KCELL JSC

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

Contents

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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.

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INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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:	Signed by:
Zhanbota T. Bekenov Managing Director, PricewaterhouseCoopers LLP (General State License from the Ministry of Finance of the Republic of Kazakhstan № 0000005 dated 21 October 1999)	Dana Inkarbekova Auditor in charge (Qualified Auditor's Certificate № 0000492 dated 18 January 2000)

KCELL JSC
Consolidated Statement of Financial Position

In thousands of Kazakhstani Tenge	Note	31 December 2012	31 December 2011
ASSETS			
Non-current assets			
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
Total non-current assets		**129,598,183**	**125,564,703**
Current assets			
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
Total current assets		**20,042,785**	**19,418,457**
TOTAL ASSETS		**149,640,968**	**144,983,160**
EQUITY			
Share capital	11	33,800,000	3,914,895
Retained earnings		32,403,052	116,337,563
TOTAL EQUITY		**66,203,052**	**120,252,458**
LIABILITIES			
Non-current liabilities			
Deferred income tax liability	17	5,104,217	3,990,934
Other non-current liabilities		988,203	494,881
Total non-current liabilities		**6,092,420**	**4,485,815**
Current liabilities			
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
Total current liabilities		**77,345,496**	**20,244,887**
TOTAL LIABILITIES		**83,437,916**	**24,730,702**
TOTAL LIABILITIES AND EQUITY		**149,640,968**	**144,983,160**

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

Veysel 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

In thousands of Kazakhstani Tenge	Note	2012	2011
Revenues	15	182,003,503	178,786,235
Cost of sales	16	(76,291,475)	(69,955,346)
Gross profit		**105,712,028**	**108,830,889**
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)
Operating profit		**77,901,934**	**82,898,226**
Finance income		131,088	725,286
Finance expense		(647,126)	-
Profit before income tax		**77,385,896**	**83,623,512**
Income tax expense	17	(15,557,863)	(16,765,408)
Profit for the year		**61,828,033**	**66,858,104**
Other comprehensive income		-	-
Total comprehensive income for the year		**61,828,033**	**66,858,104**
Earnings per share (Kazakhstani Tenge), basic and diluted	11	**309.14**	**334.29**

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

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

In thousands of Kazakhstani Tenge	**Note**	**2012**	**2011**
Cash flows from operating activities			
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
Operating cash flows before working capital changes		**85,324,387**	**89,070,802**
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
Cash generated from operations		**86,239,425**	**81,412,591**
Interest paid		(52,494)	-
Net cash from operating activities		**86,186,931**	**81,412,591**
Cash flows from investing activities			
Purchase of property, plant and equipment		(23,263,472)	(24,543,828)
Purchase of intangible assets		(1,720,231)	(2,760,636)
Net cash used in investing activities		**(24,983,703)**	**(27,304,464)**
Cash flows from financing activities			
Proceeds from bank borrowing	13	53,395,353	-
Repayment of borrowing	13	(4,999,000)	-
Dividends paid	11	(107,877,439)	(58,000,000)
Net cash used in financing activities		**(59,481,086)**	**(58,000,000)**
Net increase / (decrease) in cash and cash equivalents		**1,722,142**	**(3,891,873)**
Cash and cash equivalents at beginning of the year		1,352,996	5,244,869
Cash and cash equivalents at end of the year		**3,075,138**	**1,352,996**

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

1 The Group and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 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.

2 Basis of Preparation and Significant Accounting Policies

Basis of preparation

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

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

Foreign currency translation

(i) Functional and presentation currency

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

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

(ii) Transactions and balances

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

2 Basis of Preparation and Significant Accounting Policies (Continued)

(ii) Depreciation

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

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

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

(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 8, 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:

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

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

When the Group acquires a group of assets that does not constitute a business, it allocates the cost of the group between the individual identifiable assets in the group based on their relative fair values at the date of acquisition. The Group accounted for the acquisitions of AR-Telecom and KT-Telecom (Note 8) 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.

2 Basis of Preparation and Significant Accounting Policies (Continued)

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.

2 Basis of Preparation and Significant Accounting Policies (Continued)

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.

2 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

(v) Roaming fees charged to other wireless operators

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

(vi) Value added services

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

(vii) Deferred revenue

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

Sales commission to dealers and distributors

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

Payroll expenses and related contributions

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

Pension payments

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

Income taxes

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

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

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

2 Basis of Preparation and Significant Accounting Policies (Continued)

Earnings per share

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

Segment reporting

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

Financial instruments

(i) Key measurement terms

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

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

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

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

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

(ii) Classification of financial assets

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

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

2 Basis of Preparation and Significant Accounting Policies (Continued)

(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.

3 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Useful lives of property, plant and equipment and intangible assets

Management determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and intangible assets. This estimate is based on projected period over which the Group expects to consume economic benefits from the asset. It could change significantly as a result of technical innovations and competitor actions in a high-tech and competitive mobile industry. Carrying amount of assets most affected by judgements (switches and transmission devices) amounted to 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.

