



Kcell KCELL JSC

**Notes to IFRS Consolidated Financial Statements
for the first quarter 2014**

Translated from the original Russian version

Contents

Notes to the Consolidated Financial Statements

1	The Company and its Operations	5
2	Basis of Preparation and Significant Accounting Policies	6
3	Critical Accounting Estimates, and Judgements in Applying Accounting Policies	12
4	Property, Plant and Equipment	13
5	Intangible Assets	14
6	Other Non-Current Assets	15
7	Trade and Other Receivables	15
8	Share Capital	15
9	Trade and Other Payables	16
10	Borrowings	16
11	Deferred Revenue	17
12	Revenues	17
13	Expenses by nature	17
14	Taxes	18
15	Contingencies, Commitments and Operating Risks	19
16	Book value per common share	21

1 The Company and its Operations

These financial statements have been prepared in accordance with International Financial Reporting Standards for the period ended 31 March 2013 for Kcell JSC (the "Company").

The Company is a subsidiary of Fintur Holdings B.V., and was formed to design, construct and operate a cellular telecommunications network in the Republic of Kazakhstan, using the GSM (Global System for Mobile Communications) standard. The Company was established as a limited liability partnership on 1 June 1998 with the short name, GSM Kazakhstan LLP. As disclosed in Note 11 prior to 2 February 2012 the Company was owned 51 percent by Fintur Holdings B.V. ("Fintur" or "Parent" company) and 49 percent by Kazakhtelecom JSC ("Kazakhtelecom"). Owners of Fintur are TeliaSonera Finland Oyj ("TeliaSonera") and Turkcell Iletisim Hizmetleri A.S. ("Turkcell") holding 58.55 percent and 41.45 percent, respectively. On 2 February 2012 the 49% stake in the Company owned by Kazakhtelecom was sold directly to Sonera Holding B.V. ("Sonera"), which is an entity under common control of TeliaSonera. On 1 July 2012 the General Meeting of Participants of GSM Kazakhstan approved a conversion of the Company from Limited Liability Partnership to Joint Stock Company with 200,000,000 common shares to be transferred to Fintur and Sonera (hereinafter "Conversion") proportionally to their ownership percentage (Note 11). The meeting also approved changing the Company's name to Kcell JSC. Pursuant to Kazakh law, upon Conversion, total equity as of the date of Conversion became share capital of the Company and ceases to be available for distribution to shareholders. On 27 August 2012 the Ministry of Justice registered the Company as a Joint Stock Company. The Company's ultimate parent and ultimate controlling party is TeliaSonera.

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

In 2008, the Company 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 Company's operating GSM license. The revised license provides the Company with a right to operate both GSM-900 and GSM-1800 networks. Under revised terms, the Company provided all locations with population over 1,000 people with mobile services using GSM-900 and GSM-1800 standards by 31 December 2012.

On 25 December 2010, the competent authority signed an addendum to the existing GSM license, which provides 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 Company to provide all locations with population over 10,000 people with mobile services using UMTS/WCDMA standards until 1 January 2015.

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

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

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

2 Basis of Preparation and Significant Accounting Policies

Basis of preparation

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

The preparation of 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 accounting policies. Actual results could differ from those estimates.

Foreign currency translation

(i) Functional and presentation currency

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

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

(ii) Transactions in foreign currency and balances

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

Property, plant and equipment

(i) Recognition and subsequent measurement

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

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

2 Basis of Preparation and Significant Accounting Policies (Continued)

(ii) Depreciation

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

	<u>Useful lives in years</u>
Buildings	10 to 25
Switches and transmission devices	4 to 8
Other	4 to 8

The residual value of an asset is the estimated amount that the Company 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 Company expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in the profit or loss for the year when the asset is retired.

(iii) Impairment

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

Intangible assets

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

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

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

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

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

2 Basis of Preparation and Significant Accounting Policies (Continued)

Inventories

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

Trade and other receivables

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

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

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

Prepayments

Prepayments are carried at cost less any provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

Cash and cash equivalents

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

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved.

