Kcell

KCELL JSC

International Financial Reporting Standards Consolidated Financial Statements for the year ended 31 December 2013 and Independent Auditor's Report

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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 2013 and the consolidated statements of profit or loss and other 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 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 2013, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Almaty, Kazakhstan
17 April 2014

Approved and signed by:

Dana Inkarbekova
Managing Director, PricewaterhouseCoopers LLP
(General State License from the Ministry of Finance of the Republic of Kazakhstan
№ 0000005 dated 21 October 1999)
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 2013	31 December 2012
ASSETS			
Non-current assets			
Property, plant and equipment	8	112,368,845	110,336,802
Intangible assets	9	13,954,545	16,139,754
Other non-current assets	10	3,130,944	3,121,627
Total non-current assets		**129,454,334**	**129,598,183**
Current assets			
Inventories		499,180	977,772
Trade and other receivables	11	9,268,357	14,364,046
Prepaid current income tax		834,480	1,596,283
Due from related parties	7	306,862	29,546
Cash and cash equivalents		18,916,258	3,075,138
Total current assets		**29,825,137**	**20,042,785**
TOTAL ASSETS		**159,279,471**	**149,640,968**
EQUITY			
Share capital	12	33,800,000	33,800,000
Retained earnings		63,392,942	32,403,052
TOTAL EQUITY		**97,192,942**	**66,203,052**
LIABILITIES			
Non-current liabilities			
Deferred income tax liability	18	5,231,448	5,104,217
Other non-current liabilities		1,426,245	988,203
Total non-current liabilities		**6,657,693**	**6,092,420**
Current liabilities			
Borrowings	14	24,721,178	48,990,985
Trade and other payables	13	21,490,816	21,256,936
Due to related parties	7	502,045	318,187
Deferred revenue	15	7,346,686	6,011,022
Taxes payable		1,368,111	768,366
Total current liabilities		**55,428,836**	**77,345,496**
TOTAL LIABILITIES		**62,086,529**	**83,437,916**
TOTAL LIABILITIES AND EQUITY		**159,279,471**	**149,640,968**

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

Ali Agan
Chief Executive Officer

Baurzhan Ayazbaev
Chief Financial Officer

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

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

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

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

KCELL JSC
Consolidated Statement of Cash Flows

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

1 The Group and its Operations

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

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

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

In 2008, the Group accepted an offer from the government of the Republic of Kazakhstan to acquire additional 5 MHz 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 9). In 2009, KT-Telecom and AR-Telecom commenced their operating activities; accordingly the Group started to prepare consolidated financial statements since 2009 (Note 2). In 2010, WiMAX services were launched in Astana and Atyrau under WLL licenses. Subsequently in 2011, the ownership of WLL licenses have been transferred to the Company.

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

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

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

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

2 Basis of Preparation and Significant Accounting Policies

Basis of preparation

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

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

Foreign currency translation

(i) Functional and presentation currency

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

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

(ii) Transactions and balances

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

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

Consolidated financial statements

Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

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

Property, plant and equipment

(i) Recognition and subsequent measurement

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

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

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 9, are recorded at cost and are amortised on a straight-line basis over the estimated economic useful life of the license/right.

The economic useful life of the original GSM license and 3G license is estimated by management at 15 years. The useful life of the initial license term is in line with the management assessment of the development of communication technology. The economic useful life of the right for the 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 9) as the acquisitions of groups of intangible assets rather than businesses. Accordingly, the costs of acquisitions of those entities were allocated to the costs of acquired assets.

Operating leases

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

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

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 expensed to the consolidated statement of profit or loss and other comprehensive income. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends

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

Value added tax

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

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 or over the contract term, as applicable.

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 10), trade receivables (Note 11), due from related parties (Note 7) and cash and cash equivalents in the consolidated statements of financial position.

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

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 13) and due to related parties (Note 7).

(iv) Initial recognition of financial instruments

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

(v) Derecognition of financial assets

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

3 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Useful lives of property, plant and equipment and intangible assets

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

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

Impairment of non-financial assets

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

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

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

4 Adoption of New or Revised Standards and Interpretations

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

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

"Disclosures - Offsetting Financial Assets and Financial Liabilities" - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that enable users of an entity's consolidated financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The Standard resulted in additional disclosures in these consolidated financial statements. Refer to Note 20.

Unless otherwise described above, no other standards and interpretations effective from 1 January 2013 affect significantly the Group's financial statements.

5 New Accounting Pronouncements

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

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

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

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

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group is considering the implications of the amendment and its impact on the Group.

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

6 Segment Information

The Group's operations are a single reportable segment.

