Kcell

Innovating for the Future

Kcell Annual Report 2014

Welcome to the 2014 annual report of Kcell, Kazakhstan's number one mobile telecommunications operator in terms of both revenues and subscriber numbers*. Despite intensifying competition, we once again reconfirmed our position as market leader in 2014. Amid rapid technological change in the sector, we intend to retain our position by innovating for the future.

We celebrated more than just financial and operational achievements in 2014, which marked the 15th anniversary of the commercial launch of Kcell's network and the first call on the GSM standard in Kazakhstan.

We have come a long way since that momentous day on 7 February 1999. Our Kcell and Activ brands are now among the most recognised in Kazakhstan. We have 13.1 million subscribers, and around 70% of the population has access to our high-speed 3G network.

One key milestone came in December 2012, when Kcell successfully completed an initial public offering on the London and Kazakhstan stock exchanges. However, as mobile technology continues to evolve at lightning speed, in many respects, our journey has only just begun. We intend to remain at the forefront of the industry by continuously innovating and meeting our customers' ever-changing needs.

Contents

The full annual report and accounts are available online at:

annualreport2014.kcell.kz

* Based on the Company's calculations

Leading the industry

Operational highlights

23.5m
Voice traffic minutes

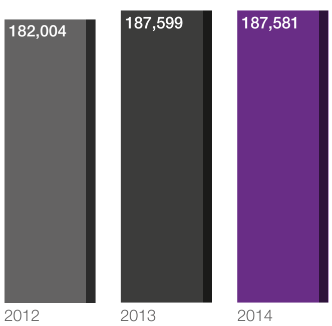
+20.5%
Revenues from the provision of content services

+32.1%[1]
Data revenues

Financial highlights

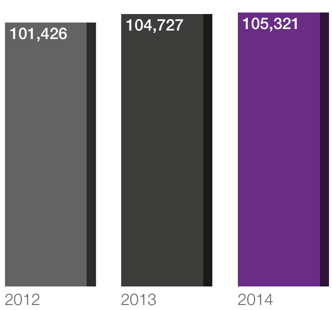
Revenues (KZT)

187,581m[2]
0%



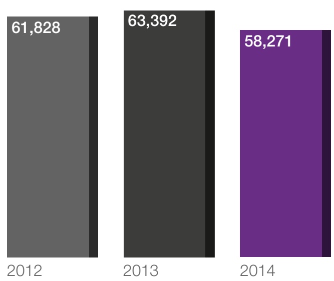
EBITDA excluding non-recurring items (KZT)

105,321m
+0.6%



Net income (KZT)

58,271m
-8.1%



[1] Excluding one-off adjustment
[2] Including one-off adjustment

Kazakhstan's number one provider of mobile services

Established in 1998, Kcell has been at the forefront of Kazakhstan's mobile telecommunications industry since the outset. In 2014, it was the leading operator in terms of market share of both revenues and subscribers*.

Services

Kcell provides a comprehensive range of mobile telecommunications services to both individuals and organisations. Alongside voice, SMS, MMS and data transmission, it offers internet access and value-added services, including mobile content.

The Company has a licence to operate GSM-900, GSM-1800 and 3G networks for an indefinite period of time. It also has the infrastructure in place, and has completed the required testing, to offer 4G services once the necessary licence is issued.

Kcell is not just a mobile operator, but a service provider. As part of our strategic priority to maintain our leadership, we intend to innovate continuously, devising new services, tariffs and bundles for our customers. One key focus will be data, as the market moves away from traditional first and second-generation services.

* Based on the Company's calculations

Brands

The Company operates through two key brands that are among the best established in Kazakhstan. Activ is targeted at the mass market ("B2C") and Kcell at corporate subscribers and public organisations ("B2B"), as well as high-net-worth individuals.

Activ aims to fulfil all individual customers' mobile communication needs by offering numerous regional, national and international tariffs, complemented by various bundles and an extensive range of additional services. Reflecting the Company's traditional focus on the B2C market, it accounted for 97.9% of the subscriber base at the end of 2014. In September, as part of our customer focus and innovation drive, we announced a major campaign to re-brand and re-launch Activ (see page 5).

Aimed at organisations and high-net-worth individuals, the Kcell brand offers a premium service, including personal managers. Given the professional world's ever-greater dependence on mobile technology, expanding our B2B business will be a key priority.

History

June 1998

On 1 June 1998, Kcell was established as GSM Kazakhstan OAO Kazakhtelecom, a limited liability partnership, to design, construct and operate a cellular telecommunications network in Kazakhstan using the Global System for Mobile Communications (GSM) standard.

After receiving the first GSM licence in Kazakhstan, the Company officially launched its mobile communications network on 7 February 1999, operating under the Kcell trademark initially and adding the Activ brand in September of that year.

September 2003

On 18 September 2003, Kcell announced the launch of General Packet Radio Service (GPRS) technology, making it the first telecommunications operator in Kazakhstan to offer mobile internet, and unveiled Multimedia Messaging Service (MMS) technology.

The launch of GPRS marked a major step towards modernising the GSM network and paving the way for 3G technology. In September 2005, Kcell continued to build on this competitive advantage by being the first cellular operator to introduce GPRS roaming.

December 2010

On 1 December 2010, Kcell officially began operating dedicated 3G networks in Astana and Almaty. This heralded a new stage in the development of the country's telecommunications industry, significantly improving the quality of data transfer services in Kazakhstan's two most important cities.

The new technology has played a key role in enabling the two cities to offer high-quality mobile telecommunications while hosting major events, such as the Organisation for Security and Cooperation in Europe (OSCE) summit in December 2010 and the Seventh Asian Winter Games in January-February 2011.

February 2012

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

On 2 February 2012, Kazakhtelecom sold its 49% to Sonera Holding B.V. (Sonera), a subsidiary of TeliaSonera.

Network

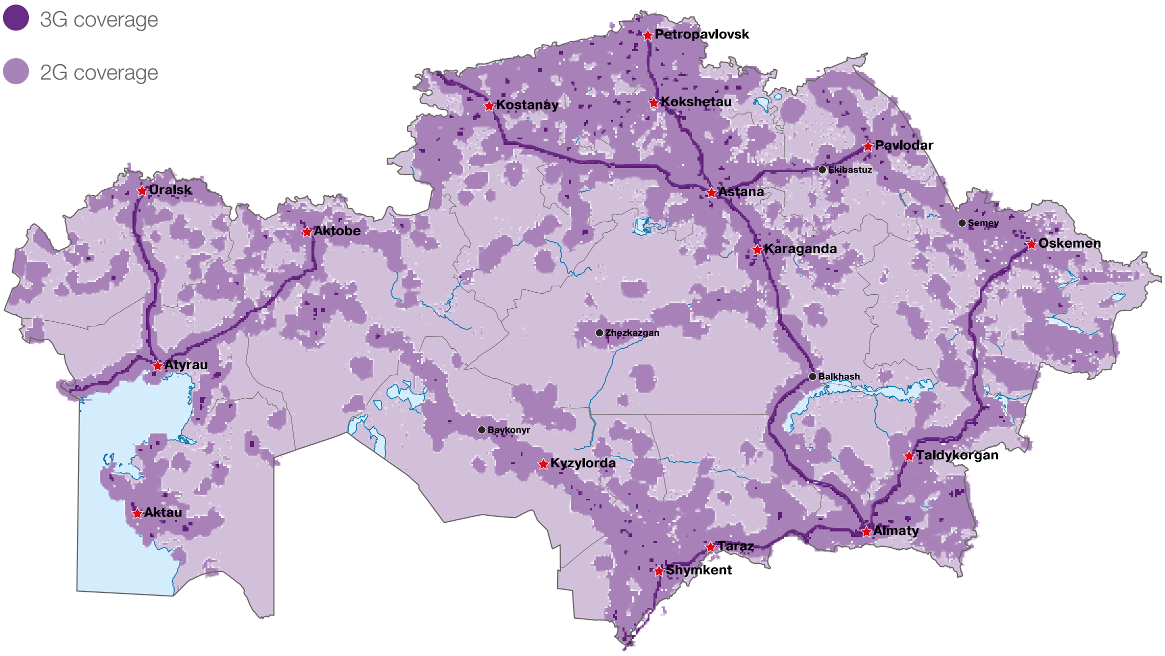
In 1998, Kcell became the first company to receive a licence to provide cellular services on the GSM-900 standard in Kazakhstan. Since then, it has built one of the most modern, technologically advanced and extensive mobile telecommunication networks in the country.

The network is collocated and operates at three frequency bands – 900 MHz, 1800 MHz and 2100 MHz – providing both data and voice communications. The data services are based on GPRS, EDGE and HSPA+ technologies. Data transfer speeds range from 50 kbps to 300 kbps using 2G and up to 42 Mbps using 3G. At the end of 2014, the Company had fibre-optic networks in 19 major cities in Kazakhstan.

Committed to maintaining a superior network, we invested in further expansion and improvements in 2014. At the year-end, Kcell's 2G network covered 95.9% of the population and 46.9% of the territory of Kazakhstan, while its 3G services were available to around 70% of people.

Map key

- 3G coverage
- 2G coverage



July 2012

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

August 2012

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

December 2012

On 17 December 2012, Kcell successfully completed an initial public offering of global depository receipts (GDRs) on the London Stock Exchange and ordinary shares on the Kazakhstan Stock Exchange. The offering consisted of a sale by Sonera Holding B.V. of 50 million shares, representing 25% of Kcell's share capital. The shares were priced at US$10.50 per GDR and KZT1,578.68 per ordinary share.

Following the placement, Sonera Holding B.V. retains 24% directly, Fintur Holdings B.V. holds 51% directly, and the remaining 25% is in free float.

September 2014

Kcell launched a major rebranding and repositioning campaign for its popular Activ brand. The objective of the campaign is to reinvigorate the brand in order to strengthen subscriber loyalty, drive growth in the mass-market segment and retain leadership in the highly competitive market.

In conversation with Kcell

Jan Rudberg, Chairman of the Board of Directors, and Arti Ots, Chief Executive Officer, share their thoughts about some of the main developments for Kcell in 2014 and the direction in which the Company is heading.

How would you summarise what 2014 was like for Kcell overall?

The year was an extremely eventful one, with much success, progress and adjustment. We delivered a solid financial and operational performance. Given various external conditions and the array of internal changes, our results were a tremendous achievement. We again proved able to innovate and adapt appropriately and rapidly, demonstrating why we remain the absolute leader of Kazakhstan's mobile telecommunications market. We also passed a major milestone, celebrating the 15th anniversary of our network operating commercially. At the same time, given that our IPO was in December 2012, and with the next generation of telecommunications services on the horizon and phenomenal changes under way in the industry, in some respects, our journey is still only beginning.

In such a rapidly changing environment, how does Kcell ensure that it stays on track?

Our stability comes from our business model, which creates value for customers, generates revenues for shareholders and ensures sustainability for us all. Alongside paying substantial dividends, we seek to reinvest continuously in our asset base, which helps to keep us at the forefront of the industry. Meanwhile, our direction is determined by our strategy, which consists of key objectives that are further divided into priorities to give more targeted guidance. We dedicate considerable effort to optimising our strategy, having established a Strategic Planning Committee at the Board level, which evaluates our progress and goals regularly.

Were there any changes in Kcell's strategy in 2014?

In 2014, we made some considered adjustments to our strategy in response to developments in the business. As leadership of a market, a team or anything implies responsibility, we have expanded our goal of remaining number one to include promoting the highest standards of business conduct. Given the colossal effect that data is having on the industry, we have dedicated two objectives to it, one focusing on the macro picture and the other on individual usage. As part of our move from being a mobile operator to a service provider, and as revenue growth generators in the industry change, we have decided to concentrate our efforts on developing the B2B business. Of course, we will maintain the utmost service standards for all customers. As competition in our data-centric industry intensifies, network quality will be key, so we have made this a priority as well.

Mobile telecommunications are intertwined with social development. Tell us about your vision of Kcell's contribution to Kazakhstan's future.

Mobile telecommunications have revolutionised the way in which we interact and have benefited society in a wealth of ways. Research has established a link between greater mobile phone penetration and improvements in health, education and gender equality, among other things. Mobile technologies drive economic growth by giving people access to services and applications that can generate income. Rapid communication, particularly in remote areas, can help to safeguard businesses and lives. The effects in emerging markets are believed to be greater.

Kcell is fully committed to contributing to Kazakhstan's development and investing in the country's future. While 2014 already marked a 15th anniversary for us, we look forward to celebrating many more. Effective communication is our business, and we seek to engage constructively with everyone involved in shaping society: the government, partners, social organisations, people and so on. Around 70% of Kazakhstan's population already has access to our 3G network, and we will continue investing heavily in expanding coverage rapidly. We will be happy to roll out our 4G network as soon as approval is received. South Korea, where around 60% of the population has 4G subscriptions, is an excellent example of the relationship between cutting-edge mobile telecommunications and economic development and prosperity.

Kcell's dedication to contributing to Kazakhstan's development was clear from the substantial amount of corporate social responsibility (CSR) initiatives in 2014. Which would you highlight as the most significant?

We strive to approach all of our CSR projects impartially on the basis that they are all as important as each other. Our CSR schedule was particularly busy last year, and we are extremely proud of our combined efforts across our five areas of focus: education, cultural heritage, sport and healthy lifestyle, society and the environment.

Full details of our CSR achievements are given later in this report. One initiative that had particular profile due to its international nature was Kcell's support of Kazakhstan's Paralympic team at the Sochi 2014 Winter Games. Similarly, since 2000, we have supported the Special Olympics, a global organisation that arranges sporting competitions for people with intellectual disabilities, in Kazakhstan.

An excellent example of how mobile technology can be applied to benefit society is the short numbers that Kcell has established to raise money for various causes. By sending an SMS to 8099, people can donate to Miloserdiye (Mercy), one of our longstanding social partners, which helps seriously ill children and their families. By messaging 1919, subscribers can support Helping Hand, a project that Kcell organises in association with the Shugyla social fund, which supports various groups in need. An SMS to 1101 will help to raise funds for Green City, an initiative to plant trees that we run with the "Plant a Tree" non-profit organisation.

There were numerous executive changes in 2014. What do they mean for Kcell?

Partly linked to changes in the industry and market, Kcell is undergoing a period of transformation. We are seeking to enhance our corporate governance, strengthen our industry expertise and reinforce our commitment to responsible business. Following the numerous management changes in 2014, we are confident that we have assembled the right team to lead Kcell through 2015 and the future.

Jan Rudberg
Chairman of the Board

Arti Ots
Chief Executive Officer

In September 2014, Kcell launched a project to rebrand and reposition Activ, one of the leading names in the mass-market segment of Kazakhstan's mobile telecommunications industry. What prompted this decision?

Activ is a stalwart of Kazakhstan's mobile telecommunications market, having been in existence since 1999, the early days of Kcell. As part of our commitment to innovation and customer service, we decided that it was time to refresh the brand. The main objectives of the campaign were to strengthen subscriber loyalty, drive growth in the mass-market segment and retain leadership amid growing competition.

Revitalising such an established brand is a major undertaking. Tell us more about how you approached the task.

We felt that Activ needed fresh emotional appeal and a stronger position in the eyes of customers. We devised a new proposition, a creative platform built around the concept of how happiness increases when shared, and a slogan: "Live in communication!".

We then launched a campaign divided into two stages: "teaser" and "reveal". The first was essentially social research to gauge what happiness means for people in Kazakhstan through a dedicated website, www.imhappy.kz. The second began two weeks later and featured the main slogan and other straplines to support the main message and the creative platform. One objective was to conduct the campaign through as many channels as possible: indoor and outdoor advertising, television, radio, the internet, social media and, of course, mobile telecommunications.

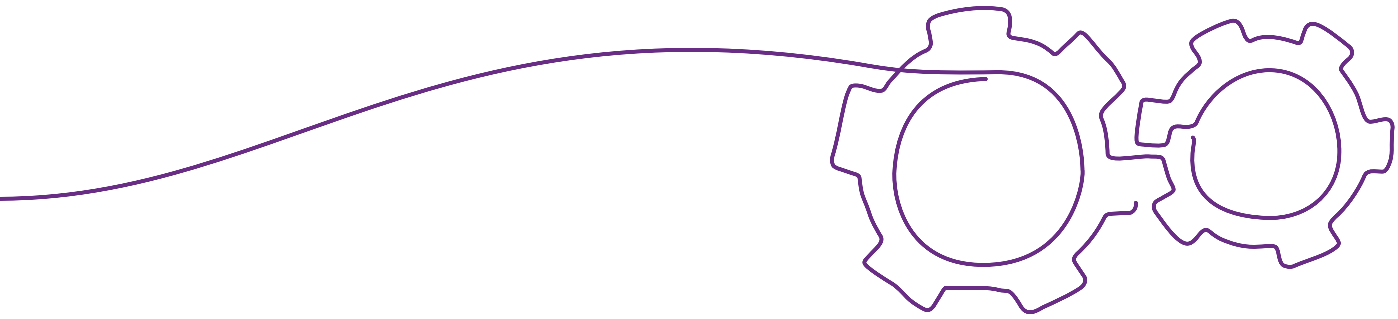
Although the campaign was conducted relatively recently, what kind of results have you seen?

The project has been a success. The new brand received vast attention across all social media outlets during both stages of the campaign. As part of the repositioning, we created a new account management application, MyActiv, which was the most downloaded application in Kazakhstan last year. Market research conducted by EPSI named Activ as Kazakhstan's leading mobile brand in terms of customer satisfaction.

Looking to the future

"In 2014, alongside delivering solid results, Kcell reconfirmed why it has been the leader of Kazakhstan's mobile telecommunications industry for all of these years: by looking ahead and further innovating for the future."

Jan Rudberg
Chairman of the Board



Dear stakeholders,

Back on 17 December 2012, when we rang the opening bell on the London Stock Exchange to mark Kcell's initial public offering, many people heralded the moment as the finish. In many respects, however, it was just the start, a point reinforced by the ground that we covered in 2014. Given the competitive, regulatory and macroeconomic environment, Kcell's financial results alone showed resilience, meeting internal targets and market expectations. Of equal importance, though, were the tremendous changes that we instituted successfully as we look to the future.

One notable reminder of the distance travelled and the exciting prospects ahead in 2014 was the 15th anniversary of Kcell's network operating commercially in Kazakhstan, which we celebrated on 7 February.

We would like to thank the Ministry of Transportation and Communication of the Republic of Kazakhstan for their official congratulations on that day. We share the commitment to maintaining a long-term partnership, ensuring an equitable regulatory framework and investing in the country's future. We look forward to Kazakhstan fulfilling the national strategic objective of becoming one of the 30 most competitive economies in the world.

We would also like to thank every one of our employees, some of whom have been with Kcell since the outset, for their contribution over the years, and our customers, whose support has been vital to our success today.

In 2014, alongside delivering solid results, Kcell reconfirmed why it has been the leader of Kazakhstan's mobile telecommunications industry for all of these years: by looking ahead and further innovating for the future. We completed the preparations to bring our 4G/LTE network online, and we look forward to investing further in society through it. We have sought to help as many people as possible to participate in the mobile digital age by offering smartphone and data bundles across income brackets. We also began to place even greater emphasis on devising new services and increasing customer satisfaction even further. At Kcell, we are fostering a culture of commitment, whereby every employee plays a valued role in our delivery, from network monitors to people in administrative functions.