4 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.

4 New Accounting Pronouncements (Continued)

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.

4 New Accounting Pronouncements (Continued)

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.

5 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:

In thousands of Kazakhstani Tenge	**2012**	**2011**
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.

6 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:

In thousands of Kazakhstani Tenge		31 December 2012	31 December 2011
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
Total due from related parties		**29,546**	**2,196,784**

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:

In thousands of Kazakhstani Tenge		31 December 2012	31 December 2011
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
Total due to related parties		**318,187**	**380,946**

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

In thousands of Kazakhstani Tenge		2012	2011
Revenues			
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
Total revenues – related parties		**412,961**	**4,679,962**

6 Balances and Transactions with Related Parties (Continued)

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

In thousands of Kazakhstani Tenge		**2012**	**2011**
Operating expenses			
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
Total expenses – related parties		**1,177,186**	**6,741,512**

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.

6 Balances and Transactions with Related Parties (Continued)

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.

7 Property, Plant and Equipment

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

In thousands of Kazakhstani Tenge	**Freehold land**	**Buildings**	**Switches and transmission devices**	**Other**	**Construction in progress**	**Total**
Cost at 31 December 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)
Carrying amount at 31 December 2010	**655,455**	**10,702,132**	**56,187,383**	**5,155,821**	**16,299,687**	**89,000,478**
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)
Carrying amount at 31 December 2011	**1,939,630**	**19,119,762**	**51,300,430**	**5,956,212**	**22,055,614**	**100,371,648**
Additions	53,637	2,815,602	4,016,987	4,576,588	17,451,248	28,914,062
Transfers	-	1,631,609	20,384,874	1,397,685	(23,414,168)	-
Disposals	-	(38,529)	(45,560)	(52,708)	-	(136,797)
Depreciation charge	-	(1,050,722)	(14,576,172)	(3,185,217)	-	(18,812,111)
Cost at 31 December 2012	1,993,267	27,291,320	148,284,982	23,658,376	16,092,694	217,320,639
Accumulated depreciation	-	(4,813,598)	(87,204,423)	(14,965,816)	-	(106,983,837)
Carrying amount at 31 December 2012	**1,993,267**	**22,477,722**	**61,080,559**	**8,692,560**	**16,092,694**	**110,336,802**

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).

8 Intangible Assets

In thousands of Kazakhstani Tenge	**GSM network license and rights**	**Computer software and software license rights**	**Other telecom licenses**	**Other**	**Total**
Cost at 31 December 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)
Carrying amount at 31 December 2010	**8,381,783**	**7,365,309**	**2,558,797**	**3,555**	**18,309,444**
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)
Carrying amount at 31 December 2011	**7,300,134**	**8,903,836**	**2,227,019**	**2,702**	**18,433,691**
Additions	102,417	1,572,280	-	-	1,674,697
Transfers	-	-	-	-	-
Disposals (net)	-	-	-	-	-
Amortisation charge	(1,068,358)	(2,568,371)	(331,778)	(127)	(3,968,634)
Cost at 31 December 2012	14,564,579	17,311,512	3,317,778	3,998	35,197,867
Accumulated amortisation	(8,230,386)	(9,403,767)	(1,422,537)	(1,423)	(19,058,113)
Carrying amount at 31 December 2012	**6,334,193**	**7,907,745**	**1,895,241**	**2,575**	**16,139,754**

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.

9 Other Non-Current Assets

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

10 Trade and Other Receivables

In thousands of Kazakhstani Tenge	31 December 2012	31 December 2011
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)
Total financial assets	**11,269,608**	**8,974,138**
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
Total trade and other receivables	**14,364,046**	**14,032,421**

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

Trade and other receivables are denominated in currencies as follows:

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

10 Trade and Other Receivables (Continued)

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

In thousands of Kazakhstani Tenge	**31 December 2012**	**31 December 2011**
Total neither past due nor impaired	*10,110,622*	*8,374,523*
Past due but not impaired		
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
Total past due but not impaired	*1,158,986*	*599,615*
Impaired		
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
Total impaired	*976,315*	*669,224*
Provision for impairment of trade receivables	*(976,315)*	*(669,224)*
Total financial assets	**11,269,608**	**8,974,138**

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:

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

11 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 Depositary	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 Depositary 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.

In thousands of Kazakhstani Tenge	**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
Earnings per share (Kazakhstani Tenge), basic and diluted	**309.14**	**334.29**

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

In thousands of Kazakhstani Tenge	
Dividends payable at 31 December 2010	**-**
Dividends declared during the year	58,000,000
Dividends paid during the year	(58,000,000)
Dividends payable at 31 December 2011	**-**
Dividends declared during the year	115,877,439
Dividends paid during the year	(107,877,439)
Dividends payable at 31 December 2012	**8,000,000**

12 Trade and Other Payables

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

Trade and other payables are denominated in currencies as follows:

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

13 Borrowings

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

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

The carrying amount of borrowings approximates their fair value.

