KCELL JSC

Consolidated Financial Statements for the year ended 31 December 2014 and Independent Auditors' Report

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KCELL JSC

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 refered 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

Aliya Kishkimbayeva
Legal Director

Guzel Khassanova
Manager of Planning, Budgeting and Reporting

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INDEPENDENT AUDITORS' 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 Matter

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 № M21857
Glasgow, Scotland

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

Deloitte, LLP

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

KCELL JSC

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

Aliya Kishkimbayeva	**Guzel Khassanova**
Legal Director	**Manager of Planning, Budgeting and Reporting**

The accompanying notes on pages 8 to 37 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

Aliya Kishkimbayeva
Legal Director

Хасанова

Guzel Khassanova
Managing of Planning, Budgeting and Reporting

The accompanying notes on pages 8 to 37 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

Aliya Kishkimbayeva	**Guzel Khassanova**
Legal Director	**Manager of Planning, Budgeting and Reporting**

The accompanying notes on pages 8 to 37 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

Aliya Kishkimbayeva
Legal Director

Guzel Khassanova
Manager of Planning, Budgeting and Reporting

The accompanying notes on pages 8 to 37 are an integral part of these consolidated financial statements

1 THE GROUP AND ITS OPERATIONS

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards 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.

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.

(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 0, are recorded at cost and are amortised on a straight-line basis over the estimated economic useful life of the license/right. The economic useful life of the original GSM license and 3G license is estimated by management at 15 years. The useful life of the initial license term is in line with 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 0) 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.

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.

(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.

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 contingiencies

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 opeations related contingiency is disclosed.

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.

(in thousand of Kazakhstani Tenge, unless otherwise stated)

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.

(in thousand of Kazakhstani Tenge, unless otherwise stated)

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.

(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).

(in thousand of Kazakhstani Tenge, unless otherwise stated)

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.

(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**

(in thousand of Kazakhstani Tenge, unless otherwise stated)

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.

(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	-	-

(in thousand of Kazakhstani Tenge, unless otherwise stated)

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.

(in thousand of Kazakhstani Tenge, unless otherwise stated)

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.

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**

(in thousand of Kazakhstani Tenge, unless otherwise stated)

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).

(in thousand of Kazakhstani Tenge, unless otherwise stated)

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**

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.

(in thousand of Kazakhstani Tenge, unless otherwise stated)

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.

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.

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.

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.

(in thousand of Kazakhstani Tenge, unless otherwise stated)

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.

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.

(in thousand of Kazakhstani Tenge, unless otherwise stated)

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).

(in thousand of Kazakhstani Tenge, unless otherwise stated)

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	**Gross amounts set off in the statement of financial position**	**Net amount after offsetting in the statement of financial position and net amount of exposure**
	(a)	**(b)**	**(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)**	**-**

(in thousand of Kazakhstani Tenge, unless otherwise stated)

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.

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.