In addition, we continue to fulfil our paramount commitment to generating value for shareholders. Maintaining strong profitability and investing in our sustainability are central tenets of our business model, and we performed well on both counts again in 2014. We finished the year with an EBITDA margin of 56.1%, another leading metric in the industry, and a CAPEX-to-revenues ratio of 11.2%.

This in turn means high income for our investors. Kcell's dividend policy envisages distribution of at least 70% of the Company's net income for the previous financial year, together with any excess capital, after considering cash at hand, cash flow projections, medium-term investment plans and capital market conditions.

In 2014, Kcell paid an annual dividend of KZT221.81 (around US$1.22), representing 70% of net income, and a special dividend of KZT95.14 (around US$0.52) per ordinary share, representing 30% of net income, for the 12 months ending 31 December 2013. After the reporting period, we announced that our dividend policy will remain unchanged for 2014: we will distribute 70% of net income and also pay a special dividend of 30% of net income.

Central to the sustainability of our business are the highest standards of oversight. Kcell has worked hard to establish a corporate governance system that treats all stakeholders fairly and equitably, and we undertook measures to reinforce it further in 2014.

In May, after two representatives of TeliaSonera stepped down from the Board of Directors, we replaced them and added an independent director. This brought the number of independent directors to three, surpassing the minimum regulatory requirements. In addition, we updated numerous key internal policies, on financial management, freedom of expression, occupational health and safety, and anti-corruption.

There were also several high-profile changes on the management team. In February, Kaspars Kukelis stepped down as Chief Commercial Officer, a position that we decided to close. In September, Ali Agan left the position of Chief Executive Officer (CEO) to pursue other career opportunities and Rikard Slunga, Chief Technical Officer, was appointed as the interim head. Also in September, Baurzhan Ayazbaev resigned as Chief Financial Officer (CFO), and Gary Krasny became the acting head of the finance function in October.

In December, the Board of Directors appointed Arti Ots as the new CEO. Arti brings with him a wealth of industry experience, having been Vice President for Commercial and Business Development at TeliaSonera Eurasia, CEO of Elion, TeliaSonera's Broadband Services division in Estonia, and Marketing Director at Elion.

In January, after the reporting period, Kcell named Trond Moe as the new CFO. Trond's track record combines expertise in the region, the industry and finance. Before joining Kcell, he served as CFO of Mode Group in London. Prior to that, he was a partner at Eastern Europe Group (Ukraine) and a country manager at Telenor in Ukraine, where he was responsible for its investments there, including Kyivstar, the number one operator.

These high-profile executive changes have taken place during a period of transformation for the Company and the industry. With the right team and strategy in place, looking to the future, I have every confidence that we will remain at the vanguard of Kazakhstan's mobile telecommunications sector for many years to come.

Jan Rudberg
Chairman of the Board

Moving into the next generation

After years of rapid growth in voice traffic, Kazakhstan's telecommunications market, supported by economic diversification and expansion, is approaching a new phase of development. New key growth drivers are emerging: demand for data services, increased smartphone penetration and prospects for the liberalisation of the 4G sector.

Macroeconomic overview

Kazakhstan has the second largest economy in the CIS, after Russia, and some of the largest oil and gas reserves in the world. It is also a major producer of other mineral resources, a developed agricultural industry and a growing consumer sector. The government has engaged in a long-term programme of liberalising the economy through encouraging privatisation, streamlining regulation and attracting foreign direct investment.

A major rise in living standards in the former Soviet Union since the early 1990s has resulted in Central Asia's most vibrant consumer sector. As measured by the United Nations Development Programme, Kazakhstan's gross national income (GNI) per capita, using comparable purchasing power parity (PPP) rates, increased by around 46.3% between 1990 and 2013, one of the strongest results in the region during this period.

According to the latest estimate by the Kazakhstan Statistics Agency (KSA), GDP amounted to around KZT38 trillion in 2014, up 4.3% year-on-year. While this represents the slowest growth since the 2009 global financial crisis, it was nonetheless a resilient performance given the economic decelerations in Kazakhstan's largest neighbours, Russia and China, devaluation of the tenge and other CIS currencies, and slump in global commodity prices. The KSA has forecast GDP growth of 1.5% in 2015.

Telecommunications market

Kazakhstan has the most developed and competitive telecommunications market in Central Asia, and there is considerable long-term growth potential in such areas as mobile data services and business-to-business (B2B). The KSA reports that the country's telecommunications market grew by 4.6% year-on-year in 2014, reaching a value of KZT673.36 billion. The mobile segment accounted for KZT284.4 billion, or 42.5% of the market.

Mobile telephony has outpaced the fixed line segment in recent years. In 2014, the number of mobile phone subscribers reached an estimated 28.4 million, although growth in the client base slowed due to saturation in the voice segment. At the end of 2014, mobile SIM penetration stood at around 170%. Saturation has resulted in flat or declining average revenue per user (ARPU) numbers.[1]

At the same time, the mobile data segment grew more rapidly, by around 50% year-on-year.[2] In addition, smartphone penetration rose to 30% and fixed broadband to 40%,[3] suggesting considerable room for growth. Data revenues should be the main driver of long-term revenue and profit growth going forward.

Perceptions of quality

Operators in Kazakhstan enjoy a high and rising level of customer satisfaction. EPSI Rating, an independent organisation that conducts research for the Pan-European Customer Satisfaction Index, has rated Kazakhstan's mass-market and B2B segments based on independent telephone surveys of 1,250 mobile subscribers in both.

EPSI analysis of consumer experiences with mobile operators is based on five aspects of satisfaction: image, product quality, consumer expectations regarding a provider, service quality and price/performance ratio.

Since the last retail survey in 2013, the average weighted index of consumer satisfaction with mobile operators in Kazakhstan has grown from 76.5 to 79.4 points. Kcell, through its Activ brand, finished ahead of all operators, scoring 80.9 points. The survey noted satisfaction with service quality: "Kcell customers along with high ratings of factors gave an extremely high rating to the service quality of this provider."

In the B2B segment, the industry scored 79.7 and Kcell was virtually level with the other two main mobile operators. The survey noted: "Image, product quality and value meet the needs of Kcell corporate customers."

A major rise in living standards in the former Soviet Union since the early 1990s has resulted in Central Asia's most vibrant consumer sector.

[1] Source: BMI forecast
[2] Source: iKS Consulting
[3] Source: Company figures

Mobile internet access

Mobile data traffic growth was one of the main drivers of overall expansion in Kazakhstan's mobile telecommunications market. A key factor supporting this was the rise in the number of smartphones in the market. iKS Consulting reports that there were 4.5 million such handsets on the market at the end of 2014, roughly double year-on-year. We estimate that the number of handsets has increased fivefold since 2011.

The number of handsets therefore remains an important driver. It is encouraged by active promotions by mobile operators of accessible data packages and affordable smartphones, such as Kcell's launch of bundles featuring Apple, Lenovo and Samsung handsets. In turn, this will be supported by rising popular demand for mobile content services, particularly mobile payment and banking applications, social networks, games and other apps. The growth of business solutions, such as bank card payment systems for small businesses, is yet another important factor.

Continued long-term growth in mobile data services will depend on the regulator's approach to allowing other operators into the 4G LTE segment, following the launch of services by Altel, the only operator with a 4G licence. While the rollout of 4G services will require substantial CAPEX by some operators, Kcell is well positioned due to the investments already made in the 3G network and testing of its 4G capabilities.

Competitive landscape

Kcell remains the clear market leader in the mobile market in terms of both revenues and market share*. A key development in 2014 was Altel's launch of GSM services, adding a fourth player to an already highly competitive marketplace. Strong pricing competition is expected to continue against a backdrop of declining growth in the voice segment, a factor that affects all players, requiring them to lower prices and differentiate in terms of quality.

On the pre-paid side, following its rebranding, Activ is well placed to differentiate itself in terms of network quality, coverage and service. Kcell remains the best positioned of the four operators to develop the mobile data segment, especially as and when 4G LTE frequencies are made available in the future.

Regulation

In August 2014, responsibility for telecommunications moved from the Ministry of Transport and Communications to the Ministry of Investment and Development. As the primary regulatory agency, the ministry has the right to regulate interconnection tariffs and set tariff caps of operators in the State Register of Dominant and Monopoly Entities, which includes Kcell. In addition, we have received orders from the Agency for Competition Protection (ACP) of Kazakhstan to alter two of our tariffs: "Daytime Unlimited", requiring us to make major changes in our billing systems, and "Always Available", leading to a fine. We continue to appeal these cases.

In anticipation of regulatory action, in December 2012, we signed an agreement with Beeline and Tele2 to reduce the mobile termination rate incrementally over three years. The rate for 2014 was set at KZT11.1 per minute.

The beginning of 2015 saw the mandatory implementation of mobile number portability (MNP) by all operators, allowing consumers to keep their phone numbers when switching operators. As the largest operator, we expect this development will increase subscriber churn. However, we believe that our superior coverage, call quality and customer service will prevent MNP from having a major long-term effect on our business.

Outlook for 2015 and beyond

Amid fierce competition and pricing in the voice sector, mobile data traffic is expected to drive revenue growth and profitability for Kazakhstan's mobile sector. Low mobile data penetration and a largely untapped B2B market create a clear path to growth for Kcell, given its competitive advantages as the leading operator with unmatched coverage, a 4G network ready for rollout and superior customer service. In the meantime, our refreshed and repositioned mass-market brand, Activ, continues to outscore all other operators in terms of customer satisfaction and perceptions of quality.

* Based on the Company's calculations

A year of successful change

"Kcell reconfirmed its leadership of Kazakhstan's mobile telecommunications market yet again in 2014. Despite aggressive offerings from other operators, we kept both the top line and subscriber numbers broadly stable."

Arti Ots
Chief Executive Officer

Key events in 2014

February

- Kcell celebrates the 15th anniversary of the commercial launch of its network and the first GSM call in Kazakhstan
- Kcell launches the Great Silk Road mobile application

March

- Kcell sponsors Kazakhstan's national team at the 2014 Winter Paralympic Games in Sochi
- Kcell launches the "Green City" environmental project with the "Plant a Tree" non-profit organisation

April

- Kcell becomes an official partner of Safekaznet, a project by the Internet Association of Kazakhstan that aims to stop the circulation of illegal content in the country's online domain

May

- The Board is elected and includes three new directors: Erik Hallberg, Ingrid Maria Stenmark and Vladimir Smirnov
- Kcell becomes an official seller of Apple iPhones
- The Board approves payment of an annual and a special dividend totalling KZT63,390 million for 2013, or 100% of the net income

Dear stakeholders,

Following our first full year as a public company in 2013, we passed another key milestone in 2014, celebrating the 15th anniversary of the Kcell network operating in Kazakhstan. Adapting for the future in a highly competitive, rapidly developing and technology-focused industry requires major ongoing commitment, and we introduced a wealth of changes in 2014, including internal ones. It gives me great pleasure to announce that we negotiated all of this successfully, maintained our market position and delivered decent results.

Kcell reconfirmed its leadership of Kazakhstan's mobile telecommunications market yet again in 2014. Despite aggressive offerings from other operators, we kept both the top line and subscriber numbers broadly stable. While the subscriber base shrank in absolute terms, from 14.3 million to 13.1 million, this was overwhelmingly due to a review of our database, which resulted in almost 1.3 million inactive numbers being removed. Overall, we recorded around 299,000 net additions and there was no effect on market share.

Given such conditions, our headline financial results in general were commendable. In December 2014, we made a one-off adjustment of KZT1.5 billion after classifying data revenues from life-long accumulated traffic as deferred revenues. Excluding this, the top line rose by 0.8% year-on-year. Similarly, excluding non-recurring items, EBITDA increased by 0.6% year-on-year, giving a margin of 56.1%, among the highest in the industry and indicative of our cost control. Net income declined by 8.1% year-on-year.

Among the various changes made in 2014 were adjustments to our strategic focus, based on our vision of the market's evolution. Here, I would highlight three main themes.

The first is the transition from the more traditional methods of mobile communication to data. The figures speak for themselves. In the fourth quarter of 2014, Kcell handled 10.0 million GB of data, almost double the 5.4 million GB in the same period in 2013. Data accounted for 17.7% of revenues in 2014, up by 3.7 percentage points in a single year.

Our response to this is two-pronged: we are seeking to increase smartphone penetration and encourage data usage. The distribution agreements that we signed with Apple, Samsung and Lenovo in 2014, and the bundles that we offer with their handsets, are another example of how we lead the market. Our greater focus on customer-centric data services is already clear from our content innovations last year: from the award-winning Great Silk Road mobile application to the hugely popular MyActiv and MyKcell account management portals.

The second theme is the B2B segment. The mass market, where Kcell already dominates, is saturated, while the next-generation telecommunication needs of commercial organisations are exploding. We are now focusing on B2B as a crucial source of revenue growth, particularly through tailor-made solutions for corporate clients. In the reporting period, our B2B customer base increased by 24% year-on-year.

In 2014, the Company unveiled several services dedicated to enhancing business process efficiency, notably Kcell Cloud, a virtual server that offers corporate customers cost-effective access to their electronic resources anywhere in the world. We also began a major investment programme to modernise operations and business systems to ensure that our infrastructure can support a surge in B2B services.

The third theme is corporate conduct. Kcell is aiming to be the flagship for responsible business in Kazakhstan, and this means maintaining a culture of accountability throughout the Company. For us, sustainability is more than just a collection of internal initiatives: it is a way of life. Our ultimate goal is that every employee is proud of the way that we do business individually and collectively.

Building on the various procedures and policies established in 2013, Kcell undertook numerous measures to promote responsible business in 2014. In March, TeliaSonera, the controlling shareholder, launched Speak Up, a secure and confidential line for reporting concerns about business conduct at all of its assets. In September, Kcell expanded its Ethics and Compliance function by creating another position. Over the year, around 1,900 Kcell permanent and outsourced employees completed anti-corruption training.

Last year was one of successful change for Kcell. I would like to thank the management and every one of our employees for their efforts in 2014, and I look forward to building on our achievements in 2015 and beyond.

Arti Ots
Chief Executive Officer

August

- Kcell enters the mobile payment market by launching K-Pay
- Kcell is named as Kazakhstan's largest taxpayer in the non-energy sector

September

- Ali Agan steps down as CEO and Rikard Slunga is appointed as the interim
- Kcell announces non-recurring costs of US$20 million with no cash impact
- A major rebranding and repositioning campaign for Activ is launched
- Kcell announces an internal investigation

October

- Baurzhan Ayazbaev resigns as CFO and Gary Krasny is appointed as the interim
- Kcell becomes one of the main sponsors of the 2014 Global e-Government Forum, held in Astana
- Kcell launches Kcell Cloud for the B2B segment

December

- Kcell starts selling Samsung and Lenovo smartphones
- Kcell becomes an official partner of the Tech Garden festival
- Kcell creates a short number for donations to the Shugyla social fund's Helping Hand project
- Arti Ots is appointed as CEO

Creating value

The strength of any construction depends on its foundations. At Kcell, our overarching objective is to serve and create value for our customers, shareholders and country, and we do so successfully thanks to the robustness of the model underpinning our business.

At our core are high-quality assets that can be divided into four main groups. By far the most important is our people, whose customer focus, standards and commitment have made us one of most dedicated service providers in Kazakhstan today. Without them, we simply would not exist. Another key strength is our high-quality network, through which we have led, and continue to lead, the advancement of mobile telecommunications nationwide.

Cementing our identity in the market are our brands, which are among the best established in Kazakhstan and synonymous with the quality of customer experience and value that we offer. Last, but far from least, is our vast range of products and services, which we revise constantly to meet the evolving needs of customers and remain the leader in innovation.

All of these assets combine to form a compelling proposition. Moreover, the industry is experiencing one of the most significant transitions in its history, the shift from voice to data. To remain ahead in this, we are further reinforcing our offering through new tariffs and bundles, many of them exclusive, across the main price segments.

The overall result is a business model that not only generates revenues, but also contributes to sustainability. At Kcell, free cash flow is one of our key performance indicators, and our dividend policy reflects our commitment to creating value for shareholders. Equally important, however, are the funds reinvested in our asset base, which complete the cycle, further strengthening our foundations today for the generations of tomorrow.

Strategy

A roadmap for success

If our business model is the vehicle for reaching our ultimate goal, our strategy is our roadmap. Amid rapid transformational changes on the market, in terms of both competition and services in demand, our dedicated Strategic Planning Committee reviews it regularly to ensure that we remain on the right track.

At present, Kcell's strategy comprises five key objectives: establish a strong leadership and culture of responsible business practice; pursue a data-centric approach; focus on smartphone penetration and greater data usage; develop the B2B business; and ensure superior network quality. Each of these is subdivided into strategic priorities for more detailed guidance.

As competition in the market intensifies, the importance of remaining the leader becomes even greater. To maintain its position, Kcell recognises the need for the highest standards throughout its business, and these come from within. In 2014, the Company performed comprehensive reviews of its activities at various levels to select the right executive team, optimise the organisational structure, and promote a culture of sustainability, responsibility and accountability among employees.

Maintaining leadership of a technology-driven market involves setting and staying ahead of the latest trends. As the world embraces the next generation of mobile telecommunications services, Kcell is ready to launch its 4G network as soon as permission is granted. In addition, we have placed data at the forefront of our priorities. In 2014, we unveiled various smartphone bundles across price segments, which give as many people as possible a chance to live in the digital age. We are also focusing on launching more content-based services to stimulate data usage.

Another priority area for development is the B2B business. Having achieved a dominant position in the mass market, we are now concentrating more on higher-value customers. In 2014, we completed a major reorganisation of our sales and marketing functions, creating dedicated B2B and B2C units to improve our focus and delivery. Looking further ahead, by becoming partners with our corporate clients and offering technological and communication solutions that make their organisations more effective, we are aiming to turn our B2B business into a major contributor to revenue growth.

Kcell has emerged as national telecommunications champion largely because of its superior network, so its continuous development remains a critical priority. As mentioned, our 4G capabilities are in place: almost all of our 3G base stations can be switched to 4G easily. In addition, we will continue investing heavily in extending our 3G services further in Kazakhstan and improving overall network quality wherever possible. Mobile telecommunications play a central role in the development of society, and we are proud to contribute to that.

