note 6) and a five-year fibre optics lease agreement with KazTransCom JSC for amount of 2,655,000 thousand Tenge.

### **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. While Sonera owns more than 50% of the participations in Fintur, the minority holding has the power to block any significant transactions.

The contractual right of Sonera to sell the underlying assets (debt and equity interests and related rights and obligations) to the Company is a financial instrument (derivative). The agreement requires that the equity instruments will be transferred to the Company at their fair value (i.e.: at the future acquisition cost), so management of the Company believes that the value of the options is close to nil as the net costs incurred by Sonera equal to the fair value of underlying shares acquired.

Subsequent to this, the fair value of the option may change based on the variations in the value of the underlying businesses. Although the option is contingent upon Fintur's approval, this will be reflected in the fair value of the option.

The value of the Company's option to acquire the assets is nil as Sonera completed the acquisition on 14 January 2013, and the purchase price agreed at fair value at the date of transaction. In addition the exercise of the option by Kcell is conditional upon Fintur having consented to, authorized or voted in favor of the acquisition, that is currently not the case and also the option is not exercisable until 2014.

#### *(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.

### ***Volatility in global financial markets***

The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock markets. The uncertainties in the global financial market have also led to bank failures and bank rescues in the USA, Western Europe, Russia, Kazakhstan and in other regions. Indeed the full extent of the impact of the ongoing crisis is proving to be impossible to anticipate or completely guard against. The volume of financing has significantly reduced from August 2008 for economy as a whole.

Debtors of the Group may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management have properly reflected revised estimates of expected future cash flows in their impairment assessments.

Management is unable to reliably estimate the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and its increased instability. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

### ***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 a lawsuit initially filed to the Specialized Interdistrict Economic Court of Astana in October 2011. The case was remitted to the Board of Appeals of the Astana Court for examination. On 3 January 2013, the Board of appeals of the Astana Court ruled to appoint expertise. The Astana Court will schedule the further hearings when the experts provide their conclusion. Unless the court decides the Company is not considered as included in the State Register.

If the Company does not prevail on appeal it will remain on the State Register and its tariffs for interconnection services will become 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.

## 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:

<i>In thousands of Kazakhstani Tenge</i>	<b>Note</b>	<b>31 December 2012</b>	<b>31 December 2011</b>
Cash and cash equivalents		3,075,138	1,352,996
Trade receivables	10	11,269,608	8,974,138
Due from related parties	6	29,546	2,196,784
Restricted cash	9	75,211	19,164
<b>Total maximum exposure to credit risk</b>		<b>14,449,503</b>	<b>12,543,082</b>

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 10. 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 2012, 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 2012 would have been 42,517 thousand Tenge lower/higher (2011: 81,779 thousand Tenge higher/lower), 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 2012 than at 31 December 2011 because of the decreased amount of US Dollar denominated trade and other payables in 2012.

### ***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 2012.

### ***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 2012 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 2012 is as follows:

<i>In thousands of Kazakhstani Tenge</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>Total</b>
<b>Liabilities</b>				
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
<b>Total future payments</b>	<b>13,732,793</b>	<b>1,200,000</b>	<b>53,040,985</b>	<b>67,973,778</b>

Comparative maturity analysis of financial liabilities at 31 December 2011 is detailed below:

<i>In thousands of Kazakhstani Tenge</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>Total</b>
<b>Liabilities</b>				
Trade payables	7,426,804	1,671,031	185,671	9,283,506
Due to related parties	380,946	-	-	380,946
<b>Total future payments</b>	<b>7,807,750</b>	<b>1,671,031</b>	<b>185,671</b>	<b>9,664,452</b>

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 13).

### **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.



## **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.



## 6 Additional Information

This annual report provides information on Kcell and its subsidiaries (collectively referred to as the "Group"). Comparative information about Kcell competitors and other organizations, and the macroeconomic overview of the CIS and other states, 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 Microdistrict  
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](http://www.kcell.kz)

### Investor Relations

Irina Shol  
Tel.: +7 (727) 2582755, ext. 1205  
Email: [Irina.Shol@kcell.kz](mailto:Irina.Shol@kcell.kz), [Investor\\_Relations@kcell.kz](mailto:Investor_Relations@kcell.kz)

### Registrar

JSC "The Integrated Securities Registrar"  
Address: 141 Abylai Khan Prospect  
Almaty 050000, Republic of Kazakhstan  
Tel.: +7 (727) 272-47-60  
Fax: +7 (727) 272-47-66  
[www.tisr.kz](http://www.tisr.kz)

### Auditor

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

PricewaterhouseCoopers LLP audited the financial statements of Kcell JSC for 2009-2012. The percent of remuneration paid to the auditor for rendering non-audit



services from the amount of remuneration paid for rendering audit services was 5% in 2009, 34% in 2010, 35% in 2011 and 17% in 2012.

## Glossary

List of abbreviations used in the text of the annual report

JSC	joint stock company
GHZ	gigahertz
km	kilometer
MB	megabyte
MHz	megahertz
MNP	mobile number portability
BIA	broadband Internet access

## Explanation of Key Financial Terms and Figures Used in the Annual Report

ARMU	Average revenue per minute.
ARPU	Average revenue per user.
ARMB	Average revenue per MB.
CAPEX	Capital expenditures and advances paid for property, plant and equipment as well as software and licenses including investments in tangible and intangible non-current assets, but excluding goodwill and fair value adjustments recognized in acquisitions, and excluding the recording of assets retirement obligations.
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortization.
Operating Leverage	A measurement of the degree to which a company incurs a combination of fixed and variable costs.

## Explanation of Industry-Specific Terms Used in the Annual Report

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 center	Center 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	Customer satisfaction with quality of service.



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 с разделением времени (TDMA) и частоте (FDMA). GSM systems operate primarily in the 900 MHz (GSM 900) and 1800 MHz (GSM 1800, also referred to as DCS 1800) frequency bands.
GSM-900	See definition for “GSM”.
HSPA	Evolved high-speed packet access (high-speed packet data transfer).
IVR	linteractive voice response is a system of pre-recorded voice messages that route calls within the call center.
LTE	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 center.
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.

## 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 all information, which is not a 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, because they refer to the 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 others, 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 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.