Value added tax

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

2 Basis of Preparation and Significant Accounting Policies (Continued)

Trade and other payables

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

Provisions for liabilities and charges

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

Asset retirement obligations

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

Revenue recognition

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

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

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

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

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

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

(i) Call out revenue

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

(ii) Interconnect revenues and costs

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

(iii) Data revenue

The data service is recognised when a service is used by a subscriber based on actual data volume traffic.

2 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

(v) Roaming fees charged to other wireless operators

The Company charges roaming per minute fees to other wireless operators for non-Company subscribers utilising the Company's network. The Company 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 Company recognises revenue when the related service has been provided to the subscriber.

Sales commission to dealers and distributors

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

Payroll expenses and related contributions

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

Pension payments

The Company 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 Company withholds pension contributions from employee salaries and transfers them into state or private pension funds on behalf of its employees. Upon retirement of employees, all pension payments are administered by the pension funds directly.

Income taxes

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

Current tax is the amount expected to be paid to or recovered in respect of taxable profits or losses for the current and prior periods. Taxable income or losses are based on estimates where the 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.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Earnings per share

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

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 Company may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate.

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

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

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

(ii) Classification of financial assets

Financial assets of the Company 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 Company's loans and receivables comprise restricted cash, trade receivables, due from related parties and cash and cash equivalents in the statements of financial position.

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

2 Basis of Preparation and Significant Accounting Policies (Continued)

(iii) Classification of financial liabilities

Financial liabilities of the Company include financial liabilities carried at amortised cost. The Company's financial liabilities comprise trade and other financial payables and due to related parties.

(iv) Initial recognition of financial instruments

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

(v) Derecognition of financial assets

The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Company 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 Company 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 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 Company 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. Management will increase the depreciation charge where useful lives are less than previously assessed estimated lives, or it will write-off or write-down technically obsolete assets that have been abandoned or sold.

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

Impairment of non-financial assets

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

In accordance with the Company's accounting policy, for the purposes of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Management has determined the whole telecommunication network of the Company as one cash-generating unit. Telecom licenses and other intangible assets, including WLL licenses, do not generate independent cash flows and are assessed for impairment together with the related network assets.

Management has considered whether there are any indications of impairment of property, plant and equipment and intangible assets as of 31 March 2014 and concluded that no impairment indications existed at this date.

KCELL JSC
Notes to the Financial Statements

4 Property, Plant and Equipment

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

<i>In thousands of Kazakhstani Tenge</i>	Freehold land	Buildings	Switches and transmission devices	Other	Construction in progress	Total
Cost at 31 December 2012	1,993,267	27,291,320	148,284,982	23,658,376	16,092,694	217,320,639
Accumulated depreciation	-	(4,813,598)	(87,204,423)	(14,965,816)	-	(106,983,837)
Carrying amount at 31 December 2012 Audited	1,993,267	22,477,722	61,080,559	8,692,560	16,092,694	110,336,802
Additions	81,480	888,397	5,674,721	1,110,564	13,905,738	21,660,901
Transfers	-	483,921	17,236,323	243,932	(17,964,176)	-
Disposals	-	(5,799)	(53,779)	(19,348)	(120)	(79,046)
Depreciation charge	-	(1,087,441)	(15,709,054)	(2,753,316)	-	(19,549,811)
Cost at 31 December 2013	2,074,747	28,121,794	163,873,471	25,200,837	12,034,136	231,304,985
Accumulated depreciation	-	(5,364,994)	(95,644,701)	(17,926,445)	-	(118,936,140)
Carrying amount at 31 December 2013 Audited	2,074,747	22,756,800	68,228,770	7,274,392	12,034,136	112,368,845
Additions	9,669	31,599	250,892	19,827	1,882,566	2,194,553
Transfers	-	-	3,647,987	178,442	(3,826,429)	-
Disposals	-	-	-	(57,576)	-	(57,576)
Depreciation charge	-	(274,783)	(3,984,780)	(708,944)	-	(4,968,507)
Cost at 31 March 2014	2,084,416	28,153,393	167,772,350	25,498,712	10,090,273	233,599,144
Accumulated depreciation	-	(5,639,777)	(99,629,481)	(18,792,571)	-	(124,061,829)
Carrying amount at 31 March 2014 Unaudited	2,084,416	22,513,617	68,142,869	6,706,140	10,090,273	109,537,315