Strengthen customer loyalty by creating value

Strategic objectives

Establish a strong leadership and culture of responsible business practice	Pursue a data-centric approach	Focus on smartphone penetration and greater data usage	Develop the B2B business	Ensure superior network quality
Strategic priorities				
– Create a board and management team whose combined industry experience, skills and vision drive Kcell and set the highest standards in the market – Streamline the organisational structure where possible, ensuring clear oversight, responsibility and reporting lines – Inspire and motivate employees – Maintain a robust system of corporate governance that ensures transparency, integrity and accountability throughout the Company's work – Promote sustainability as a way of life	– Lead the industry transition to the next generation of telecommunications by prioritising data – Continue to extend 3G coverage and be ready to roll out 4G rapidly – Invest in the internal resources needed to support more sophisticated data services – Take part in initiatives to promote responsible internet use in society	– Secure distribution arrangements with major smartphone manufacturers – Offer competitive smartphone and data bundles across all price segments – Concentrate on launching high-quality applications and content-based services – Ensure that the portfolio of data products is convenient and understandable	– Make the B2B business a key driver of revenue growth over the medium term – Prioritise cutting-edge solutions that help businesses to be more competitive – Tailor customer-centric packages for all sizes of businesses in various sectors – Ensure a personal, premium service through dedicated account managers – Develop long-term partnerships with corporate and high-net-worth customers	– Ensure that our mobile network remains the largest in Kazakhstan – Continuously improve network quality by investing in the latest technology – Set and regularly revise key performance targets, such as data transmission speed and blocked and dropped call rates – Explore opportunities to establish own fibre transmission network

Strategy in Action

Strategic objective: establish a strong leadership and culture of responsible business practice

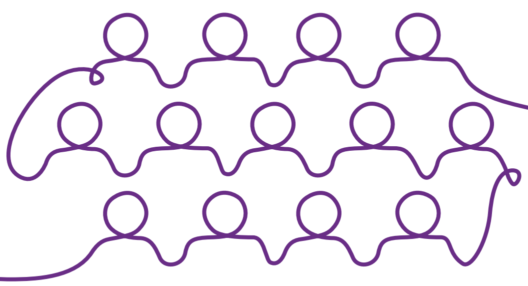
Setting a positive example

At Kcell, we believe that market leadership and responsible business conduct go hand in hand.

Actions speak louder than words. We share the conviction that the most successful leaders set a positive example in everything that they do, which implies transparency and integrity.

Achievements in 2014
Kcell took clear steps towards making its governance even more rigorous in 2014. We increased the number of independent directors on the Board from two to three. We streamlined our organisational structure, which included key managerial changes, and updated numerous internal policies and procedures. We also introduced Speak Up, a confidential hotline for reporting ethical issues.

Aims in 2015
Kcell is committed to continuously improving its corporate governance system in line with best practice. At the time of writing, we had introduced further measures in 2015, including relationship and service agreements with TeliaSonera. They will enable Kcell to benefit from its main shareholder's strategic guidance while maintaining corporate independence.



Strategic objective: pursue a data-centric approach

Embracing the data age

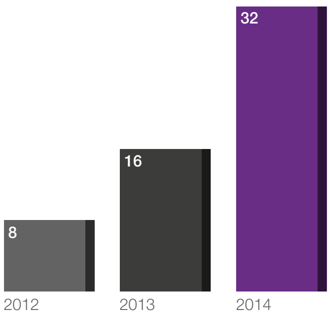
As a telecommunications revolution gathers pace, Kcell is making its strategy more data-centric.

The way in which people, businesses and public organisations interact is changing fundamentally: voice, SMS and other traditional communication methods are being steadily replaced by data.

Data traffic (million GB)

32

+96%

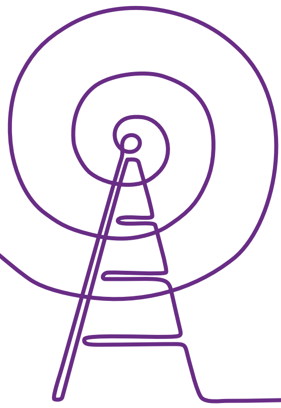


Achievements in 2014

Kcell is reacting swiftly not just to accommodate, but also to lead the mass migration to data in Kazakhstan responsibly. In 2014, we again invested significantly in reinforcing our IT and operational infrastructure so that they can handle more data-driven business.

Aims in 2015

With data redefining the telecommunications industry worldwide, we intend to remain at the forefront in Kazakhstan. In 2015, we will continue allocating substantial resources to handling more sophisticated data services. One major ongoing infrastructure project is to install new client relationship management and billing systems.



Strategy in Action

Strategic objective: focus on smartphone penetration and greater data usage

Making the smart move

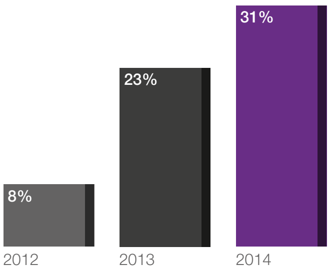
With the data revolution under way, Kcell is seeking to give everyone a chance to take part.

With functionality that leaves their predecessors standing, smartphones can help people to achieve so much more on the move. Our aim is to make them and data accessible across the population.

Smartphone penetration on Kcell's network

31%

+8pps

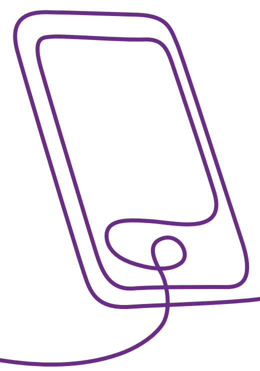


Achievements in 2014

In 2014, Kcell made major strides towards its aim of enabling everyone to benefit from mobile internet access. Most notably, we signed distribution agreements with Apple, Lenovo and Samsung and began bundling their handsets with a range of tariffs, making smartphones and data services available across income brackets.

Aims in 2015

Kcell's work in the data segment is ongoing and will stretch well beyond 2015. We intend to continue actively promoting smartphones and data-centric tariffs through all of our retail channels. We will also focus on producing more value-added content, as part of our commitment to providing high-quality services for our customers.



Strategic objective: develop the B2B business

Helping businesses to excel

As corporate clients seek more mobile telecommunications and data services, Kcell intends to provide more solutions.

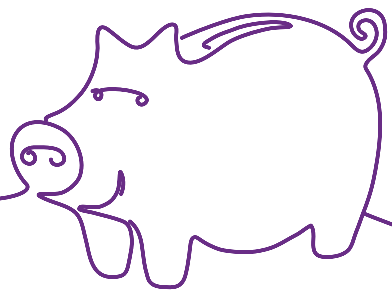
Through Activ, our mass-market brand created in 1999, we have led the saturated B2C segment for years. Now, we are aiming to do the same in the B2B business.

Achievements in 2014

Kcell's efforts in the B2B business yielded impressive results already in 2014: revenues from the segment rose by 12% year-on-year and the client base by 24%. We launched various dedicated solutions to help businesses of all sizes, most notably Kcell Cloud, a virtual server framework, and K-Pay, a mobile payment solution for businesses.

Aims in 2015

Kcell has a clear objective: over the medium term, it intends to make the B2B business a major generator of revenue growth. After the reporting period, in early 2015, we launched another critical B2B product, Microsoft Office 365, a market-leading virtual office solution for medium and large businesses. We will continue to focus on providing more customer-centric solutions for corporate clients.



Strategic objective: ensure superior network quality

Connecting the nation

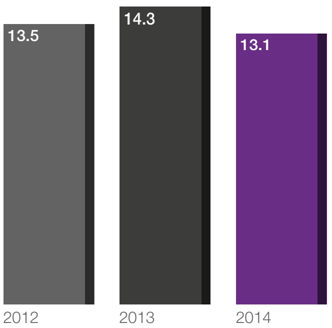
Kcell aims to ensure that its mobile network remains the largest and best in Kazakhstan.

As the country's mobile market becomes more saturated and subscribers gravitate more towards data, the quality of communications will become increasingly important. Kcell will continue investing heavily in its network.

Total subscribers (million)

13.1

-8.8%



Achievements in 2014

In 2014, Kcell completed work to improve network quality that reinforced its position as market leader. We finished a project to transform the architecture of our core network layer, making it ready for a fully IP-based network. The transformation of the IP network is almost complete.

Aims in 2015

Kcell's network is now state of the art in terms of technology, features and redundancy: no more modern technology is available. We will incorporate any further advances made as soon as practically possible. In the meantime, we will continue to spend on rolling out our high-quality 3G and fibre network across the nation.

Monitoring our performance

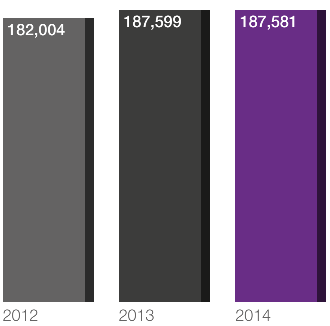
Our key performance indicators enable us to measure how effectively we are achieving our business objectives and targets. The results for 2014 show that we remain well on track and justify our leadership position in the market.

Financial indicators

Revenues (KZT)

187,581m[1]

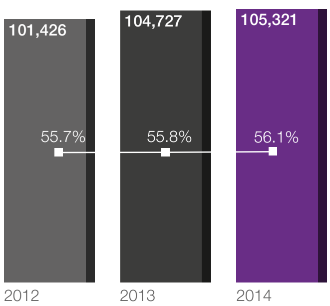
0%



EBITDA excluding non-recurring items (KZT) and EBITDA margin

105,321m

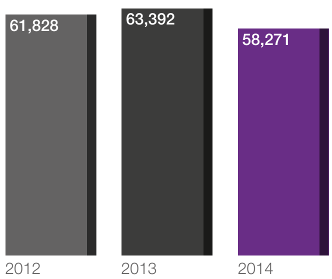
+0.6%



Net income (KZT)

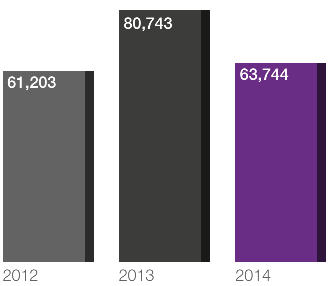
58,271m

-8.1%



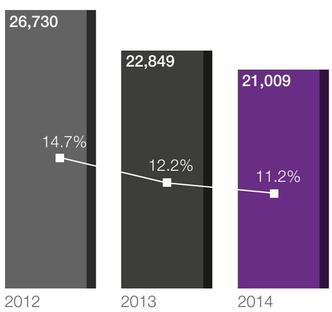
Free cash flow (KZT)

63,744m



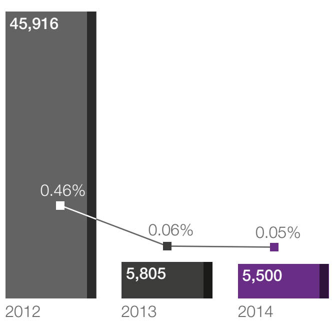
Capital expenditures to sales (CAPEX; KZT) and CAPEX to sales ratio

21,009m



Net debt (KZT) and net debt to EBITDA ratio

5,500m



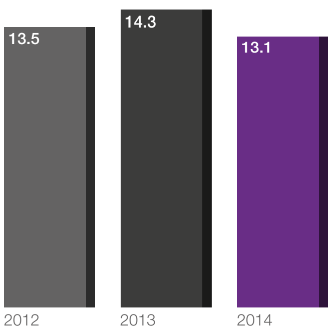
[1] Including one-off adjustment

Operational indicators

Total subscribers (million)

13.1

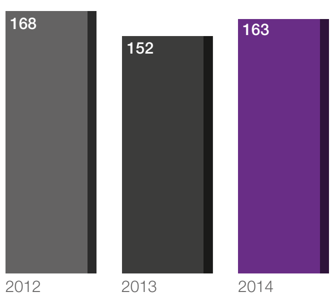
-8.8%



Minutes of usage (MOU; minutes per month)

163

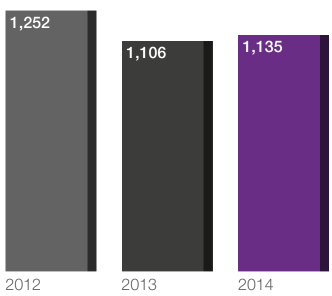
+7.0%



Average revenues per user (ARPU; KZT)

1,135

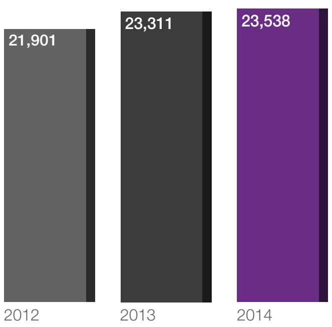
+2.6%



Voice traffic (million minutes)

23,538

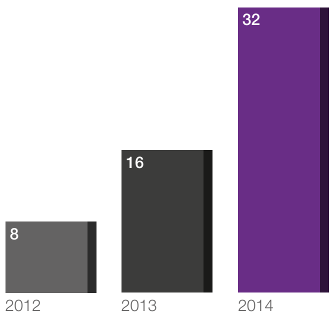
+1.0%



Data traffic (million GB)

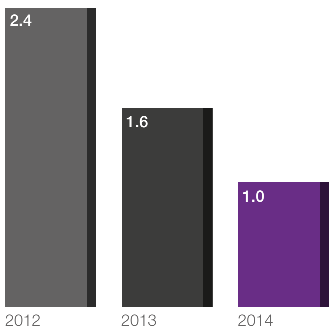
32

+96%



Average revenue per MB (ARMB; KZT)

1.0



A solid performance

In 2014, amid much fiercer competition, Kcell delivered a solid performance, keeping revenues and EBITDA steady and reporting an EBITDA margin of 56.1%, among the best in the industry.

- Revenues excluding the one-off adjustment increased by 0.8% to KZT189,100 million (KZT187,599 million in 2013). Including the one-off adjustment, they remained stable at KZT187,581 million (KZT187,599 million in 2013).
- EBITDA, excluding non-recurring items, rose by 0.6% to KZT105,321 million (KZT104,727 million in 2013). The EBITDA margin increased to 56.1% (55.8% in 2013).
- Operating income, excluding non-recurring items, fell by 1.8% to KZT80,132 million (KZT81,600 million in 2013).
- Net finance costs decreased to KZT1,106 million (KZT2,119 million in 2013).
- Net income declined by 8.1% to KZT58,271 million (KZT63,392 million in 2013).
- Free cash flow fell to KZT63,744 million (KZT80,743 million in 2013).
- Net subscriber additions amounted to 299 thousand. The total subscriber base decreased to 13,055 thousand (14,307 thousand in 2013) due to a clean-up of 1,551 thousand subscribers.

KZT in millions, except %	**2014**	**% of total**	2013	% of total
Voice services	**132,697**	**70.7**	143,731	76.6
Data services	**33,131**	**17.7**	26,232	14.0
Value-added services	**16,567**	**8.8**	17,426	9.3
Other revenues	**5,186**	**2.8**	210	0.1
Total revenues	**187,581**	**100.0**	187,599	100.0

Revenues

Revenues remained stable at KZT187,581 million (KZT187,599 million in 2013). Revenues from voice services decreased by 7.7% to KZT132,697 million (KZT143,731 million in 2013). Data revenues increased by 26.3% to KZT33,131 million (KZT26,232 million in 2013); excluding the one-off adjustment, they grew by 32.1% to KZT34,650 million (KZT26,232 million in 2013). Revenues from value-added services decreased by 4.9% to KZT16,567 million (KZT17,426 million in 2013). Other revenues rose to KZT5,186 million (KZT210 million in 2013).

Voice services

Revenues from voice services decreased by 7.7% to KZT132,697 million (KZT143,731 million in 2013). Voice traffic rose by 1.0% to 23,538 million minutes (23,311 million in 2013). However, the effect of this was partly offset by lower tariffs, which resulted in average revenues per minute of use (ARMU) falling to KZT4.2 (KZT4.7 in 2013).

Outgoing voice revenues decreased by 9.6% to KZT98,734 million (KZT109,272 million in 2013). Interconnect revenues fell by 6.8% to KZT26,852 million (KZT28,826 million in 2013), mainly as a result of a 15% decrease in the interconnect rate. This was partly offset by greater incoming traffic.

Data services

Data revenues rose by 26.3% to KZT33,131 million (KZT26,232 million in 2013); excluding the one-off adjustment, they increased by 32.1% to KZT34,650 million (KZT26,232 million in 2013). Data traffic grew by 96.0% to 31,576,580 GB (16,114,191 GB in 2013), the effect of which was partly offset by packages with lower tariffs per MB. This reduced average revenues per MB (ARMB) to KZT1.0 (KZT1.6), which in turn resulted in higher average revenues per user (ARPU) for data.

Value-added services

Revenues from value-added services decreased by 4.9% to KZT16,567 million (KZT17,426 million in 2013), largely as a result of declining SMS and MMS revenues. Revenues from the provision of content services, such as ringtones and other information and entertainment services, increased by 20.5%.

Other revenues

Other revenues rose to KZT5,186 million (KZT210 million in 2013). This was attributable to higher sales of iPhone, Samsung and Lenovo handsets.

Expenses

Cost of sales

Cost of sales grew by 6.0% to KZT84,221 million (KZT79,469 million in 2013), primarily due to an increase in the cost of goods sold, mainly handsets.

Selling and marketing expenses

Selling and marketing expenses decreased by 30.5% to KZT11,549 million (KZT16,614 million in 2013), mainly as a result of lower commissions.

General and administrative expenses

General and administrative expenses increased by 6.5% to KZT10,666 million (KZT10,017 million in 2013), primarily due to higher staff costs and depreciation and amortisation expenses.

Financial position

The income tax expense fell by 1.3% to KZT15,874 million (KZT16,089 million in 2013), while earnings per share decreased to KZT291.4 (KZT317.0 in 2013).

CAPEX fell to KZT21,009 million (KZT22,849 million in 2013) and the CAPEX-to-revenues ratio decreased to 11.2% (12.2% in 2013).

The net debt/equity ratio was 6.0 (6.0 in 2013), net debt/EBITDA ratio was 0.05 (0.06 in 2013) and equity/assets ratio was 58.3% (61.0% in 2013).

A way of life

At Kcell, we have made sustainable business more than just a goal: it is our philosophy.

Our responsibility

Our role as Kazakhstan's leading provider of mobile telecommunications places us prominently at the heart of society. For us, this means responsibility, which we take extremely seriously. Throughout our interactions with all stakeholders – investors, customers, employees, partners, suppliers, public organisations and society in general – we are committed to the highest standards of business conduct. Our steadfast belief is that positive contributions made today are investments in the society, economy and environment of tomorrow. At Kcell, sustainability is more than a collection of programmes and projects: it is a way of life.

Our platform

In line with TeliaSonera, Kcell channels its sustainability efforts into the following areas of focus:

- Anti-corruption
- Supply chain management
- Customer privacy
- Freedom of expression
- Environmental responsibility
- Occupational health and safety

These areas are governed by an ethics and compliance framework, whose purpose is to ensure that Kcell has a systematic approach for implementation and monitoring.

At Kcell, sustainability covers all efforts relating to how we account for our long-term impact on society and the environment. Our responsibility extends along the entire value chain. We believe that when we do good, it strengthens not only our business, but also the societies in which we operate, creating long-term shared value. By increasing positive and reducing and mitigating negative impact, sustainability is a vital part of our strategy, promises and values.

One cornerstone of our sustainability platform was laid just before the beginning of the reporting period. In November 2013, as part of a TeliaSonera initiative to adhere to the most rigorous standards of conduct throughout the group, Kcell created the position of ethics and compliance officer. Reporting to the TeliaSonera regional ethics and compliance officer and Kcell CEO, the officer is responsible for ensuring that ethics and compliance initiatives are implemented consistently and in full. In a reflection of our ever-growing focus on this area, Kcell added a second position to the function in September 2014.