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

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

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

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

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

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

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

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

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

7 Balances and Transactions with Related Parties

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

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

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

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

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

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

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

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

7 Balances and Transactions with Related Parties (Continued)

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

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

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

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

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

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

Memorandum on Understanding

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

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

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

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

7 Balances and Transactions with Related Parties (Continued)

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

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

Directors' compensation

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

8 Property, Plant and Equipment

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

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

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

9 Intangible Assets

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

The original GSM network license (GSM-900) was provided by the State Committee of Telecommunications and Information of the Republic of Kazakhstan for a fee in amount of 5.5 billion Tenge and is valid for 15 years, commencing June 1998. On 28 August 2008, the Group obtained a 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 2.6 billion Tenge. The acquired frequencies were capitalised as intangible assets within "GSM network license and rights" category.

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

On 25 December 2010, the Group received a right to operate 3G network by utilising a 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.

10 Other Non-Current Assets

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

11 Trade and Other Receivables

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

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

Trade and other receivables are denominated in currencies as follows:

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

11 Trade and Other Receivables (Continued)

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

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

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

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

Reconciliation of movements in the financial assets impairment provisions:

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

12 Share Capital

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

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

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

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

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

On 13 December 2012, the Company has successfully completed its offering of Global 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 2013	31 December 2012
Profit for the period attributable to equity shareholders	63,391,890	61,828,033
Number of common shares	200,000,000	200,000,000
Earnings per share (Kazakhstani Tenge), basic and diluted	**316.96**	**309.14**

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

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

13 Trade and Other Payables

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

Trade and other payables are denominated in currencies as follows:

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

14 Borrowings

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

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

The carrying amount of borrowings approximates their fair value.

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

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

14 Borrowings (Continued)

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

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

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

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

15 Deferred Revenue

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

16 Revenues

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

17 Expenses by Nature

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

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

17 Expenses by Nature (Continued)

Amortisation and depreciation by function were as follows.

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

18 Taxes

Income taxes

Income tax expense comprises the following:

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

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

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

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

18 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 2012	Charged/(credited) to profit or loss	31 December 2013
Tax effects of deductible temporary differences			
Deferred revenue	647,891	232,109	880,000
Other	479,087	(202,010)	227,077
Gross deferred tax asset	**1,126,978**	**30,099**	**1,157,077**
Tax effect of taxable temporary differences			
Property, plant and equipment	6,245,993	201,759	6,447,752
Intangible assets	(14,798)	(44,429)	(59,227)
Gross deferred tax liability	**6,231,195**	**157,330**	**6,388,525**
Less offsetting with deferred tax assets	(1,126,978)	(30,099)	(1,157,077)
Recognised deferred tax liability, net	**5,104,217**	**127,231**	**5,231,448**

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

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

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

19 Contingencies, Commitments and Operating Risks

Political and economic conditions in Kazakhstan

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

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

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

Taxation

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

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

Capital expenditure commitments

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

Non-cancellable lease commitments

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

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

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

19 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. In addition there is an uncertainty in timing of requires changes in 4G/LTE regulation. Accordingly, there is an uncertainty in valuation of the derivative. The Company measured the derivative at original cost, which is zero.

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

(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.

19 Contingencies, Commitments and Operating Risks (Continued)

Legal proceedings

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

Anti-monopoly legislation

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

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

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

Telecommunication regulation

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

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

"Always Available" investigation on alleged violation

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

On 19 March 2014, first instance court granted the Company's petition and required ACP to provide more detailed information on claimed violation.The Company expects to receive a new order from ACP with the revised amount of fine. However, due to lack of clarity in the legislation, the amount of potential fine is subject to varying interpretations by ACP, including methodology of calculation and wide range of time period application. Therefore, management believes that due to this uncertainty, it is not possible to estimate reliably the amount of potential fine. No provision has been recorded as of 31 December 2013.

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

19 Contingencies, Commitments and Operating Risks (Continued)

"Daytime Unlimited" investigation on alleged violation

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

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

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

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

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

20 Financial Risk Management

Financial risk factors

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

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

Credit risk

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

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

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

20 Financial Risk Management (Continued)

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

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

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

Foreign exchange risk

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

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

Cash flow and fair value interest rate risk

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

Liquidity risk

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

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

20 Financial Risk Management (Continued)

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

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

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

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

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

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 Financial Risk Management (Continued)

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

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

20 Financial Risk Management (Continued)

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

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

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

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

21 Fair Value of Financial Instruments

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

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

Financial instruments carried at fair value

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

Financial assets carried at amortised cost

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

Financial liabilities carried at amortised cost

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

22 Subsequent Events

Tenge devaluation

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