5 Intangible Assets

<i>In thousands of Kazakhstani Tenge</i>	GSM network license and rights	Computer software and software license rights	Other telecom licenses	Other	Total
Cost at 31 December 2012	14,564,579	17,311,512	3,317,778	3,998	35,197,867
Accumulated depreciation	(8,230,386)	(9,403,767)	(1,422,537)	(1,423)	(19,058,113)
Carrying amount at 31 December 2012 Audited	6,334,193	7,907,745	1,895,241	2,575	16,139,754
Additions	-	1,392,237	-	66	1,392,303
Transfers	-	-	-	-	-
Depreciation charge	(1,134,867)	(2,109,507)	(331,778)	(1,360)	(3,577,512)
Cost at 31 December 2013	14,564,579	18,703,749	3,317,778	4,064	36,590,170
Accumulated depreciation	(9,365,253)	(11,513,274)	(1,754,315)	(2,783)	(22,635,625)
Carrying amount at 31 December 2013 Audited	5,199,326	7,190,475	1,563,463	1,281	13,954,545
Additions	-	-	-	-	-
Disposals	-	(29,273)	-	-	(29,273)
Depreciation charge	(263,333)	(502,705)	(82,945)	(340)	(849,323)
Cost at 31 March 2014	14,564,579	18,728,709	3,317,778	4,064	36,615,130
Accumulated depreciation	(9,628,586)	(12,070,212)	(1,837,260)	(3,123)	(23,539,181)
Carrying amount at 31 March 2014 Unaudited	4,935,993	6,658,496	1,480,518	941	13,075,948

6 Other Non-Current Assets

<i>In thousands of Kazakhstani Tenge</i>	31 March 2014 Unaudited	31 December 2013 Audited
Restricted cash	125,139	125,574
Total financial assets	125,139	125,574
Prepayments for property, plant and equipment	3,063,045	2,880,643
Prepayments for property, plant and equipment	234,006	124,727
Total other non-current assets	3,422,190	3,130,944

7 Trade and Other Receivables

<i>In thousands of Kazakhstani Tenge</i>	31 March 2014 Unaudited	31 December 2013 Audited
Trade and other receivables from dealers and distributors	2,872,919	3,380,474
Trade receivables from subscribers	2,465,745	2,641,742
Trade receivables for interconnect services	2,090,233	1,229,785
Trade receivables from roaming operators	777,702	363,855
Less: provision for impairment of trade receivables	(2,026,631)	(1,710,085)
Total financial assets	6,179,968	5,905,771
Advances to suppliers	3,264,398	2,501,779
Prepaid other taxes	594,393	540,769
Deferred expenses	154,527	188,701
Other receivables	273,765	131,337
Total trade and other receivables	10,467,051	9,268,357

8 Share Capital

Charter / Share capital of the Company at 31 March 2014 and 31 December 2013 is as follows:

	31 March 2014		31 December 2013	
	Shareholders	Shares quantity	Shareholders	Shares quantity
Fintur	51 percent	102,000,000	51 percent	102,000,000
Sonera	24 percent	48,000,000	24 percent	48,000,000
JSC Central Securities Depository	23.35 percent	46,697,056	23.35 percent	46,709,056
JSC Accumulative Pension Fund	1.14 percent	2,270,950	-	-
JSC Grantum Accumulative Pension Fund»	-	-	0.95 percent	1,900,000
Other	0.52 percent	1,031,994	0.70 percent	1,390,944