Building on this and the other foundations laid in 2013, including new policies to enhance governance and transparency in our internal and external interactions, we developed our sustainability framework and made numerous key achievements in 2014. In March, to ensure that our work remains coordinated across the Company, we began holding quarterly governance, risk, ethics and compliance (GREC) meetings for the executive management, heads of departments and other key employees.

The GREC meeting agenda is risk-based, and all participants are accountable for a specific area. The purpose of GREC meetings is to integrate risk areas, deepen the understanding of risks through executive-level responsibility, and further embed risk management into the decision-making process.

At the three GREC meetings in 2014, the management discussed and took decisions regarding ongoing activities and initiatives within the different risk areas and sustainability focus areas.

Anti-corruption programme

Kcell takes a 'zero-tolerance' approach to corruption: it is committed to implementing effective measures to prevent, monitor and eliminate corruption in any form.

Just before the reporting period, in December 2013, we introduced a dedicated anti-corruption policy. In 2014, to drive its implementation, we published accompanying instructions and guidance, before updating the policy in November.

This underpinned a major anti-corruption programme, which was our flagship sustainability initiative last year. Launched at the beginning of 2014, it has a clear mandate: to root out corruption from any and every aspect of Kcell's activities. As part of this, we conducted a corruption risk assessment, which identified two key initial objectives: foster an anti-corruption culture and establish centralised procurement.

Anti-corruption training

In March, we began a major anti-corruption training drive. Our aim was simple: to educate every single person at Kcell, from members of the board of directors to support staff, about corruption and the measures and procedures that the Company has implemented to deal with it.

As Kcell has 18 offices spread across a vast country, a systematic approach was needed. We began by organising two groups of internal instructors: one for Almaty, where a large proportion of our staff are concentrated in three main facilities, and one for the regions. Given the legalities of ethics and compliance, the director and other senior people from our legal department joined the teams. We then proceeded to train the trainers.

Once that was complete, we set about arranging training sessions for smaller groups of employees, typically 20-30 people, to maximise their effectiveness. In this instance, Kcell opted for face-to-face training, as opposed to e-learning, to make the learning process interactive and encourage discussions about practical scenarios.

No one was omitted: the top management underwent training at the first GREC meeting in March, while a session was arranged for the board of directors in May. Outsourced personnel were also required to go through the process. By the end of 2014, the whole Kcell collective of around 1,900 people, both staff and non-staff, had received anti-corruption training, which is now a mandatory part of our orientation programme for new employees.

Speak Up and disciplinary action

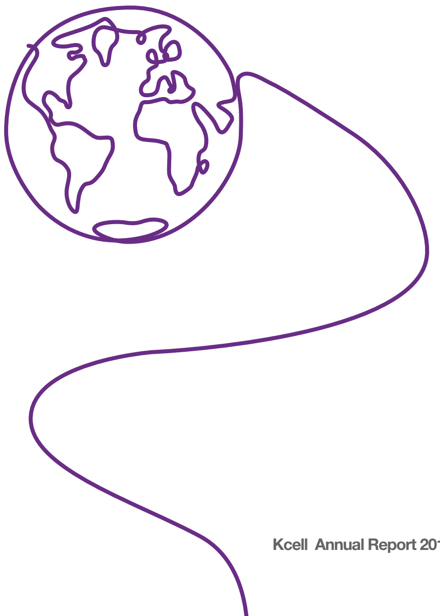
Another major project to promote an anti-corruption culture launched in 2014 was the Speak Up line. Again part of a group-wide initiative by TeliaSonera, it aims to encourage all stakeholders to report potential unethical business practices or misconduct. The portal is available on Kcell's intranet for employees and on the external web site for third parties. Messages can be left online or with a call centre in Kazakh, Russian and English.

Speak Up is managed by an independent third party to ensure the utmost impartiality and confidentiality. Anonymity is guaranteed if preferred, and all cases are logged on a secure system. The service has already proved a success. After the reporting period, in March 2015, TeliaSonera announced that the line had received 92 reports of suspected unethical conduct across the Group in 2014.

To promote Speak Up as widely as possible, Kcell launched a high-visibility employee communications campaign in its offices. It also introduced a separate internal reporting line for managers wishing to raise concerns about conduct. Measures like these place Kcell at the vanguard of the drive to do business responsibly in Kazakhstan.

A number of reported cases have led to internal investigations. At the decision of the Board of Directors, Kcell filed a report with the Prosecutor General of the Republic of Kazakhstan, requesting it to commence a criminal investigation into the activities of a number of former employees who allegedly failed to follow the Company's internal policies and procedures. The employees allegedly responsible for these failures are no longer employed by the Company.

Our steadfast belief is that positive contributions made today are investments in the society, economy and environment of tomorrow.



Supply chain management

Other crucial achievements under the anti-corruption programme in 2014 related to better supply chain management. One in particular was to centralise procurement, which departments had previously handled individually. To segregate authority and demonstrate impartiality in this respect, Kcell established a Tender Committee, introducing instructions and procedures to govern its activities.

Efficiency was only one motivation for centralising procurement. Kcell has also embarked on a drive to know suppliers and partners better, as it seeks to work with those that share its standards, principles and values, and a single procurement function facilitates this. To this end, we introduced a supplier code of conduct in March 2014 and introduced enhanced due diligence of providers of goods and services. We also conducted internal training on due care in the supply chain in August and we will proceed with training vendors.

Customer privacy

The Company's customer privacy work is guided by the Kcell privacy policy, which sets a consistent standard with regard to personal data protection. Among other matters, the policy defines principles regarding the collection, processing and retention of personal data, transparency, data accuracy, risk assessments, supplier requirements, and technical and organisational measures to protect integrity and confidentiality.

Progress on privacy work is monitored by GREC meetings. In 2014, a privacy governance organisation with clear roles and responsibilities was established and a Kcell privacy officer was appointed.

Kcell is committed to respecting and safeguarding its customers' privacy. Our aim is to integrate privacy as a natural part of our services, processes, infrastructure and daily work.

Kcell strives to operate highly secure communication networks and takes action to prevent unauthorised access to our customers' personal data. This work is conducted in accordance with a dedicated road map.

Freedom of expression

We believe that our services contribute to social development by enabling information and ideas to be shared.

In September 2014, Kcell adopted a policy on freedom of expression in telecommunications. Its primary purposes are to reduce the risks of human rights violations relating to communications surveillance, and to give our customers guarantees that Kcell will, wherever possible, respect and safeguard their freedom of expression.

The policy's principles apply to requests, demands and legislative initiatives by governments or national authorities relating to the surveillance of communications, including restrictions on access to networks and internet websites, signal intelligence and so on.

Environmental responsibility

Kcell is committed to conducting its business in an environmentally sustainable way. We contribute to global sustainability by developing, promoting and utilising resource-efficient and environmentally friendly services and by reducing our environmental footprint. We constantly look for opportunities to maximise the use of best practices and synergies between our businesses.

Kcell contributes data about its energy and resource consumption for inclusion in TeliaSonera's sustainability report, in accordance with Global Reporting Initiative requirements, as well as information about its corporate responsibility activities.

In 2014, among other initiatives, we focused on introducing more environmentally friendly equipment. For example, we moved more base stations outdoors, as this is more energy-efficient than using indoor sites, which require air conditioning and heating. We also began buying 6000/8000 base stations with remote radio units.

Occupational health and safety

For Kcell, health and safety in the workplace is an unconditional priority. We implement all measures in this area in accordance with the Labour Code of Kazakhstan and other corresponding regulations.

In November 2014, we introduced a policy on occupational health and safety, which defines the Company's commitments aimed at safeguarding employees in the workplace. These include providing safety training and protective clothing and equipment; guaranteeing optimal labour conditions; standardising sanitary labour conditions; making health care services available; and monitoring compliance with occupational safety and health standards.

Kcell is working towards certification to the OHSAS 18001 standard.

Employees

As a customer-centric organisation, we feel that our employees are the lifeblood of our business. As such, we aim to hire, develop and retain talented people and to be an employer of choice in Kazakhstan.

Kcell supports the international human rights and dignity of all employees as outlined by the UN declaration and core International Labour Organisation's conventions.

All employees have a remuneration package that reflects internal equity and external local market conditions. We work with two different international HR consultants to monitor salaries and benefits in the local market. Based on the results of research conducted, we make suggestions to the management about shifting pay bands. We also conduct an annual review of employees' fixed pay, based on individual overall performance and differentiated within acceptable salary ranges.

In 2014, following the tenge devaluation in February, we commissioned special research on changes in the cost of living in Kazakhstan. Based on the findings, we indexed all employees' salaries by 10% in June, following an earlier increase in April.

In an effort to create a positive and motivating work environment as well as improve the quality of life of employees and their family members, Kcell provides numerous benefits over and above those required by law in Kazakhstan. Our comprehensive benefits package includes: voluntary medical insurance, transportation, mobile communications, a meal allowance and financial aid in the case of sickness of an employee and close relative or death of a close relative.

As of 31 December 2014, Kcell had 1,736 employees, up 16.9% year-on-year. We support equality and diversity in the workforce. At the year-end, the Company employed 714 male and 1,022 female staff representing more than 19 nationalities.

Kcell is committed to conducting its business in an environmentally sustainable way. We contribute to global sustainability by developing, promoting and utilising resource-efficient and environmentally friendly services and by seeking to reduce our environmental footprint.

Contributing to society

As telecommunications are crucial in everyday life, providers of such services play a central role in society. At Kcell, we recognise that this brings responsibility and we take ours seriously. We are dedicated to contributing to the betterment of life for our people, communities, society and the nation as a whole.

Kcell aims to follow international best practice in all areas of its corporate social responsibility (CSR). To this end, in 2007, we signed the United Nations Global Compact, which seeks to create a sustainable and inclusive global economy by encouraging businesses to follow key principles regarding human rights, labour, environment and anti-corruption. We were the first telecommunications company in Kazakhstan to adopt the blueprint.

As part of its drive to be a responsible corporate citizen, Kcell invests and plays an active role in a diverse range of social projects. To decide which initiatives to support, we have established a corporate responsibility framework, which identifies the priority areas that require attention. Underpinning this is a set of core objectives, such as contributing to the long-term sustainable development of Kazakhstan, helping those in need, leading innovation in society, investing in people and encouraging responsible business practices.

Kcell's CSR efforts are substantial. In 2014 alone, we were involved in 26 projects with 20 partners. To ensure that our work is as effective as possible, we have designated five key areas of focus: education, cultural heritage, sport and healthy lifestyle, society and environment.

Education

Our firm belief is that spending on education today is a vital investment in tomorrow. Learning helps to enrich society by contributing to intellectual development, individual capability and economic growth, and Kcell is involved in various initiatives to promote education nationwide.

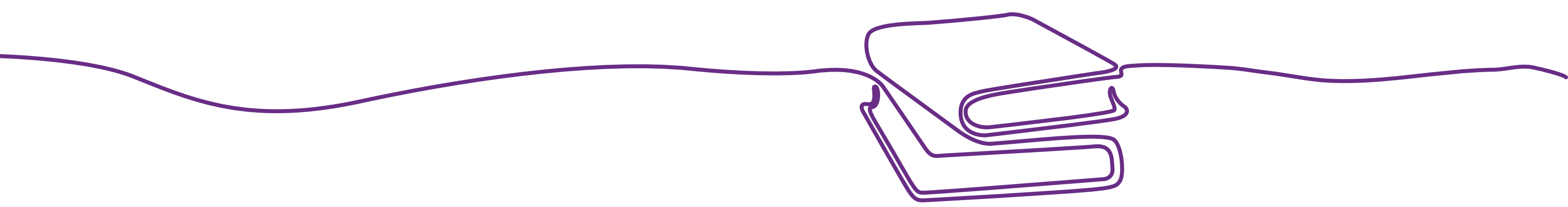
One major ongoing project is Kcell Academy. Launched in 2008, it seeks to foster innovative thinking, creativity and vocational skills in students at local universities, so that they better understand the needs of modern business and can contribute more in professional life.

As part of the endeavour, Kcell organises training sessions and lectures by senior managers at higher educational institutions around Kazakhstan, which in turn helps to develop links between the Company and young, talented graduates. Competitions and various events are also organised to promote practical skills and entrepreneurship.

In 2014, as part of Kcell Academy, the Company supported an international conference, "Competitiveness and Entrepreneurship: Kazakhstan and Other Emerging Economies", held at the Kazakh-British Technical University in February. It attracted students, business people and thought leaders from Kazakhstan and abroad, as well as academics from some of the world's most prestigious higher educational institutions, such as Cambridge University, the London School of Business and the London School of Economics.

In March, Kcell sponsored the sixth Republican Student Olympiad at Al-Farabi Kazakh National University. The event is held to encourage innovation and excellence in academia, and students compete for awards across various disciplines. In November, the Company participated in Nazarbayev University's second "Research Week" conference, designed to create a forum in which students, academics and professionals can exchange knowledge, experience and ideas.

Another major educational initiative that Kcell supported in 2014 was the Tech Garden festival. It was held for the first time to promote an innovation cluster of the same name on the campus of Al-Farabi Kazakh National University, and the Company became an official partner of the event in December. The cluster was established to stimulate innovation, technological potential and industrial competitiveness in Kazakhstan, and the festival brings together professionals from all walks of commercial life: representatives of national and global companies, entrepreneurs involved in successful local start-ups, creators of new technologies, designers of research and development projects, senior figures from national development institutes, and so on.



Cultural heritage

Kazakhstan and the wider region have a rich heritage that deserves to be preserved. As the leading name in communications nationwide, Kcell is committed to promoting the culture, history and languages of the country and Central Asia through various initiatives.

Kcell is committed to promoting the culture, history and languages of the country and Central Asia.

One such project is the Great Silk Road, an application designed to chart the development of the fabled trading route for users of mobile devices. Originally conceived in 2013, the application was launched at an official ceremony in February 2014. The idea is to make the route's story more accessible to tourists and local students, who can explore the region's history and architecture between the second century BC and the 15th century AD on their smartphones and tablets. In line with the wider government "trinity of languages" drive, the user-friendly interface is in three languages: Kazakh, Russian and English. Kcell made the application available free of charge for users of Android and iOS platforms via Play Market and AppStore.

Given the shift towards greater data usage, one priority throughout Kcell's work is to bridge the digital divide. The Great Silk Road is a prime example of uniting the old with the new, as it helps people to learn about the region's history in a modern, interactive way. Our efforts were recognised in May, when Kcell and Mobile Access Studio, which designed the application, won the "consumer service innovation" category of the Global Telecoms Business Innovation Award 2014 for the Great Silk Road.

One major cultural event in Kazakhstan that Kcell plays a key role in is TEDx. Since starting out as a single conference on technology, entertainment and design in 1984, TED has grown into a non-profit organisation devoted to promoting free knowledge worldwide (the 'x' signifies an independently run event beyond the US, where TED began). The conferences bring together thought leaders to share their ideas across a vast spectrum of topics, from scientific to business to international issues, in presentations of 18 minutes maximum.

Kcell has been the main strategic partner of TEDx conferences since they came to Kazakhstan. The TEDx Almaty in 2010 was the first in the Commonwealth of Independent States (CIS), and the event will also be held in Astana in 2015. Kcell is proud to sponsor TEDx, which shares its vision of encouraging knowledge, creativity and innovation.

In 2014, Kcell also pledged assistance to another cultural event in Kazakhstan: the 13th Annual International Jazz Festival, which took place in Almaty in April. Held at the Zhambyl State Philharmonic Concert Hall in the city, the festival featured leading jazz bands from Kazakhstan, Turkey, Switzerland and Germany, among others. It was organised in conjunction with the Almaty administration and embassies of the countries involved. This is Kcell's second such musical endeavour: the Company has sponsored the Jazzystan international festival since 2010.

Sport and healthy lifestyle

Sport also plays an integral part in the development of a sustainable society. Alongside contributing to a healthy lifestyle and wellbeing, it promotes certain values inherent in Kcell's philosophy, such as leadership, team spirit and fair competition. To this end, the Company provides sponsorship and other support to various sports teams, events and initiatives, both local and international.

Kcell is particularly proud of its support for the Special Olympics in Kazakhstan since 2000, for almost all of the Company's existence. The organisation gives children and adults with intellectual disabilities the opportunity to train and compete in various Olympic-type sports. It also works to develop support services for people with intellectual disabilities and their families in the countries where it operates, such as with UNICEF in Eastern Kazakhstan. Established in 1968, the Special Olympics has grown into a global body uniting more than 4 million athletes with intellectual disabilities.

One example of Kcell's involvement in the highest levels of sport is its support of the Kazakh national team at the Sochi 2014 Winter Paralympic Games in March. Within the sponsorship, the Company provided operational assistance, such as free network services so that the team could stay in touch with relatives and loved ones while away representing the country.

Another sporting initiative that Kcell helped to organise in 2014 was the third Almaty marathon, "Courage to Be the First". Around 10,000 people, including Company employees, took part in the event, making it the largest of its kind in the city. Kcell acted as an official technical partner of the marathon, providing telecommunications along the route and technology to track and time the participants. The funds raised from the race were donated to the oncology department at the Almaty Research Institute of Pediatrics and Surgery.

Kcell also seeks to promote a healthy lifestyle among employees. The headquarters in Almaty have table tennis facilities and a gym that can be used free of charge. There is a corporate football team that competes against teams from other firms in the city, while the Company also organises in-house basketball and table-tennis tournaments.

These sporting initiatives earned official commendation in 2014, when Kcell won the "Contributing to Promoting a Healthy Lifestyle in the Community" category in the Assyl Alma competition. Organised by the Almaty Department of Health and the city administration, the contest was first held in 2009, when Kcell won the "Contributing to Protecting and Safeguarding Employees' Health" category. After the reporting period, in early 2015, the Company again won the "Contributing to Promoting a Healthy Lifestyle in the Community" category.

Society

The wellbeing of society is a paramount factor influencing our future together. People are the reason why Kcell's business exists, and the Company is dedicated to helping those in need, its communities and the country through numerous social programmes.

Since 2007, Kcell has been an official partner of the Miloserdiye (Mercy) non-profit organisation. It provides local support for seriously-ill children and their families and raises funds for treatment abroad that is unavailable in Kazakhstan. As part of the partnership, the Company created a short number, 8099, through which people can donate 280 tenge by sending an SMS. Over the years, the funds have saved the lives of hundreds of children who would not have otherwise received the treatment needed.

Kcell began another such fundraising initiative in 2014, launching a short number for the Helping Hand project in December. By sending an SMS to the number 1919, subscribers can donate 250 tenge towards helping low-income families in Kazakhstan. Kcell is conducting Helping Hand in association with the Shugyla social fund, which was established in 2007 to support various groups of people in need: orphans and other underprivileged children, low-income families, and people with physical and mental illnesses and disabilities. At present, it is managing six major social projects.

Alongside helping those less fortunate than others, Kcell seeks opportunities to make society more informed, particularly through the use of technology. At the same time, as the leading provider of telecommunications services, we have an obligation to ensure that they are used within the law. In April 2014, Kcell became an official partner of Safekaznet, an initiative established by the Internet Association of Kazakhstan (IAK) to stop content unsuitable for children from appearing in the country's online domain.