Bank name	Date of issue	Maturity date	Loan currency	Effective interest rate	Outstanding balance	Total borrowings
Syndicated loan from Citibank Kazakhstan JSC and RBS Kazakhstan JSC	26.09.2012	26.09.2013	KZT	4.60%	30,033,070	30,033,070
Syndicated loan from Citibank Kazakhstan JSC and RBS Kazakhstan JSC	17.10.2012	26.09.2013	KZT	3.85%	15,007,915	15,007,915
ATFBank JSC	27.12.2012	27.01.2013	KZT	5.75%	2,000,000	2,000,000
ATFBank JSC	28.12.2012	28.03.2013	KZT	6.00%	1,200,000	1,200,000
ATFBank JSC	28.12.2012	28.01.2013	KZT	5.75%	750,000	750,000

13 Borrowings (Continued)

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.

14 Deferred Revenue

In thousands of Kazakhstani Tenge	**31 December 2012**	**31 December 2011**
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
Total deferred revenue	**6,011,022**	**7,183,871**

15 Revenues

In thousands of Kazakhstani Tenge	**2012**	**2011**
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
Total revenues	**182,003,503**	**178,786,235**

16 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.

In thousands of Kazakhstani Tenge	**2012**	**2011**
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
Total expenses	**104,491,026**	**95,661,292**

16 Expenses by nature (Continued)

Amortization and depreciation by function were as follows.

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

17 Taxes

Income taxes

Income tax expense comprises the following:

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

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

In thousands of Kazakhstani Tenge	**2012**	**2011**
IFRS profit before income tax	**77,385,896**	**83,623,512**
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
Income tax expense	**15,557,863**	**16,765,408**

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).

17 Taxes (Continued)

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

In thousands of Kazakhstani Tenge	**31 December 2011**	**Charged/(credited) to profit or loss**	**31 December 2012**
Tax effects of deductible temporary differences			
Deferred revenue	879,627	(231,736)	647,891
Other	346,237	132,850	479,087
Gross deferred tax asset	**1,225,864**	**(98,886)**	**1,126,978**
Tax effect of taxable temporary differences			
Property, plant and equipment	5,033,096	1,212,897	6,245,993
Intangible assets	183,702	(198,500)	(14,798)
Gross deferred tax liability	**5,216,798**	**1,014,397**	**6,231,195**
Less offsetting with deferred tax assets	(1,225,864)	98,886	(1,126,978)
Recognised deferred tax liability, net	**3,990,934**	**1,113,283**	**5,104,217**

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

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

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).

18 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.

18 Contingencies, Commitments and Operating Risks (Continued)

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.

18 Contingencies, Commitments and Operating Risks (Continued)

(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
Total non-cancellable lease commitments	**15,180,000**	**16,962,000**

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.

18 Contingencies, Commitments and Operating Risks (Continued)

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.

18 Contingencies, Commitments and Operating Risks (Continued)

(ii) WIMAX Business Acquisition by Sonera

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

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

(iii) Investment in Rodnik by Sonera

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

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

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

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

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.

19 Financial Risk Management

Financial risk factors

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

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

Credit risk

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

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

In thousands of Kazakhstani Tenge	**Note**	**31 December 2012**	**31 December 2011**
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
Total maximum exposure to credit risk		**14,449,503**	**12,543,082**

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.

19 Financial Risk Management (Continued)

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:

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

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

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

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.

20 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.

1 Балансовая стоимость одной простой акции

Балансовая стоимость одной простой акции рассчитывается по формуле:

$$BV_{CS} = NAV / NO_{CS}, \text{ где}$$

BV_{CS} – (book value per common share) балансовая стоимость одной простой акции на дату расчета;

NAV – (net asset value) чистые активы для простых акций на дату расчета;

NO_{CS} – (number of outstanding common shares) количество простых акций на дату расчета.

Чистые активы для простых акций рассчитываются по формуле:

$$NAV = (TA - IA) - TL - PS, \text{ где}$$

TA – (total assets) активы эмитента акций в отчете о финансовом положении эмитента акций на дату расчета;

IA – (intangible assets) нематериальные активы в отчете о финансовом положении эмитента акций на дату расчета;

TL – (total liabilities) обязательства в отчете о финансовом положении эмитента акций на дату расчета;

PS – (preferred stock) сальдо счета "уставный капитал, привилегированные акции" в отчете о финансовом положении эмитента акций на дату расчета.

В тысячах казахстанских тенге	31 декабря 2012 г.	31 декабря 2011 г.
TA	149,640,968	144,983,160
IA	16,139,754	18,433,691
TL	83,437,916	24,730,702
PS	-	-
NAV	**50,063,298**	**101,818,767**

В тысячах казахстанских тенге, если не указано иное	31 декабря 2012 г.	31 декабря 2011 г.
NAV	50,063,298	101,818,767
NO_{CS} *(штук)*	200,000,000	200,000,000
BV_{CS} *(в казахстанских тенге)*	**250.32**	**509.09**

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Бауржан Аязбаев
Финансовый директор