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

KCELL JSC
Notes to the Financial Statements

<i>In thousands of Kazakhstani Tenge</i>	31 March 2014 Unaudited	31 March 2013 Unaudited
Profit for the period attributable to equity shareholders	15,635,520	13,655,785
Number of common shares	200,000,000	200,000,000
Earnings per share (Kazakhstani Tenge), basic and diluted	78.2	68.3

Dividends declared and paid during the years 2013 and for the first quarter 2014 were as follows:

<i>In thousands of Kazakhstani Tenge</i>		
Dividends payable at 31 December 2012		8,000,000
Dividends declared during the year		32,402,000
Dividends paid during the year		(40,402,000)
Dividends payable at 31 December 2013		-
Dividends declared during the year		-
Dividends paid during the year		-
Dividends payable at 31 March 2014		-

9 Trade and Other Payables

<i>In thousands of Kazakhstani Tenge</i>	31 March 2014 Unaudited	31 December 2013 Audited
Trade payables	21,448,142	18,636,939
Dividends payable	-	-
Total financial liabilities	21,448,142	18,636,939
Accrued salaries and bonuses to employees	3,334,827	2,634,219
Other payables	154,363	219,658
Total trade and other payables	24,937,332	21,490,816

10 Borrowings

<i>In thousands of Kazakhstani Tenge</i>	31 March 2014 Unaudited	31 December 2013 Audited
Bank loans from:	3,003,288	-
- JSC VTB Bank	-	3,953,783
- ATF Bank JSC	6,006,412	6,007,583
- DB JSC HSBC Bank Kazakhstan		
- Syndicated loans from Citibank Kazakhstan JSC and JSC DB RBS (Kazakhstan)	14,516,070	14,759,812
Total borrowings	23,525,770	24,721,178

KCELL JSC
Notes to the Financial Statements

11 Deferred Revenue

	31 March 2014	31 December 2013
<i>In thousands of Kazakhstani Tenge</i>	Unaudited	Audited
Deferred revenue from pre-paid subscribers	2,519,308	4,151,515
Deferred revenue from paid-in-advanced subscribers	2,881,172	3,195,171
Total deferred revenue	5,400,480	7,346,686

12 Revenues

	Jan-Mar 2014	Jan-Mar 2013
<i>In thousands of Kazakhstani Tenge</i>	Unaudited	Unaudited
Voice service	31,366,359	33,289,076
Data service	8,325,516	5,672,411
Value added services	4,274,106	3,923,087
Other revenues	141,210	168,452
Total revenues	44,107,191	43,053,026

13 Expenses by nature

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

	Jan-Mar 2014	Jan-Mar 2013
<i>In thousands of Kazakhstani Tenge</i>	Unaudited	Unaudited
Interconnect fees and expenses	5,716,475	6,293,511
Network maintenance expenses	3,433,604	3,114,498
Transmission rent	2,012,608	2,306,441
Frequency usage charges and taxes other than on income	1,589,545	1,526,652
Cost of SIM card, scratch card, start package sales and handsets	245,348	405,825
Sales commissions to dealers and distributors and advertising expenses	1,720,970	2,647,665
Staff costs	2,133,981	1,964,393
Others	1,143,197	1,131,720
Depreciation of property, plant and equipment and amortization of intangible assets	5,817,830	5,772,667
Total expenses	23,813,558	25,163,372

KCELL JSC
Notes to the Financial Statements

Amortization and depreciation by function were as follows.