As part of the project, the IAK organises meetings with students and schoolchildren to raise awareness about the issue and about responsible internet use. It also set up a website, www.safekaznet.kz, where inappropriate content can be reported. The site employs specially trained people to check the information provided and ask owners or service providers of addresses featuring unsuitable content to remove it. If they do not, the corresponding authorities are informed.

One high-profile event promoting the social application of technology is the Global e-Government Forum, which was held in Kazakhstan in 2014, and Kcell was a platinum sponsor. Supported by the United Nations (UN), the forum seeks to stimulate debate about cutting-edge issues involving technology's role in the modern world, such as smart governance, networked society, open government, open data and social media. Kazakhstan is making major progress in information and communications technology and electronic government. In a UN survey of countries for 2014, the country came 28th, having risen 10 places in just two years. The Global e-Government Forum in Astana, which took place in October, was dedicated to "Smart Management for Sustainable Development: New Partnership Opportunities in the Network Society".

Kcell is dedicated to helping those in need, its communities and the country through numerous social programmes.

Environment

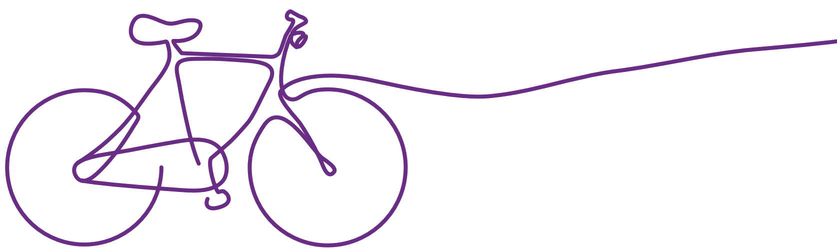
Our environment is fundamental to our sustainability: it is the world in which we live and breathe. While striving to be the technological leader in the industry, Kcell is also acutely aware of the need to protect nature for future generations. It contributes to this by promoting 'green' values, seeking to limit the effect of its operations on our surroundings, and supporting various environmental endeavours.

A priority is to seek ways to optimise the use of energy and resources in our own operations. One such example is Green Office, a major ongoing internal energy-saving drive. Launched at Kcell's headquarters in 2013, the project aims to introduce energy-efficiency and waste-management programmes wherever possible in the Company's daily administrative operations, as well as raise awareness of how improvements can be made by individuals.

Examples of Green Office initiatives include printing or copying on both sides of a page whenever possible and designating areas for sharing office supplies that can be re-used. In addition, Kcell subscribes to various internet news portals to reduce the amount of paper consumed and employees are asked to adjust paper margins to decrease the length of documents printed. Also, for offices and meetings, the Company avoids purchasing cardboard and plastic dishes. In most cases, Kcell seeks to use water from a dispenser as opposed to bottles, and employees are made aware of recycling measures in place.

Environmental measures have strong support from the government of Kazakhstan, which has devised a national "green economy" concept. As part of this, as of February 2014, Kcell stopped sending hard copies of monthly bills to customers.

In March, Kcell embarked on another major environmental initiative, "Green City". Working in cooperation with "Plant a Tree" non-profit organisation, the Company created a short number to raise funds for planting trees in Kazakhstan. By sending a non-blank message to the number 1101, people can donate 100 tenge. To launch the project, the Company held an official ceremony to plant 50 fir trees in central Almaty, inviting corporate clients and media representatives.



Board of Directors

Jan Rudberg

Chairman, Independent Non-executive Director

Jan Rudberg has been the chairman of the Board of Directors and an independent director at Kcell since 9 November 2012.

Mr Rudberg is the chairman of the board of directors at Hogia AB, and an independent director and the chairman of the Audit Committee at MegaFon. From 1994 to 2003, he held various managerial positions with Telia AB. He previously served as CEO of Tele2 AB, executive vice president of Nordbanken AB and CEO of Enator AB.

Mr Rudberg holds a degree from the Gothenburg School of Business Administration, Sweden.

Kenneth Karlberg

Director (Representative of the shareholder Sonera Holding B.V.)

Kenneth Karlberg has been a member of the Board of Directors at Kcell since 9 November 2012.

Mr Karlberg is a member of the board of directors at MegaFon, in Russia, and the management at Relacom AB, in Sweden. He is also chairman of the board of directors at Relacom Sweden AB.

From 1998 to 2002, Mr Karlberg he was managing director of Telia Mobile at Telia AB, in which role he continued at the merged TeliaSonera in 2003-2004. From 2004 to 2006, he served as head of the Group's business division for Denmark, Norway, the Baltics and Spain, while from 2006 to 2010, he served as head of Mobility Services.

Previously, Mr Karlberg was an officer in the Swedish army, first graduating from Karlberg Military Academy and attaining his commission in 1976. He most recently graduated from Karlberg Military Academy in 1987 with the rank of senior staff.

William H R Aylward

Independent Director

William H R Aylward has been an independent member of the Board of Directors at Kcell since 24 May 2013, and he has been chairman of the Strategic Planning and Personnel and Remuneration committees.

Mr Aylward has extensive experience working as chairman, CEO and Non-executive director of both private and public companies across various sectors, including telecommunications, media and technology (TMT), energy, software and services, and manufacturing. Since 2011, he has served as chairman and CEO of Alchemy Group, which primarily focuses on TMT and energy.

Mr Aylward has been a strategic investment adviser at Redwave Technology Ltd since 2006. From 2008 to 2011, he was CEO of Belvedere Media Santa Monica, CA. Before that, he held senior management positions in numerous companies, including Jonathan Partners Inc, Bulgarian Telecommunications Company, Advent International, Fusion Telecommunications Ltd, Landtel Communications Inc, Kingston Communications Plc and Westminster Cable UK. He has extensive M&A experience.

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

Erik Hallberg

Director (Representative of the shareholder Fintur Holdings B.V.)

Erik Hallberg has been a member of the Board of Directors at Kcell since 24 May 2014. He is an executive vice president and head of the Eurasia region at TeliaSonera AB.

Prior to his current position, Mr Hallberg was president of TeliaSonera International Carrier from November 2010 until December 2013. He joined TeliaSonera in 1999, holding various positions within Mobility Services and Broadband Services (January 2007 to November 2010) and serving as senior vice president and head of the Baltic market area division from January 2003 to December 2006. He was previously a board member of North West GSM, in St Petersburg, and Yoigo, in Spain.

Mr Hallberg is a member of the Board of Directors at HIQ International AB, a listed company working with IT applications and programmes, and Cygate AB, a supplier of secure IT infrastructure in Sweden and Finland. He is the board chairman of several international subsidiaries in the TeliaSonera International Group.

Mr Hallberg holds a BSc in Mechanical Engineering.

Vladimir Smirnov

Independent Non-executive Director

Vladimir Smirnov has been an independent member of the Board of Directors at Kcell since 24 May 2014.

Mr Smirnov's background is in sport at international level. A professional cross-country skier since 1976, he won a gold medal at the 1994 Winter Olympics in Lillehammer, was four times world champion, and won the world cup 29 times and has been a general holder twice. He was also a member of the International Olympic Committee (2000-2002) and its Athletes' Commission (1998-2002) and vice-president for sport in the International Biathlon Union (2006-2010). In 1991, he moved to Sweden as a professional athlete.

From 1999 to 2004, Mr Smirnov ran his own company, Vladimir SMIRRE Smirnov AB, working in cooperation with Veidekke AS, Norge. From 2004 to 2006, he was the managing director for Almaty's application to host the 2014 Winter Olympics. From 2005 to 2007, he consulted for Scania in Kazakhstan, taking the position of vice director of the group's representative office. In 2006, when the executive board of Scania Group decided to establish regional operations in Kazakhstan, Scania Central Asia, it appointed Mr Smirnov as managing director. This role included developing the division's own infrastructure in Kazakhstan, including building a Scania service centre, a €15 million investment. In August 2014, he became the general director of the Astana Presidential Professional Sports Club.

Mr Smirnov graduated from the Kazakhstan Institute of Physical Culture and Sport in 1985. In September 2014, he became the Honorary Consul of the Republic of Kazakhstan to the Kingdom of Sweden, having also held the position in 2001-2004.

Ingrid Stenmark

Non-executive Director (Representative of the shareholder Fintur Holdings B.V.)

Ingrid Stenmark has been a member of the Board of Directors at Kcell since 24 May 2014. She is a vice president and head of the CEO's office at TeliaSonera AB.

Since joining TeliaSonera in 1994, Ms Stenmark has held several managerial positions in the Group. Currently, she is a vice president and head of the CEO's office (since May 2014). Previously, she was acting general counsel and head of regulatory affairs (February 2013 to August 2013), deputy and acting general counsel (September to December 2013), general counsel for the Mobility Services business area (January 2007 to January 2013), head of Corporate Affairs for Norway, Denmark and the Baltic countries (January 2003 to December 2006), and head legal counsel for the Mobile business area at Telia AB (October 1998 to December 2002). Before joining TeliaSonera, she worked at the law firm Nordlander.

Ms Stenmark has been a board member of numerous companies in the TeliaSonera Group, including a member of the Supervisory Council of SIA LMT, the mobile operator in Latvia (2003-2013).

Ms Stenmark holds a Masters in Law from Stockholm University.

Executive Management

Kcell's management team brings together a unique and strong combination of industry experience, skills and vision.

Arti Ots
CEO

Arti Ots became CEO on 19 December 2014. After receiving regulatory approval, he began in the role on 9 February 2015.

Before his appointment, Mr Ots had been vice president for Commercial and Business Development at TeliaSonera Eurasia since May 2014. Between February 2012 and May 2014, he was CEO of Elion, TeliaSonera's Broadband Services division in Estonia. Prior to becoming CEO, he had spent 10 years at Elion, working as Marketing Director between 2004 and 2012.

Mr Ots holds an MBA from Henley Business School.

Gary Krasny
Acting Director of Finance Department

Gary Krasny became acting director of the Finance department at Kcell on 27 October 2014.

Mr Krasny has over 30 years of financial and operational experience in public and private companies in the US, Europe and Russia. He has extensive experience in mobile telecommunications in Bulgaria, Luxembourg and Russia, and in Russian television holdings.

Mr Krasny is a Certified Public Accountant and holds a BSc in Accounting from the University of Florida. He is also a Certified Business Manager and a Chartered Global Management Accountant.

Aliya Kishkimbayeva
Director of Legal Affairs Department

Aliya Kishkimbayeva has been director of the Legal Affairs department at Kcell since March 2010.

Ms Kishkimbayeva joined Kcell in 2007 as a senior lawyer and later served as head of Contracts and Litigation. Previously, she worked as a lawyer at AralParker and PetroKazakhstan.

Ms Kishkimbayeva holds a degree in English from the Kazakh State University of World Languages and in Law from the Adilet Higher Law School.

Olga Tsoi
Director of B2B Department

Olga Tsoi has been director of B2B at Kcell since 10 December 2013.

Before that, Ms Tsoi had held numerous positions at Kcell since 2008, including head and manager of Corporate Marketing. Prior to joining the Company, from 2006 to 2007, she was a customer marketing specialist at Colgate Palmolive. From 2007 to 2008, she was a trade marketing manager at Wimm-Bill-Dann Central Asia.

Ms Tsoi holds a BSc in Science and a Masters of Business Administration from KIMEP University.

Hikmatulla Nasritdinhodjaev
Director of B2C Department

Mr Nasritdinhodjaev has been director of B2C since 10 December 2013.

From 2012 to 2013, Mr Nasritdinhodjaev was director of Marketing at Ucell, TeliaSonera's subsidiary in Uzbekistan. He joined Kcell in 2008 and held numerous positions, including head and manager of Consumer Marketing. He previously worked at Nestle and Grey Worldwide.

Mr Nasritdinhodjaev graduated from the University of World Economy and Diplomacy in Tashkent in 2000. He received a Masters in Economics from Tashkent State Economic University in 2002.

Marat Dzhilkibayev
Director of Regional Operations Department

Marat Dzhilkibayev has been director of the Regional Operations department (formerly Regional Development) at Kcell since 3 January 2013.

Mr Dzhilkibayev joined Kcell in 2009 and was head of the Kostanay branch and manager of the Almaty regional office. Prior to that, he spent 12 years at several banks in Pavlodar and Kostanay, progressing from specialist to director of a bank branch at one of them.

Mr Dzhilkibayev holds a degree in Economics and Management from Pavlodar State University.

Rikard Slunga
Director of Technology Department

Rikard Slunga became director of the Technology department on 1 April 2014 and, after receiving all of the regulatory approval, officially began in the role on 25 July 2014.

Mr Slunga has 30 years' experience in telecommunications. He started his career in 1985 as a manager at Ericsson and later became CTO at Orange Sverige. From 2003 to 2009, he worked for companies including Vodafone Global and Nordisk Mobiltelefon Sverige, before moving into consultancy.

Mr Slunga is a graduate of Luleå University of Technology and Bromma Flight School.

Evgeny Klimov
Director of Security Department

Evgeny Klimov has been director of the Security department at Kcell since 10 November 2014.

Mr Klimov has experience of managing the IT security department at a major international consultancy, as well as training and successfully completing the ISO/IEC 27001:2005 certification at a major Russian steel holding.

Mr Klimov graduated from the Russian Academy of the Federal Security Service, where he majored in IS Organisation and Technology.

Irina Ilchovska
Acting Director of Customer Relations Department

Irina has been acting director of the Customer Relations department since 3 February 2014.

Ms Ilchovska joined Kcell in 2008 as an expert in Program Reporting and KPI and then became a manager in the Customer Experience department. Previously, she worked as senior client service manager at AC Nielsen, a global research agency.

Ms Ilchovska holds a degree in Finance and Economics from Almaty State University.

Alexander Prokopovich
Director of Centralised Procurement Department

Mr Prokopovich has been director of the Centralised Procurement department since 18 December 2014.

Mr Prokopovich joined Kcell in August 2014 as deputy director of the Procurement and Administration department. He led the drive to centralise the procurement function. Before that, he spent eight years in procurement at Velcom, the first GSM operator in Belarus, ultimately heading a department.

Mr Prokopovich holds a degree in International Economic Relations from the Institute of Parliamentarism and Entrepreneurship in Minsk.

Khalida Kyrykbayeva
Ethics and Compliance Officer

Khalida has been Ethics and Compliance Officer at Kcell since 18 August 2014.

Ms Kyrykbayeva has over 20 years' experience in international organisations. Her expertise includes development of the non-state sector and corporate communications, including the last four years at Kcell. She joined Kcell as an expert in the Corporate Communications department and then became Sustainability and Compliance Officer, in the CEO's office.

Ms Kyrykbayeva holds a degree in English from the Kazakh State University of World Languages.

Corporate Governance

Kcell is committed to maintaining high standards of corporate governance. Its Corporate Governance Code comprises a set of rules that the Company follows to form, maintain and improve its corporate governance system and to ensure that high standards of business ethics are maintained.

Corporate governance guidelines for Kazakh companies are set out in the Kazakh Model Code, which is based on international best practice in corporate governance.

The Model Code contains certain general rules and recommendations regarding corporate governance that may be applied on a voluntary basis. The Kcell Corporate Governance Code, which has been adopted by the General Meeting of Shareholders, is based on the Kazakh Model Code and TeliaSonera's Code of Ethics and Conduct. It complies with the regulations of the Kazakhstan Stock Exchange concerning joint stock companies and securities.

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

Corporate governance principles

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

Corporate governance policies

Kcell has adopted a range of policies in support of its commitment to establishing a strong corporate governance framework. They include the following:

- Procurement Policy
- Financial Management Policy
- Insurance Policy
- Risk Management Policy
- Communication Policy
- Recruitment Policy
- Remuneration Policy
- Insider Information Policy
- Insider Trading Policy
- Security Policy
- Code of Ethics and Conduct
- Anti-corruption Policy
- Privacy Policy
- Freedom of Expression in Telecommunications Policy
- Occupational Health and Safety Policy
- Corporate Governance Code
- Supplier Code of Conduct
- CEO's instructions

UK Corporate Governance Code

In keeping with Kcell's GDR listing on the London Stock Exchange, we aim to move towards compliance on a voluntary basis with the UK Corporate Governance Code. Progress towards this is ongoing.

Board of Directors

Kcell's Charter sets out the duties of the Board and the CEO. Under the Charter, the Board is responsible for the general management of Kcell's activities. Besides formulating strategies and approving plans for the Company's development, the Board is responsible for taking decisions on establishing Kcell branches and representative offices; on the Company acquiring or disposing of 10% or more of third-party shares; on concluding major transactions and transactions with related parties; on approving annual budgets; and on deciding other issues that belong to the exclusive competence of the Board of Directors according to the Company's Charter and the Joint-Stock Companies Act of the Republic of Kazakhstan.

The CEO and executive management of Kcell are a highly professional team of experts with experience spanning telecommunications, finance, marketing and information technology. The Company's Charter details the CEO's responsibilities in managing daily operations. These include all matters not within the exclusive jurisdiction of the Board of Directors or the Annual General Meeting of Shareholders. In addition, the CEO is responsible for executing decisions taken by the AGM and the Board of Directors.

Membership of the Board of Directors

Members of the Board of Directors are elected at the General Meeting, where their terms of office are also decided. The current members of the Board of Directors have been elected for the term until the next General Meeting, the agenda of which will include the issue of re-election of the Board of Directors.

The Board is chaired by Jan Rudberg*. The CEO, Arti Ots, is not a member of the Board. The other members of the Board are:

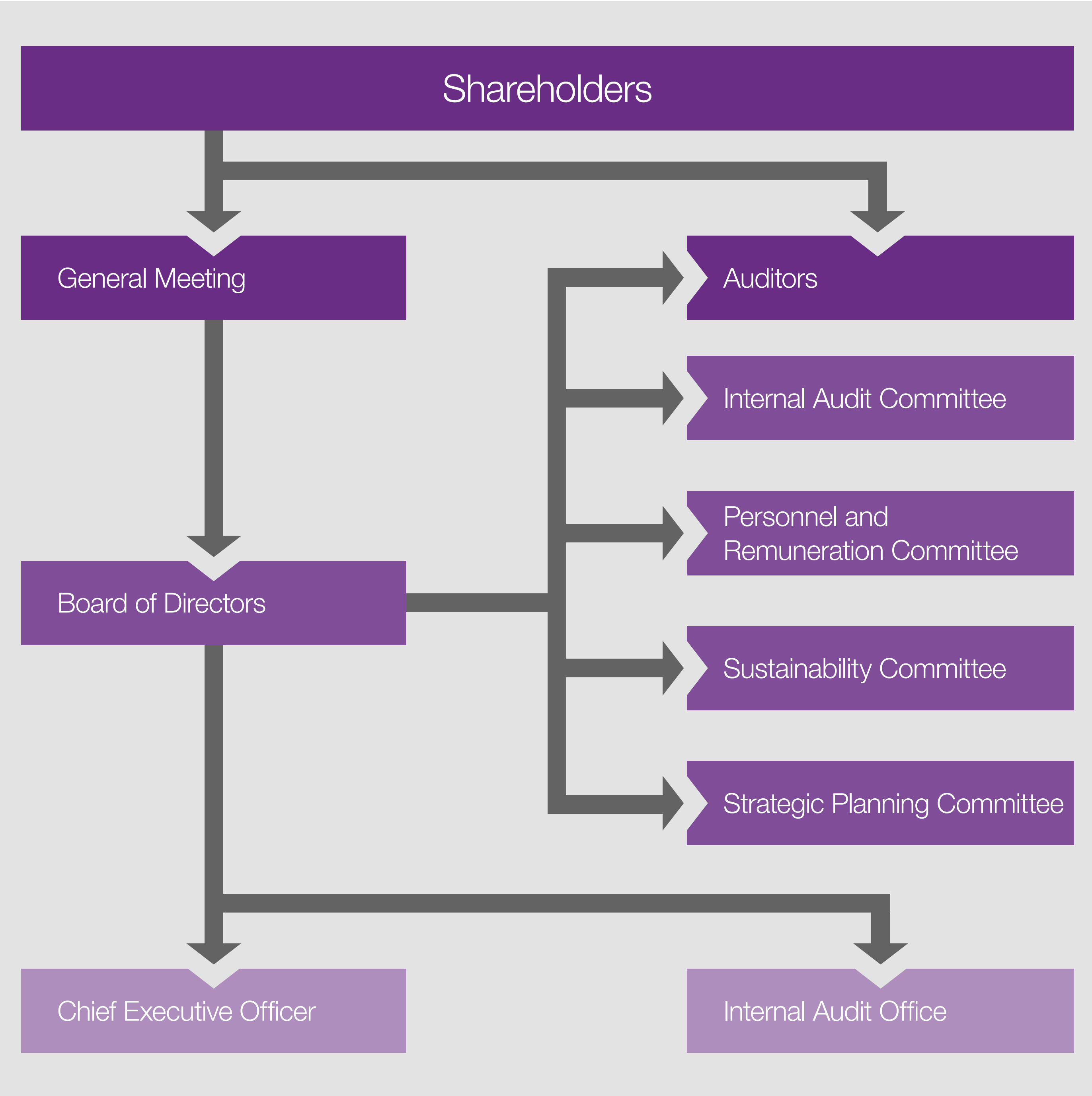
Kenneth Karlberg
William H R Aylward*
Erik Hallberg
Vladimir Smirnov*
Ingrid Stenmark

* The Company Charter and the law require that at least thirty percent (30%) of the members of the Board be independent directors. UK legal advice has confirmed that Mr Rudberg, Mr Aylward and Mr Smirnov are independent in accordance with the UK Corporate Governance Code (section B.1.1).

The Directors' biographies are on pages 36-37.

In 2014, no members of the Board of Directors held shares in Kcell.

Corporate structure



Committees of the Board of Directors

In line with the legislation on joint stock companies in Kazakhstan, Kcell has established the following Committees to consider important issues and prepare recommendations for the Board of Directors: Strategic Planning Committee, Personnel Remuneration Committee, Internal Audit Committee and Sustainability Committee (previously the "Social Matters Committee", it was renamed in 2014 as part of the Company's increasing focus on sustainability).

The Board may create other committees at its discretion. The chairperson of each committee is an independent director. The law also requires that committees be drawn from members of the Board of Directors who have the necessary expertise to serve on the given committee. All committees are advisory bodies of the Board of Directors.

Committee name	Role	Chairman and members
Strategic Planning Committee	Makes recommendations to the Board of Directors on the Company's strategic development. One meeting is held each year.	William H R Aylward (Chairman) Jan Rudberg Vladimir Smirnov Kenneth Karlberg Erik Hallberg Ingrid Stenmark
Personnel and Remuneration Committee	Makes recommendations to the Company's Board of Directors on qualification requirements for employees, appointment and dismissal of certain employees, bonuses and salary for management bodies, and internal documents evaluating staff fitness, training and motivation of employees. Two meetings are held each year.	William H R Aylward (Chairman) Erik Hallberg Ingrid Stenmark
Internal Audit Committee	Makes recommendations to the Company's Board of Directors on financial statements, internal controls and risk management, and internal and external audits. Four meetings are held each year.	Jan Rudberg (Chairman) Kenneth Karlberg Ingrid Stenmark
Sustainability Committee	Makes recommendations to the Company's Board of Directors on internal documentation regarding social responsibility, Company participation in social projects, and resolution of internal team conflicts. Two meetings are held each year.	Vladimir Smirnov (Chairman) Ingrid Stenmark Jan Rudberg

Board activities

Kcell uses specialist software that is designed to improve Board communications and effectiveness. This provides end-to-end security for our governance and workflow management. The Board of Directors held a total of 35 meetings during 2014: 12 were conducted in person, including via conference calls, and the rest through voting in absentia.

The Board's activities during 2014 included:

– Updates on business, commercial, operational and legal matters, and approvals arising from these
– The 2014 annual operating plan and budget
– Approvals of major contracts, agreements and purchases
– Approval of the appointment and terms of employment of the CEO, Finance Director and members of the senior management
– Approval of the 2013 annual financial report and quarterly financial reports
– Convocation of the 2014 AGM, including dividend proposals
– Interested-party transaction approval
– Election of Board Committee members
– Approval of audit fees
– Approval of revisions to policies, including Financial Management, Anti-Corruption and Occupational Health and Safety
– Approval of changes to the terms and conditions of loan agreements

The Board's agenda for 2015 is as follows:
There are four Board meetings scheduled for 2015. As well as regular items covering financial results, risks reviews and reports from the CEO and Board Committees, the Board's schedule includes a review of the Company's policies; business development projects; public affairs; year-end matters, including the external audit report, annual report and AGM; strategy; sustainability approach; and the annual operating plan. In addition, ad hoc meetings or conference calls will be held as and when required for approvals when there is no scheduled meeting planned.

Accountability

The Board of Directors is responsible for preparing the annual report and accounts. They consider that the 2014 annual report and accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy. A description of the basis on which Kcell generates value over the longer term, its business model, and the strategy for delivering the objectives of the company are explained in the Strategic Report on pages 12-23.

The Board has assessed the Company's prospects over the next year, being the period over which the key risks facing the Company can be accurately assessed and mitigated. Based on this assessment, the Board has a reasonable expectation that the Company will be able to continue to operate and meet its liabilities as they fall due over the period of their assessment.

The Board has carried out a robust assessment of the principal risks facing the Company, including those that would threaten Kcell's business model, future performance, solvency or liquidity. These risks and an explanation of how they are being managed or mitigated are described in the Risk Management section on pages 46-47. The Company's risk management and internal control systems are monitored by the Board, and their effectiveness has been reviewed during the year. This review has covered all material controls, including financial, operational and compliance controls, details of which are contained in the Principal Risks and Uncertainties section.

Internal Audit Committee

The Internal Audit Committee met four times during 2014. It considered significant issues in relation to financial statements; initiated a series of internal investigations based on whistle-blowing allegations and the findings of an internal audit (see page 29); and requested a review of existing procurement policies to ensure transparency and financial control.

An Internal Audit department was established in 2013, and the Committee monitors and reviews the effectiveness of its activities.

The Committee also has primary responsibility for making recommendations on the appointment, reappointment and removal of the external auditor to the General Meeting of Shareholders. The Committee carried out a review of the Company's auditor during the year and it was decided to replace PricewaterhouseCoopers. Deloitte was subsequently appointed as the Company's auditor at the 2014 Annual General Meeting of Shareholders. To protect its independence, Deloitte is not engaged for any non-audit services for Kcell.

Remuneration of the Board of Directors

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

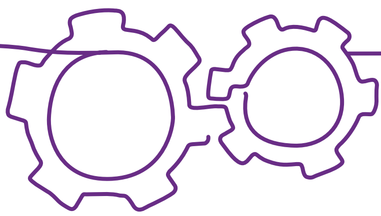
The General Meeting of Shareholders held in 2012 approved the following pre-tax annual remuneration for those independent directors and directors who are not employed at TeliaSonera: fixed annual remuneration of US$75,000; auxiliary annual remuneration for chairing the Board of Directors of US$25,000; US$15,000 for participating in the Internal Audit Committee; and US$6,000 for participating in any other Board committee. These payments remained unchanged in 2013 and 2014.

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

The total remuneration paid to the Board of Directors in 2014 was US$449,270 (before tax).

Relations with shareholders

The Board is in regular dialogue with Kcell's major shareholders. All shareholders also have the opportunity to raise questions and discuss matters with directors at the Company's general meetings of shareholders. In 2015, after the reporting period, the Board approved a relationship agreement with TeliaSonera.



Risk Management

Like any business, while conducting its activities, Kcell encounters various potential and actual risks. To identify and mitigate these to the greatest extent possible, the Company has established a robust integrated risk-management system, designed to deal with any threats to operations in a planned and coordinated manner. Kcell is committed to continuously improving its risk-management methods and processes to ensure that its business functions without disruption for the benefit of customers, employees and shareholders alike.

Responsibility

In 2013, Kcell adopted a risk-management policy based on the principles contained in TeliaSonera's group policy. Overall responsibility for the Company's risk profile lies with the Board of Directors, which is supported in this area by the Internal Audit Committee. At the same time, Kcell's aim is to foster a culture of risk awareness, management and accountability throughout the Company, the ultimate objective being to identify risks rapidly and ensure that all employees take responsibility in their work.

Risk management is fully integrated into the business planning and control processes, with established procedures, clear lines of reporting and regular reviews.

On an operational level, within each business area, departmental heads and dedicated risk coordinators are responsible for:

– Identifying, assessing, managing and mitigating risks.
– Making relevant and reasonable efforts to safeguard business continuity.
– Reporting risks in a timely and clear manner.
– Recruiting staff to oversee effective risk evaluation, mitigation and reporting processes.
– Maintaining and promoting overall risk awareness in their area of responsibility.
– Ensuring that the department's risk management activities are adequately documented.

Framework

Kcell's risk management framework has been developed in line with the Committee of Sponsoring Organisations of the Treadway Commission's Enterprise Risk Management framework.

Kcell's risk management process identifies and evaluates potential threats to the business and implements plans to ensure its continuity. It enshrines risk management as part of daily operations: all business units are tasked with continuously identifying, assessing and monitoring risks across all activities.

Process

The main principles of the risk management process are:

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

Risk identification

Kcell uses risk identification to categorise its exposure to uncertainty. This requires an intimate knowledge of the Company, the market in which it operates, and the legal, social, political and cultural environment in which it exists. It also involves a sound understanding of its strategic and operational objectives, including factors critical to its success and related threats and opportunities.

Through the risk-management framework, Kcell has identified several principal risks and uncertainties that are key to its day-to-day operations: strategic, operational, financial, legal, and natural disaster/catastrophe.

Strategic risk

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

Strategic risks include increased price competition caused by the activities of other mobile operators or changes in legislation, such the planned introduction of mobile number portability in Kazakhstan, which could affect the churn rate of subscribers. Kcell seeks to mitigate these risks by, for example, protecting its leadership in ‘strong’ regions and increasing market share in regions by launching competitive tariffs and products.

Operational risk

Operational risks are defined as the potential for losses due to defects or errors in internal processes, the supply chain, recruitment, culture, regulations, the Board’s composition, and information systems and technologies. Most of them have a low-risk rating, and mitigating actions are already in place as part of the daily risk-management procedures.

Cyber-security risk

Risks related to cyber security could affect our ability to achieve our objectives by, among other things, causing severe disruption to business processes or the operational supply chain, impacting our reputation, or compromising sensitive customer data and intellectual property.
To mitigate this risk, Kcell has implemented a cyber security management system based on the ISO/IEC 27001 international standard.

Financial risk

Kcell’s activities involve various financial risks. The Company’s risk-management framework seeks to minimise potential adverse effects on performance from fluctuations on financial markets and other macro and microeconomic factors. Kcell does not use derivative financial instruments to hedge risk exposure.

Alongside its principles for overall risk management, Kcell has written policies covering specific areas of financial risk: credit, foreign-exchange and interest-rate risk.

Credit risk

Kcell has introduced policies to ensure that sales of products and services are made to customers and distributors with an appropriate credit history. If corporate customers have independent ratings, they are used. If not, risk control assesses a customer’s credit quality based on its financial position, past experience and other factors. The Company’s management reviews ageing analysis of outstanding trade receivables and follows up on overdue balances. Customers that fail to settle their liabilities for mobile services provided are disconnected until the debt is paid. Kcell has no significant concentration of credit risk, as its customer portfolio is highly diversified, with a large number of both individuals and companies. While the collection of receivables could be influenced by economic factors, the management sees no significant risk of loss.

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

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

Foreign-exchange risk

The majority of Kcell’s purchases of property, plant and equipment and inventories, as well as certain services such as roaming, are denominated in US dollars. Overall, most of the Company’s foreign-exchange risk relates to the movement of the tenge against the US dollar, although profit is less sensitive to this. Due to the undeveloped market for financial instruments in Kazakhstan, the Company does not hedge its foreign-exchange risk.

Interest-rate risk

Kcell’s income and operating cash flow are largely independent of changes in market interest rates. As of 31 December 2014, the Company had no assets or liabilities with floating interest rates.

Legal risk

Legal risks are defined as the potential for uncertainty due to legal action or uncertainty in the applicability or interpretation of contracts, laws or regulations. Kcell’s Legal department checks queries and orders for compliance with legislation, monitors amendments to legislation, and participates, whenever possible, in draft law debates.

Natural disaster/catastrophe risk

Natural disasters or catastrophes are defined as natural phenomena or processes that provoke catastrophic situations characterised by a sudden reduction in the population, the destruction of infrastructure and property and/or death. Kcell has implemented measures for dealing with disasters such as fires, accidents and incidents arising from human neglect. These include fire drills, fire alarm systems, regular vehicle servicing, preventive measures against seasonal illnesses, medical insurance, annual medical examinations, diesel generators for use during power failures, deliveries of reserve water supplies to employees, and preventive work.

Risk management is fully integrated into the business planning and control processes, with established procedures, clear lines of reporting and regular reviews.

Statement of Management's Responsibilities

For the preparation and approval of the Consolidated Financial Statements for the year ended 31 December 2014

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Kcell JSC ("the Company") and its subsidiaries (together referred to as "the Group") as at 31 December 2014, the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance and;
- making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with the legislation of Kazakhstan and IFRS;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The financial statements for the year ended 31 December 2014 were authorised for issue on 23 February 2015 by the management of the Company.

Approved for issue and signed on behalf of the Management.

Independent Auditor's Report

To: Shareholders and Board of Directors of Kcell JSC

We have audited the accompanying consolidated financial statements of Kcell JSC and its subsidiaries (collectively – "the Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

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 2014, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Other matters

The consolidated financial statements of Kcell JSC and its subsidiaries for the year ended 31 December 2013 were audited by another auditor who expressed an unmodified opinion on those statements on 17 April 2014.

Mark Smith
Engagement Partner
Chartered Accountant
Institute of Chartered Accountant of Scotland
License No. M21857
Glasgow, Scotland

Roman Sattarov
Auditor-performer
Qualification certificate
No. MF-0000149
dated 31 May 2013

Deloitte, LLP Audit license of the Republic of Kazakhstan
#0000015, type MFU-2, issued by the Ministry of Finance
of the Republic of Kazakhstan dated 13 September 2006

Nurlan Bekenov
General Director
Deloitte, LLP

23 February 2015
Almaty, the Republic of Kazakhstan

Consolidated Statement of Financial Position

(in thousand of Kazakhstani Tenge, unless otherwise stated)

	Note	31 December 2014	31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	8	**108,404,630**	112,368,845
Intangible assets	9	**12,493,561**	13,954,545
Other non-current assets	10	**695,739**	3,130,944
Total non-current assets		**121,593,930**	129,454,334
Current assets			
Inventories		**2,336,064**	499,180
Trade and other receivables	11	**13,241,334**	9,268,357
Prepaid current income tax		**1,027,055**	834,480
Due from related parties	7	**274,256**	306,862
Cash and cash equivalents		**19,520,357**	18,916,258
Total current assets		**36,399,066**	29,825,137
TOTAL ASSETS		**157,992,996**	159,279,471
EQUITY			
Share capital	12	**33,800,000**	33,800,000
Retained earnings		**58,273,778**	63,392,942
TOTAL EQUITY		**92,073,778**	97,192,942
LIABILITIES			
Non-current liabilities			
Deferred income tax liability	18	**4,442,050**	5,231,448
Other non-current liabilities		**1,376,244**	1,426,245
Total non-current liabilities		**5,818,294**	6,657,693
Current liabilities			
Borrowings	14	**25,020,026**	24,721,178
Trade and other payables	13	**25,119,293**	21,490,816
Due to related parties	7	**661,338**	502,045
Deferred revenue	15	**8,809,049**	7,346,686
Taxes payable		**491,218**	1,368,111
Total current liabilities		**60,100,924**	55,428,836
TOTAL LIABILITIES		**65,919,218**	62,086,529
TOTAL LIABILITIES AND EQUITY		**157,992,996**	159,279,471

Approved for issue and signed on behalf of the Management on 23 February 2015.

The accompanying notes on pages 54 to 76 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

(in thousand of Kazakhstani Tenge, unless otherwise stated)

	Note	2014	2013
Revenues	16	**187,580,725**	187,599,216
Cost of sales	17	**(84,220,866)**	(79,468,914)
Gross profit		**103,359,859**	108,130,302
Selling and marketing expenses	17	**(11,548,822)**	(16,614,320)
General and administrative expenses	17	**(10,665,896)**	(10,017,121)
Other operating income		**540,727**	463,992
Other operating expenses	17	**(6,435,517)**	(363,278)
Operating profit		**75,250,351**	81,599,575
Finance income		**454,777**	299,228
Finance costs		**(1,560,374)**	(2,417,920)
Profit before income tax		**74,144,754**	79,480,883
Income tax expense	18	**(15,873,918)**	(16,088,993)
Profit and total comprehensive income for the year		**58,270,836**	63,391,890
Earnings per share (Kazakhstani Tenge), basic and diluted	12	**291.35**	316.96

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

Approved for issue and signed on behalf of the Management on 23 February 2015.

The accompanying notes on pages 54 to 76 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

(in thousand of Kazakhstani Tenge, unless otherwise stated)

	Share capital	Retained earnings	Total equity
Balance at 1 January 2013	**33,800,000**	**32,403,052**	**66,203,052**
Profit and total comprehensive income for the year	–	63,391,890	63,391,890
Dividends declared (Note 12)	–	(32,402,000)	(32,402,000)
Balance at 31 December 2013	**33,800,000**	**63,392,942**	**97,192,942**
Profit and total comprehensive income for the year	–	58,270,836	58,270,836
Dividends declared (Note 12)	–	(63,390,000)	(63,390,000)
Balance at 31 December 2014	**33,800,000**	**58,273,778**	**92,073,778**

Approved for issue and signed on behalf of the Management on 23 February 2015.