<i>In thousands of Kazakhstani Tenge</i>	Jan-Mar 2014 Unaudited	Jan-Mar 2013 Unaudited
Cost of sales	5,355,981	4,842,833
General and administrative expenses	461,850	929,834
Total depreciation of property, plant and equipment and amortization of intangible assets	5,817,830	5,772,667

14 Taxes

Income taxes

Income tax expense comprises the following:

<i>In thousands of Kazakhstani Tenge</i>	31 March 2014 Unaudited	31 March 2013 Unaudited
Current income tax	3,909,869	3,539,549
Deferred income tax	30,122	148,159
Total income tax expense	3,939,990	3,687,708

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

<i>In thousands of Kazakhstani Tenge</i>	31 March 2014 Unaudited	31 March 2013 Unaudited
IFRS profit before income tax	17,343,493	17,343,493
Theoretical tax charge at statutory rate of 20 percent (2013: 20 percent)	3,618,782	3,468,699
Non-deductible expenses	321,208	219,009
Income tax expense	3,939,990	3,687,708

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.

KCELL JSC
Notes to the Financial Statements

<i>In thousands of Kazakhstani Tenge</i>	31 December 2013	Charged/(credited) to profit or loss	31 March 2014 Unaudited
Tax effects of deductible temporary differences			
Deferred revenue	880,000	(345,626)	534,374
Other	277,077	63,214	340,291
Gross deferred tax asset	1,157,077	(282,412)	874,665
Tax effect of taxable temporary differences			
Property, plant and equipment and intangibles	6,388,525	(252,291)	6,136,234
Gross deferred tax liability	6,388,525	(252,291)	6,136,234
Less offsetting with deferred tax assets	(1,157,077)	282,412	(874,665)
Recognised deferred tax liability, net	5,231,448	30,121	2,261,569

15 Contingencies, Commitments and Operating Risks

Political and economic conditions in Kazakhstan

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

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

The financial condition and future operations of the Company 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 financial statements.

Legal proceedings

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

"Always Available" investigation on alleged violation

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

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

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

Economic Court of Astana dismissed the Company's petition. The Company intends to challenge the decision of the Specialized Interdistrict Economic Court of Astana.

"Daytime Unlimited" investigation on alleged violation

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

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

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

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

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

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 Company may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Company may be assessed additional taxes, penalties and interest. Tax periods remain open to retroactive review by the tax authorities for five years.

The Company's management believes that its interpretation of the relevant legislation is appropriate and the Company's tax, currency legislation and customs positions will be sustained. Accordingly, at 31 March 2014 no provision for potential tax liabilities has been recorded (2013: nil).

Capital expenditure commitments

At 31 March 2014, the Company has contractual capital expenditure commitments in respect of property, plant and equipment totalling 2,690,324 thousand Tenge (2013: 5,808,515 thousand Tenge), mostly related to purchase of telecommunications equipment from Ericsson and ZTE Corporation.

16 Book value per common share

The book value per common share is calculated by formula:

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

- BV_{CS} – book value per common share as of the calculation date;
- NAV – net asset value for common shares as of the calculation date;
- NO_{CS} – number of outstanding common shares as of the calculation date.

The net asset value of common shares is calculated by formula:

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

- TA – total assets of shares issuer in the statement of its financial condition as of the calculation date;
- IA – intangible assets in the statement of financial condition of the shares issuer as of the calculation date;
- TL – total liabilities in the statement of financial condition of the shares issuer as of the calculation date;
- PS – account balance of preferred stock in the statement of financial condition of the shares issuer as of the calculation date;

	31 March 2014 Unaudited	31 December 2013 Audited
<i>In thousands of Kazakhstani Tenge</i>		
TA	175,041,303	159,279,471
IA	13,075,948	13,954,545
TL	62,212,841	62,086,529
PS	-	-
NAV	99,752,514	83,238,397

	31 March 2014 Unaudited	31 December 2013 Audited
<i>In thousands of Kazakhstani Tenge, unless otherwise stated</i>		
NAV	99,752,514	83,238,397
NO_{CS} (units)	200,000,000	200,000,000
BV_{CS} (In Kazakhstani Tenge)	498.76	416.19