The accompanying notes on pages 54 to 76 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

(in thousand of Kazakhstani Tenge, unless otherwise stated)

	Note	2014	2013
Cash flows from operating activities			
Profit for the year		**58,270,836**	63,391,890
Adjustments for:			
Depreciation of property, plant and equipment	8	**21,772,145**	19,549,811
Amortisation of intangible assets	9	**3,417,343**	3,577,512
Income tax	18	**(981,973)**	889,034
Finance income		**(454,777)**	–
Impairment of trade receivables	11	**983,383**	733,770
Finance expense		**1,560,374**	2,417,920
Impairment of property, plant and equipment and intangible assets and other write offs	8,17	**3,683,490**	79,046
Operating cash flows before working capital changes		**88,250,821**	90,638,983
Trade and other receivables		**(4,956,368)**	4,361,840
Due from related parties		**32,606**	(277,316)
Inventories		**(1,836,884)**	478,592
Taxes payable		**(876,893)**	599,745
Trade and other payables		**2,400,038**	2,972,661
Due to related parties		**159,293**	183,858
Deposits received from subscribers		**9,675**	323,608
Deferred revenues		**1,452,688**	1,012,056
Other cash flows		**(19,471)**	(50,363)
Cash generated from operations		**84,615,505**	100,243,743
Interest paid		**(1,511,527)**	(2,187,727)
Interest received		**454,777**	–
Net cash from operating activities		**83,558,755**	98,056,016
Cash flows from investing activities			
Purchase of property, plant and equipment		**(17,983,024)**	(15,795,866)
Purchase of intangible assets		**(1,831,632)**	(1,517,030)
Net cash used in investing activities		**(19,814,656)**	(17,312,896)
Cash flows from financing activities			
Proceeds from bank borrowing	14	**13,200,000**	26,900,000
Repayment of borrowing	14	**(12,950,000)**	(51,400,000)
Dividends paid	12	**(63,390,000)**	(40,402,000)
Net cash used in financing activities		**(63,140,000)**	(64,902,000)
Net increase in cash and cash equivalents		**604,099**	15,841,120
Cash and cash equivalents at beginning of the year		**18,916,258**	3,075,138
Cash and cash equivalents at end of the year		**19,520,357**	18,916,258

Approved for issue and signed on behalf of the Management on 23 February 2015.

The accompanying notes on pages 54 to 76 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

(in thousand of Kazakhstani Tenge, unless otherwise stated)

1 The group and its operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board for the year ended 31 December 2014 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 the participants of GSM Kazakhstan LLP approved a conversion of the Company from Limited Liability Partnership to Joint Stock Company (the "Conversion"), 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 Kazakhstani law, upon the Conversion, retained earnings as of the date of the Conversion became share capital of the Company 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 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. License period remained unchanged so that the right for the radiofrequencies GSM-1800 was to expire in line with the original GSM-900 license. 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.

On 1 July 2011, the Ministry of Communication and Information of Kazakhstan extended the Company's GSM-900 and GSM-1800 general license from the initial 15 years to an unlimited period of time.

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", "Wireless Local Loop") licenses (Note 9). In 2009, KT-Telecom and AR-Telecom commenced their operating activities. Accordingly, the Group started to prepare its consolidated financial statements from 2009. 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 provided the Company with a right to operate a 3G network. In December 2010, the Company launched 3G services in Astana and Almaty. The addendum requires the Group to start providing all locations with population over 10,000 people with mobile services using UMTS/WCDMA standards until 1 January 2015.

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

The Company's registered address is 100, Samal-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 as issued by the International Accounting Standards Board ("IFRS") on the historical cost basis.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into levels based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement:
- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

2 Basis of preparation and significant accounting policies continued

Basis of preparation continued

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 IFRS Interpretations Committee ("IFRIC") interpretations issued and effective, unless otherwise stated (refer to Note 4).

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. The functional currency of the Group entities is also Tenge, the currency of the primary economic environment in which they operate.

(ii) Transactions and balances

Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction established by the 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 2014 the principal rate of exchange used for translating foreign currency balances was US Dollar ("USD") 1 = Tenge 182.35 (31 December 2013: USD 1 = Tenge 153.61). Exchange restrictions and currency controls exist relating to converting Tenge into other currencies. At present, the Tenge is not a freely convertible currency in most countries outside of the Republic of Kazakhstan.

Consolidated financial statements

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:
- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Property, plant and equipment

(i) Recognition and subsequent measurement

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

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

(ii) Depreciation

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

	Useful lives in years
Buildings	20 to 50
Switches and transmission devices	4 to 10
Other	2 to 8

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

Notes to the Consolidated Financial Statements continued

(in thousand of Kazakhstani Tenge, unless otherwise stated)

2 Basis of preparation and significant accounting policies continued

Property, plant and equipment continued

(iii) Impairment

At each reporting date, management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount of the asset to determine the extent, if any, of the impairment loss. The recoverable amount 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 licenses (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 management's assessment of the development of communication technology. The economic useful life of the right for the radiofrequencies (GSM-1800) was estimated by management to expire in line with the GSM-900 license.

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

	Useful lives in years
Computer software and software license rights	5 to 8
Other telecom licences	10
Other	8 to 10

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

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

Operating leases

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

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

Inventories

Inventories primarily include handsets and other good for resale. Inventories are recorded at the lower of cost and net realisable value. The 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 allowance for impairment.

An allowance 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. When a trade receivable is deemed to be uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited to the profit or loss for the year. The primary factors that the Group considers whether a receivable is impaired is its overdue status and collection history.

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

Prepayments

Prepayments are carried at cost less any allowance 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 on 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. 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.

2 Basis of preparation and significant accounting policies continued

Share capital

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

Dividends

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

Value added tax

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

Trade and other payables

Trade and other financial payables are accrued when the counterparty performed its obligations under the contract. The Group recognises trade payables initially 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. In such circumstances, 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.

Revenue recognition

Revenue is recorded on an accruals basis measured at the fair value of the consideration received or receivable, being the sales value, net of discounts granted and VAT.

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 GPRS, 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, and rental of transmission lines to other operators.

The Group may bundle services and products into one customer offering. Offerings may involve the delivery or performance of multiple products, services, or rights to use assets (multiple deliverables). In some cases, the arrangements include initial installation, initiation, or activation services and involve consideration in the form of a fixed fee or a fixed fee coupled with a continuing payment stream. Telecom equipment is accounted for separately from service where a market for each deliverable exist and if title to the equipment passes to the end-customer. Costs associated with the equipment are recognized at the time of revenue recognized. The revenue is allocated to equipment and services in proportion to the fair value of the individual items. Services invoiced based on usage are not included in the allocation. Customized equipment that can be used only in connection with services or products provided by the Group is not accounted for separately and revenue is deferred over the total service arrangement period.

(i) Call out revenue

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

(ii) Interconnect revenues and costs

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

(iii) Data revenue

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

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

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

2 Basis of preparation and significant accounting policies continued

Revenue recognition continued

(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

The Company sells part of payment scratch cards, sim cards, and handsets using dealers. The Company pays a certain commission to 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. Pension contributions are the responsibility of employees, and the Group has no current or future obligations to make payments to employees following their retirement. 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.

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

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

Earnings per share

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.

2 Basis of preparation and significant accounting policies continued

Financial instruments continued

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) in the consolidated statements of financial position.

(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 plus transaction costs. 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. The carrying amount of assets most affected by judgements (switches and transmission devices) amounted to 61,524,236 thousand Tenge (Note 8) as of 31 December 2014 (2013: 68,228,770 thousand Tenge). Management will increase the depreciation charge where useful lives are less than previously assessed estimated lives, or it will write-down technically obsolete assets that have been abandoned.

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.

Provisions and contingencies

For each event management makes separate assessment of probable outcome and its effect on the Company's operations. Provisions are recognized when negative outcome is anticipated to be probable. For those events, with possible negative outcome on the Company's operations related contingency is disclosed.

Notes to the Consolidated Financial Statements continued

(in thousand of Kazakhstani Tenge, unless otherwise stated)

3 Critical accounting estimates, and judgements in applying accounting policies continued

Deferred tax assets and liabilities

As at each reporting date, management determines the amount of deferred income tax by comparing the carrying amounts of assets and liabilities and the corresponding tax bases. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the date of the corresponding consolidated statements of financial position. Management makes certain assumptions in determining future taxable income sufficient for compensation of deferred tax assets reflected in the consolidated statement of financial position.

Going concern

These consolidated financial statements have been prepared in accordance with IFRS on a going concern basis, which assumes the realisation of assets and discharge of liabilities in the normal course of business within the foreseeable future.

At 31 December 2014 and 2013 the Group's net current liabilities are 23,701,858 thousand Tenge and 25,603,699 thousand Tenge, respectively. Management has considered the Company's future plans, and in light of these plans and the current and expected profitability of the Group, positive cash flows from operations, management believes that the Group will continue to operate as a going concern for the foreseeable future.

4 Amendments to IFRS and the new interpretation that are mandatorily effective for the current year

In the current year, the Group has applied a number of amendments to IFRSs and a new Interpretation issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2014.

- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements, Investment Entities
- Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities
- Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting
- IFRIC Interpretation 21 Levies

The adoption of the above mentioned Standards and Interpretations has not led to any changes in the Group's accounting policies. The amendments did not materially affect the consolidated financial statements of the Group.

5 New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

	Effective for accounting periods beginning on or after
IFRS 9 Financial Instruments	1 January 2018, with earlier application permitted
IFRS 15 Revenue from Contracts with Customers	1 January 2017, with earlier application permitted
Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations	1 January 2016, with earlier application permitted
Amendments to IAS 16 Property, plant and equipment and IAS 38 Intangible Assets Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016, with earlier application permitted
IAS 19 Defined Benefit Plans: Employee Contributions	1 July 2014, with earlier application permitted
Amendments to IFRSs Annual Improvements to IFRSs 2010-2012 Cycle	1 July 2014, with limited exceptions; earlier application is permitted
Amendments to IFRSs Annual Improvements to IFRSs 2011-2013 Cycle	1 July 2014, with earlier application permitted

The Group's current accounting and recognition of revenue for bundled offerings and allocation of the consideration between equipment and service is in line with IFRS 15. However, possibly the model currently used must be refined. Management anticipates that the adoption of the standards listed above will not have a material impact on the consolidated financial statements of the Group in the period of initial application.

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.

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 Company's ultimate controlling party is TeliaSonera. Entities of TeliaSonera group include entities under common control and associates of TeliaSonera. Immediate shareholders are disclosed in the Note 12.

The Group's primary transactions with related parties are consulting services, technical assistance and operational support, roaming and interconnect. The Group's transactions with its related parties during the years ended 31 December and related amounts due as of the year-end were as follows:

		2014	2013
Due from related parties	Entities of TeliaSonera group and others	**274,256**	306,862
Due to related parties	Entities of TeliaSonera group and others	**265,033**	104,929
Due to related parties	Immediate and ultimate parent	**396,305**	397,116
Revenue	Entities of TeliaSonera group and others	**1,363,078**	271,944
Expense	Entities of TeliaSonera group and others	**2,578,926**	1,445,231
Expense	Immediate and ultimate parent	**81,440**	190,361

Amounts due from related parties are neither past due nor impaired. They represent 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 amounts due from related parties will be fully repaid in 2015.

Memorandum on Understanding ("MoU")

On 26 August 2012, Sonera Holding B.V. 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).

Neither the Put Option nor the Call Option can be exercised without the authorisation of Fintur. In addition there is uncertainty in the timing of the required changes in 4G/LTE regulation. Accordingly, there is an uncertainty in the 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.

Compensation of key management personnel

Compensation paid to key management personnel for their services in full time executive management positions and to the members of the board of directors consists of a contractual salary, performance bonus depending on financial performance of the Group, and other compensation in the form of reimbursement of apartment rent expenses from the Company. Total compensation included in staff costs in the statement of comprehensive income is equal to 219,639 thousand Tenge for the year ended 31 December 2014 (2013: 340,189 thousand Tenge). Compensation scheme does include share-based payments, post-employment or other long-term benefits.

Notes to the Consolidated Financial Statements continued

(in thousand of Kazakhstani Tenge, unless otherwise stated)

8 Property, plant and equipment

	Freehold land	Buildings	Switches and transmission devices	Other	Construction in progress	Total
At 1 January 2013						
Cost	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	**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 (net)	–	(5,799)	(53,779)	(19,348)	(120)	(79,046)
Depreciation charge	–	(1,087,441)	(15,709,054)	(2,753,316)	–	(19,549,811)
At 31 December 2013						
Cost	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	**2,074,747**	**22,756,800**	**68,228,770**	**7,274,392**	**12,034,136**	**112,368,845**
Additions	61,493	324,586	1,730,392	29,827	19,345,122	21,491,420
Transfers	–	–	10,241,790	–	(10,241,790)	–
Impairment and other write-off (net)	–	–	(883,306)	(140,770)	(2,659,414)	(3,683,490)
Depreciation charge	–	(1,048,982)	(17,793,410)	(2,929,753)	–	(21,772,145)
At 31 December 2014						
Cost	2,136,240	28,446,380	169,036,929	24,877,599	18,478,054	242,975,202
Accumulated depreciation and impairment losses	–	(6,413,976)	(107,512,693)	(20,643,903)	–	(134,570,572)
Carrying amount	**2,136,240**	**22,032,404**	**61,524,236**	**4,233,696**	**18,478,054**	**108,404,630**

As at 31 December 2014, the gross carrying value of property, plant and equipment, which has been fully depreciated and still in use, was 53,414,730 thousand Tenge (31 December 2013: 44,824,120 thousand Tenge).

In September 2014, based on the results of an independent technical audit, the Company decided that property, plant and equipment with a carrying value of 3,639,319 thousand Tenge should be written-off due to absence of exact plans on their usage. During 2014, the Company wrote-off these items of property, plant and equipment. The related impairment of property, plant and equipment charge was included in other operating expenses (Note 17).

9 Intangible assets

	GSM network licenses and rights	Computer software and software license rights	Other telecom licenses	Other	Total
At 1 January 2013					
Cost	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	**6,334,193**	**7,907,745**	**1,895,241**	**2,575**	**16,139,754**
Additions	–	1,392,237	–	66	1,392,303
Amortisation charge	(1,134,867)	(2,109,507)	(331,778)	(1,360)	(3,577,512)
At 31 December 2013					
Cost	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	**5,199,326**	**7,190,475**	**1,563,463**	**1,281**	**13,954,545**
Additions	–	1,956,359	–	–	1,956,359
Amortisation charge	(333,333)	(2,913,657)	(170,353)	–	(3,417,343)
At 31 December 2014					
Cost	14,564,579	20,660,108	3,317,778	4,064	38,546,529
Accumulated amortisation	(9,698,586)	(14,426,931)	(1,924,668)	(2,783)	(26,052,968)
Carrying amount	**4,865,993**	**6,233,177**	**1,393,110**	**1,281**	**12,493,561**

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 the 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 the “GSM network licenses and rights” category. On 1 July 2011, the Ministry of Communication and Information of Kazakhstan extended the Company’s GSM-900 and GSM-1800 general license from the initial 15 years to an unlimited period of time.

The Group acquired two dormant local entities AR-Telecom in 2007 and 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 in 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 the category “other telecom licenses” within intangible assets. Management estimates their economic useful life to be 10 years.

On 25 December 2010, the Group received a right to operate a 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 an addendum to the existing GSM license. The acquisition cost was 5 billion Tenge.

As at 31 December 2014, the carrying amount of the 3G licence was 3,666,667 thousand tenge and its remaining amortisation period was 11 years. As at 31 December 2014 GSM-900 and 1800 license was fully amortized, therefore, its carrying value was nil.

Notes to the Consolidated Financial Statements continued

(in thousand of Kazakhstani Tenge, unless otherwise stated)

10 Other non-current assets

	31 December 2014	31 December 2013
Restricted cash	145,047	125,574
Total financial assets	**145,047**	125,574
Prepayments for property, plant and equipment	550,692	2,880,643
Prepayments for intangibles	–	124,727
Total other non-current assets	**695,739**	3,130,944

11 Trade and other receivables

	31 December 2014	31 December 2013
Trade and other receivables from dealers and distributors	2,802,912	3,380,474
Trade receivables from subscribers	3,567,136	2,641,742
Trade receivables for interconnect services	1,784,636	1,229,785
Trade receivables from roaming operators	1,711,249	363,855
Less: allowance for impairment of trade receivables	(2,041,663)	(1,710,085)
Total financial assets	**7,824,270**	5,905,771
Advances to suppliers	2,336,806	2,501,779
VAT recoverable	1,821,468	–
Prepaid other taxes	593,241	540,769
Deferred expenses	384,374	188,701
Other receivables	281,175	131,337
Total trade and other receivables	**13,241,334**	9,268,357

Trade and other receivables are denominated in currencies as follows:

	31 December 2014	31 December 2013
Tenge	6,113,021	5,541,916
US dollar	1,711,249	363,855
Total financial assets	**7,824,270**	5,905,771

11 Trade and other receivables continued

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

	31 December 2014	31 December 2013
Total neither past due nor impaired	**4,630,058**	5,084,255
Past due but not impaired		
due for 1 month	**71,791**	154,689
due for 2 months	**186,547**	77,284
due for 3 months	**291,952**	63,188
due for 4 to 6 months	**1,230,939**	102,166
due for more than 6 months	**1,412,983**	424,189
Total past due but not impaired	**3,194,212**	821,516
Impaired		
30 to 60 days	**5,768**	4,064
60 to 90 days	**10,597**	7,021
90 to 120 days	**10,442**	7,570
120 to 150 days	**14,887**	10,459
150 to 200 days	**807,645**	760,122
over 200 days	**1,192,324**	920,849
Total impaired	**2,041,663**	1,710,085
Allowance for impairment of trade receivables	**(2,041,663)**	(1,710,085)
Total financial assets	**7,824,270**	5,905,771

The main factors which the Group takes into account when considering whether receivables are impaired are their past due status and historical experience of collectability. Impairment of receivables was assessed based on the past due status of such receivables.

There are no customers who represent more than 10 percent of the total balance of receivables. The concentration of credit risk is limited due to the customer base being large and unrelated.

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 4,630,058 thousand Tenge will be fully repaid in 2015.

A reconciliation of movements in the financial assets impairment allowance is as follows:

	2014	2013
At 1 January	**1,710,085**	976,315
Charge for the year	**983,383**	733,770
Receivables written off during the year as uncollectible	**(651,805)**	–
At 31 December	**2,041,663**	1,710,085

The Group considers that the carrying amount of receivables is approximately equal to their fair value.

Notes to the Consolidated Financial Statements continued

(in thousand of Kazakhstani Tenge, unless otherwise stated)

12 Share capital and earnings per share

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

	31 December 2014		31 December 2013	
	Share	**Number of shares**	Share	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	**23.31 percent**	**46,625,306**	23.35 percent	46,709,056
JSC Grantum Accumulative Pension Fund	**1.14 percent**	**2,270,950**	0.95 percent	1,900,000
Other	**0.55 percent**	**1,103,744**	0.70 percent	1,390,944

On 13 December 2012, the Company successfully completed its offering of Global Depositary Receipts on the London Stock Exchange and common shares on the Kazakhstan Stock Exchange. The offering consisted of a sale by Sonera Holding B.V. of 50 million shares, including shares representing 25 percent of the Company's share capital. The total authorized number of ordinary shares is 200,000,000 shares with a par value of 169 Tenge per share, all of which are issued and fully paid.

The calculation of basis and diluted earnings per share is based on the following data:

	2014	2013
Profit for the period attributable to equity shareholders	**58,270,836**	63,391,890
Weighted average number of common shares	**200,000,000**	200,000,000
Earnings per share (Kazakhstani Tenge), basic and diluted	**291.35**	316.96

The Group has no dilutive or potentially dilutive securities outstanding.

According to the requirements of the Kazakhstan Stock Exchange (KASE), the Group calculated book value per share, which was calculated based on the number of common shares outstanding as at the reporting date. The book value per share as at 31 December is presented below.

	31 December 2014	31 December 2013
Net assets, excluding intangible assets	**79,580,217**	83,238,397
Number of common shares in issue	**200,000,000**	200,000,000
Book value per share (Kazakhstani Tenge)	**397.90**	416.19

Dividends declared and paid during the years ended 31 December were as follows:

	2014	2013
Dividends payable at 1 January	**–**	8,000,000
Dividends declared during the year	**63,390,000**	32,402,000
Dividends paid during the year	**(63,390,000)**	(40,402,000)
Dividends payable at 31 December	**–**	–

13 Trade and other payables

	31 December 2014	31 December 2013
Trade payables	**20,534,843**	18,636,939
Total financial liabilities	**20,534,843**	18,636,939
Accrued salaries and bonuses to employees	**2,873,488**	2,634,219
Other payables	**1,710,962**	219,658
Total trade and other payables	**25,119,293**	21,490,816

Trade and other payables are denominated in currencies as follows:

	31 December 2014	31 December 2013
Tenge	**12,857,312**	17,141,552
US dollar	**7,629,844**	1,487,285
Euro	**39,437**	2,942
Other	**8,250**	5,160
Total financial liabilities	**20,534,843**	18,636,939

14 Borrowings

	31 December 2014	31 December 2013
ATF Bank JSC	**–**	3,953,783
Altyn Bank JSC (previously – SB HSBC Kazakhstan JSC)	**2,203,424**	6,007,583
Syndicated loans from Citibank Kazakhstan JSC and SB RBS Kazakhstan JSC	**14,810,602**	14,759,812
Halyk Bank of Kazakhstan JSC	**8,006,000**	–
Total borrowings	**25,020,026**	24,721,178

The Group's borrowings 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 the Group's borrowings approximate their fair value.

Bank name	Date of issue	Maturity date	Effective interest rate	Outstanding balance	Total borrowings
Syndicated loan from Citibank Kazakhstan JSC and SB RBS Kazakhstan JSC	26.09.2014	28.09.2015	8.70%	14,810,602	14,810,602
Altyn Bank JSC	25.09.2014	25.09.2015	8.50%	2,203,424	2,203,424
Halyk Bank of Kazakhstan JSC	29.12.2014	24.09.2015	11.68%	8,006,000	8,006,000
Total				**25,020,026**	**25,020,026**

On 29 December 2014, the Company received 8 billion Tenge under the 30 billion Tenge credit line agreement with Halyk Bank of Kazakhstan JSC with maturity on 24 September 2015, nominal interest rate of 9 percent per annum payable monthly and principal payable at maturity.

On 25 September 2014, the Company fully repaid a 6 billion Tenge loan under the 6 billion Tenge credit line with Altyn Bank JSC with a fixed nominal interest rate of 6.5 percent per annum. On the same day the Company signed an additional agreement to the Credit line agreement with Altyn Bank JSC for 2.2 billion Tenge with 8.5 percent per annum interest rate payable monthly and principal payable at maturity, and a 12 month term.

On 26 September 2014, the Company signed an amendment letter to Loan Facility Agreement with Citibank Kazakhstan JSC and SB RBS Kazakhstan JSC for prolongation of the loan in the amount of 14.8 billion Tenge with a nominal interest rate of 7.95 percent per annum and a maturity of twelve months.

No assets were pledged under borrowing agreements.

Notes to the Consolidated Financial Statements continued

(in thousand of Kazakhstani Tenge, unless otherwise stated)

15 Deferred revenue

	31 December 2014	31 December 2013
Deferred revenue from paid-in-advance subscribers	5,604,203	4,151,515
Deferred revenue from pre-paid subscribers	3,204,846	3,195,171
Total deferred revenue	8,809,049	7,346,686

16 Revenues

	2014	2013
Voice service	132,696,904	143,731,059
Data service	33,130,500	26,231,953
Value added services	16,567,257	17,426,252
Other revenues	5,186,064	209,952
Total revenues	187,580,725	187,599,216

17 Expenses by nature

Operating expenses are presented on the face of the statement of comprehensive income using a classification based on the functions “Cost of sales”, “Selling and marketing expenses” and “General and administrative expenses”. Total expenses by function were distributed by nature as follows.

	2014	2013
Interconnect fees and expenses	26,691,450	28,590,150
Depreciation of property, plant and equipment and amortization of intangible assets	25,189,488	23,127,323
Network maintenance expenses	13,827,257	13,300,557
Transmission rent	8,111,584	8,592,273
Frequency usage charges and taxes other than on income	6,506,997	6,358,532
Cost of SIM card, scratch card, start package sales and handsets	5,350,184	1,728,035
Sales commissions to dealers and advertising expenses	6,034,536	11,699,940
Staff costs	9,385,557	7,581,784
Others	5,338,531	5,121,761
Total expenses	106,435,584	106,100,355

Amortisation and depreciation by function were as follows.

	2014	2013
Cost of sales	22,590,960	20,628,905
General and administrative expenses	2,598,528	2,498,418
Total depreciation of property, plant and equipment and amortisation of intangible assets	25,189,488	23,127,323

Other operating expense for the year ended 31 December comprised the following:

	2014	2013
Property, plant and equipment write-off (Note 8)	3,639,319	–
Provision for legal cases (Note 19)	1,600,000	–
Other	1,196,198	363,278
Total other operating expenses	6,435,517	363,278

18 Taxes

Income tax expense comprises the following:

	2014	2013
Current income tax	**16,663,316**	15,961,763
Deferred income tax	**(789,398)**	127,230
Total income tax expense	**15,873,918**	16,088,993

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense reported in the consolidated financial statements was as follows:

	2014	2013
Profit before income tax	**74,144,754**	79,480,883
Theoretical tax charge at the statutory rate of 20 percent	**14,828,951**	15,896,178
Non-deductible expenses	**1,044,967**	192,815
Income tax expense	**15,873,918**	16,088,993

The Group paid income tax in amount of 17,645,289 thousand Tenge for the year ended 31 December 2014 (2013: 15,072,728 thousand Tenge).

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

	31 December 2013	Charged/ (credited) to profit or loss	31 December 2014
Tax effects of deductible temporary differences			
Deferred revenue	880,000	260,039	1,140,039
Other	277,077	776,407	1,053,484
Gross deferred tax asset	**1,157,077**	**1,036,446**	**2,193,523**
Tax effect of taxable temporary differences			
Property, plant and equipment	6,447,752	289,340	6,737,092
Intangible assets	(59,227)	(42,292)	(101,519)
Gross deferred tax liability	**6,388,525**	**247,048**	**6,635,573**
Less offsetting with deferred tax assets	(1,157,077)	(1,036,446)	(2,193,523)
Recognised deferred tax liability, net	**5,231,448**	**(789,398)**	**4,442,050**

Comparative movements for year ended 31 December 2013 is detailed below:

	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)	277,077
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**

Notes to the Consolidated Financial Statements continued

(in thousand of Kazakhstani Tenge, unless otherwise stated)

19 Contingencies, commitments and operating risks

Political and economic conditions in Kazakhstan

Emerging markets such as Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Kazakhstan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Kazakhstan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

On 11 February 2014, the National Bank of the Republic of Kazakhstan took the decision to temporarily reduce its intervention in setting the Tenge exchange rate. As a result, the official exchange rate of Tenge to U.S. dollar fell to KZT 184.55 per U.S. dollar as at 12 February 2014, i.e. by approximately 19%. To prevent the destabilisation of the financial market and economy as a whole, the National Bank set an exchange corridor for the Tenge against the U.S. dollar at 170-188 Tenge per U.S. dollar. As of date of the issue, the Tenge to U.S. dollar official exchange rate is 185.05 Tenge per U.S. dollar.

The Group management believes that it has taken appropriate measures to support the sustainability of the Group business under the current circumstances. However, a decrease in the Tenge exchange rate could negatively affect the results and financial position of the Group in a manner not currently determinable.

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 2014 no provision for potential tax liabilities has been recorded (2013: nil).

Capital expenditure commitments

At 31 December 2014, the Group has contractual capital expenditure commitments in respect of property, plant and equipment totalling 3,048,263 thousand Tenge (2013: 5,808,515 thousand Tenge), related to purchase of telecommunications equipment from Ericsson and other vendors.

Non-cancellable service commitments

The future minimum payments under non-cancellable operating service agreements are as follows:

	31 December 2014	31 December 2013
Not later than 1 year	**5,020,000**	4,840,000
From 1 to 2 years	**480,000**	4,780,000
From 2 to 3 years	**280,000**	480,000
Later than 3 years	**–**	280,000
Total non-cancellable commitments	**5,780,000**	10,380,000

The Group's non-cancellable service agreements are represented by the sixteen-year Telecommunication Services Agreement on use of transparent communication channels and IP VPN network with Kazakhtelecom and the five-year fibre optics use 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 uncertainty in the timing of required 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 dollars 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 dollars 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.

Notes to the Consolidated Financial Statements continued

(in thousand of Kazakhstani Tenge, unless otherwise stated)

19 Contingencies, commitments and operating risks continued

Anti-monopoly legislation

On 18 October 2011, the Agency for Competition Protection of the Republic of Kazakhstan 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.

"The 'Always Available' service"

An administrative court case was initiated by the Agency for Competition Protection of the Republic of Kazakhstan (the "ACP"). After investigations in June and November 2013, the Antimonopoly Inspectorate issued an administrative offence report with a potential fine on the Company of 10 billion tenge. During the court process the Company achieved a reduction in the penalty to 41 million Tenge. The Company paid the amount fully in August 2014. The ACP can still challenge the decision of the court through the prosecutors. Through the civil court, the Company filed an application in November 2013 against ACP's Order to cease to provide the service if no consent of the subscriber has been obtained. However, in March 2014, the court supported ACP's view and in July 2014 the decision came into force. There is a risk that the ACP may ask for a refund to subscribers received from providing this service. This amount is not calculated, but for the period of investigation June 2012-June 2013 the estimated amount is 410 million Tenge. Under current legislation the Company could be deemed to have repeatedly breached the law and could be required to pay a double fine (currently 10% of related service revenue, it may increase to 20%). Similar instances are rarely raised by authorities in practice, so management only considers this risk to be remote. No provision has been recorded as of 31 December 2014.

"The Daytime Unlimited and failure to disconnect calls on Kcell network"

An administrative court case was initiated by the ACP. After investigations in September 2013 and February 2014, the Antimonopoly Inspectorate issued an administrative offence report with a potential fine on the Company of 16 billion Tenge. The key findings are based on incorrect charges for the "Daytime Unlimited" service under the Activ brand and non-interruption of services when a customer's balance reaches zero under the Kcell brand. During the court process the Company was able to reduce the penalty to 325 million Tenge. Payment was made in full in May 2014.

The ACP addressed to the Company an Order, 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 TP "Daytime Unlimited" in case of insufficiency of funds on the account;
2. to ensure interruption of connection (data or voice) when a subscriber balance reaches zero;
3. to ensure a refund to subscribers, received as a result of failure to interrupt the connection when a subscriber's balance reaches zero (the "Order").

Through the civil court the Company filed an application against the ACP's Order. In September 2014, the court supported the ACP's decision. The Company aligned with the first request but could not align due to technical limitations with the rest.

The cassation board of Astana Court decided on 19 December 2014 to dismiss the Company's cassation appeal and to uphold the judicial acts on the case. In this connection, the Company filed a supervisory review appeal on 29 December 2014 in the Supreme Court.

On 29 December 2014, the Company applied to the Committee for Regulation of Natural Monopolies and Protection of Competition of the Ministry of National Economy of the Republic of Kazakhstan (former ACP) with the request for the review of the antimonopoly body's order as it concerns the review of deadlines set forth in paragraphs 2 and 3 of the Order and grant a delay to the Company:

1. as it relates to interruption of connection (radiotelephone calls or Internet access service) when the funds on personal accounts of subscribers come to an end – up to 31 December 2017;
2. as it relates to repayment of money to subscribers, received as a result of non-interruption of connection (radiotelephone calls or Internet access service) when the funds on personal accounts of subscribers come to an end – up to 31 March 2015.
3. Explain the procedure of repayment of money, received as a result of non-interruption of connection (radiotelephone calls or Internet access service) when the funds on personal accounts of subscribers come to an end.

On 28 January 2015, the Company received a letter from competition authority stating that there were no reasons for revision of the Order. The Company has repeatedly applied to the ACP for explanations regarding the refund procedure and disconnection of its subscribers.

ACP may issue an order on return of money received from providing TP Daytime Unlimited, as it did for not discontenting customers' calls.

The Company has taken necessary actions for the case across the whole 'active' subscriber base according to the first point of the Order. However, for paid in advance subscriber base a call interruption issue still exists in the Company's Cboss billing system. In addition, failure to comply with the order may give the antimonopoly authority grounds to apply to the court for split-off or de-merger of the Company from one to several legal entities.

19 Contingencies, commitments and operating risks continued

"The Daytime Unlimited and failure to disconnect calls on Kcell network" continued

It is also important to note that this decision provides grounds to review the amount of penalty imposed in the administrative case, which is now to be increased by 157 million Tenge (i.e. 10% of revenue for the period of investigation on "non-disconnection of calls" from January 2012 to September 2013).

The case will lead to additional expenses, for which the amount is hard to estimate as the ACP order did not specify the details (the period for which revenue from services should be returned). The Company reported income received from subscribers in view of non-interruption during the period challenged by CPA of 1.6 billion Tenge. ACP can choose to take up to 5 years period.

As at 31 December 2014, the Company estimated the amount of refund to subscribers for the period January 2012 – September 2013. In December 2014, the Company accrued a provision in the amount of 1.6 billion Tenge, included in "other payables" (Note 13).

Kazakhtelecom Case

On 2 December 2014, the Company received an order from the ACP on the commencement of the investigation related to the violation of anti-monopoly legislation. Starting from April 2013 the Company blocked the traffic of Kazakhtelecom. Later another operator blocked Kazakhtelecom traffic too. There is risk that the following action may be treated as collusion for both operators. The subject of investigation is not defined and the stated period of audit 2012-2014 can be extended by the regulator. Management has concluded that it cannot reasonably estimate the outcome of this matter.

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:

	Note	**31 December 2014**	31 December 2013
Cash and cash equivalents		**19,520,357**	18,916,258
Trade receivables	11	**7,824,270**	5,905,771
Due from related parties	7	**274,256**	306,862
Restricted cash	10	**145,047**	125,574
Total maximum exposure to credit risk		**27,763,930**	25,254,465

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 allowance 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.

Notes to the Consolidated Financial Statements continued

(in thousand of Kazakhstani Tenge, unless otherwise stated)

20 Financial risk management continued

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 2014, if the US Dollar had weakened/strengthened by 10% percent against the Tenge with all other variables held constant, after-tax profit for year ended 31 December 2014 would have been 247,902 thousand Tenge lower/higher (2013: 26,776 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 2014 than at 31 December 2013 because of the increased amount of US Dollar denominated cash and cash equivalents at 31 December 2014 offsets exposure to US Dollar denominated accounts payable.

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 or liabilities as of 31 December 2014, and as such, management has not presented interest rate sensitivity analysis.

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 2014 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the reporting date.

The maturity analysis of financial liabilities at 31 December 2014 is as follows:

	Demand and less than 3 months	From 3 to 12 months	Total
Liabilities			
Borrowings	521,318	26,062,663	26,583,981
Trade payables	20,534,843	–	20,534,843
Due to related parties	661,338	–	661,338
Total future payments	**21,717,499**	**26,062,663**	**47,780,162**

Comparative maturity analysis of financial liabilities at 31 December 2013 is detailed below:

	Demand and less than 3 month	From 3 to 12 months	Total
Liabilities			
Borrowings	4,379,183	21,577,782	25,956,965
Trade payables	18,636,939	–	18,636,939
Due to related parties	502,045	–	502,045
Total future payments	**23,518,167**	**21,577,782**	**45,095,949**

Management believes that the payments of the borrowings 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 months, subject to consent of the lenders (Note 14).

20 Financial risk management continued

Capital management

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

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2014:

	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 and net amount of exposure (c) = (a) - (b)
ASSETS			
Trade receivables from interconnect services	3,976,008	(2,191,372)	1,784,636
Trade receivables from roaming services	5,071,776	(3,360,527)	1,711,249
Total assets subject to offsetting, master netting and similar arrangement	**9,047,784**	**(5,551,899)**	**3,495,885**
LIABILITIES			
Trade payables for interconnect services	2,191,372	(2,191,372)	–
Trade payables for roaming services	3,360,527	(3,360,527)	–
Total liabilities subject to offsetting, master netting and similar arrangement	**5,551,899**	**(5,551,899)**	**–**

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

	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position and net amount of exposure (c) = (a) - (b)
ASSETS			
Trade receivables from interconnect services	3,766,647	(2,536,862)	1,229,785
Trade receivables from roaming services	1,424,153	(1,060,298)	363,855
Total assets subject to offsetting, master netting and similar arrangement	**5,190,800**	**(3,597,160)**	**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)**	**–**

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.

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.

Notes to the Consolidated Financial Statements continued

(in thousand of Kazakhstani Tenge, unless otherwise stated)

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

The Committee for Communication, Informatization and Information (the “CCII”) prescribed the Company to apply, starting from 1 January 2015, a 8.88 Tenge/min interconnection rate to inbound traffic when receiving phone calls from other operators subscribers, a decrease from our previous rate of 11.1 Tenge/min. The Company sent a draft agreement to other mobile operators on application of the 8.88 Tenge rate starting from 1 January 2015. However, Mobile Telecom Service LLP (Tele2) refused to sign the agreement and instead requested that the rate for inbound traffic (calls from Kcell to their networks) to be increased to 11.1 tenge per minute, starting from 1 January 2015, which would result in asymmetric rates. The Company sent a letter to Tele2 saying that according to a previous agreement the 9.42 Tenge/min rate would be applied from 1 January 2015. In addition, another operator Altel also has not signed an agreement to apply the 8.88 Tenge rate. Furthermore, the Company has approached the CCII and the Committee for Regulation of Natural Monopolies and Competition Protection seeking (i) to prohibit the application of asymmetric rates, (ii) a permission to apply the 8.88 Tenge rate, symmetrically in both directions for inbound traffic when receiving phone calls from other operators subscribers, or (iii) to apply the 11.1 Tenge/min rate.

23 Approval of financial statements

The financial statements were approved by the board of directors and authorised for issue on 23 February 2015.

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