



КИЇВСТАР
15 YEARS OF LOYALTY

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Foreword by Igor Lytovchenko

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ABOUT THIS REPORT

JSC Kyivstar 2012 annual report is an anniversary report. It doesn't only summarize the Company results and performance in 2012, but is also dedicated to the fifteenth anniversary of the Company's operation in the Ukrainian market. As a matter of fact, the processes important for further development of the Company and started in previous years were brought to a close that year: unification of Kyivstar's and Beeline Ukraine's processes and procedures, implementation of unified systems and standards of service of mobile and fixed communication subscribers; implementation of unified corporate governance principles and approaches, etc.

In 2012, Kyivstar's President Igor Lytovchenko, who has been in charge of the Company from the day of its establishment, published a business novel «Lighting up the star», in which his personal life intertwines with fledging and development of Kyivstar, and a highly challenged history of our country in 1990–2000. Vivid quotations from the book are selected here to help the readers of the Report to get an overview of the Company's development over 15 years.

JSC Kyivstar's performance in 2012 may be viewed in [Kyivstar Business in 2012](#) Section, which contains information about the investments, earnings and business performance of Kyivstar, as well as in three sections dealing with [services](#) provided for different market segments (in 2012 the Company implemented a number of innovations that expand the sets and enhance the quality of services): in [Customer Service](#) Section, which represents the facts that evidence the growth of customer confidence in the Company; in [Workplace](#) Section, which describes how Kyivstar cares about professional growth and development of its employees; in [Kyivstar and Community](#) Section, which is a brief report on the Company's charitable activities and achievements in terms of Kyivstar social responsibility.

A considerable part of this Report is given over to analyzing the current state of telecommunications market and its future outlooks.

Traditionally, the last and the biggest Section of the report contains a detailed [financial statement](#) prepared based on the results of audit performed by Ernst & Young international company.



LOOKING TO THE FUTURE FOR THE SAKE OF PRESENT

Today Ukraine occupies one of the first places in the world for availability of mobile communication services for its citizens: the average price per minute is one of the lowest and by the volume of voice traffic used by the «average» subscriber, our country comes short only of USA. In justice to the contributions of other telecom companies in this achievement, my submission is that Kyivstar, which at one time has become an active participant competition in the telecom market and now as its leader is a source of innovations in the industry, it is unknown under which trajectory the industry would develop.

In 2012 Kyivstar celebrated its fifteenth anniversary. This anniversary is a great opportunity to look back at the path that we started in 1997. We came to the telecom market, where there three operators had already been and became the first by the number of subscribers only in three years. Today, Kyivstar is an uncontested leader in mobile communication and very serious player in the segment of fixed broadband Internet.

In fact, we are the ideologists of trends at the national telecommunications market. We are the leaders in investment volumes, the largest taxpayer in the industry, the most efficient company and best employer. Our social innovations, customer service system and technical infrastructure were noted by numerous awards from experts. Being a part of the international telecom group VimpelCom Ltd, we provide our customers with the best conditions for communication in other countries and involve in Ukraine world-class innovative products.

Over fifteen years of work Kyivstar managed to build a telecommunications company that is worthy of a great European country. But time all tide wait for no man

and the world is constantly changing, changing habits and priorities of subscribers with unprecedented rates of growth of consumption of volumes of data traffic in mobile networks. It forces us to focus still more on the needs of our customers.

**WE SHOULD NOT JUST GIVE
PEOPLE WHAT THEY ARE
EXPECTING FROM US AND BE
READY FOR THEIR FUTURE
NEEDS AND TO PREDICT THEM**

Such a task requires significant effort also because the telecommunications market in Ukraine is going through hard times. The market is saturated with voice services, but the entry of 3G/LTE innovative technologies is hindered by bureaucratic barriers. But Kyivstar has ambitions and a great experience. We justified the expectations of customers and when there were several thousand of them as well as when millions came to us. I am sure that Kyivstar will continue to create resources and opportunities for customers, for the market, for the society according to our mission: to make people happier by telecommunications services of the highest quality!

Thinking of You!

*Igor Lytovchenko
Kyivstar President,
Head of Ukrainian business-unit VimpelCom Ltd.*



15-YEAR KYIVSTAR IN LIGHTING UP THE STAR BUSINESS NOVEL

BEGINNING OF HISTORY

«Year 1997 is considered as the year of establishment of Kyivstar, though the Company in the form of Open Joint Stock Company was incorporated earlier — in 1994. But just in 1997, the main membership of shareholders was formed, just then we started building the network, and the first ring resounded also in 1997, on December 9. All this was preceded by lots of work, quarrels, various events, and a mere tiredness»

BUILDING OF MOBILE COMMUNICATION NETWORK

«In 1997, we built and activated the first working fragment of the network. After Kyiv we strived for conquering other regions as soon as possible. In 1999, we already worked in all regions of Ukraine. With smaller number of base stations, our network proved to be of high quality, unlike the competitors' networks. Calculations made thanks to Ericsson proved to be more accurate, and the network was more reliable».

«In 2005, we issued eurobonds for the second time, attracted 400 million dollars and literally «dug» them into earth — everything was intended for improvement and expansion of covering. We were the sole among mobile operators who was not afraid of taking such loans for development, but the thing was worth the effort — the Kyivstar communication was available even in the remotest villages»

NORWEGIAN SHAREHOLDERS

«We signed the Contract for purchase of 35% shares by Telenor in March 1998 in Norway. I am grateful to Telenor, because their experience assisted us. As to the business, these people are very meticulous, attentive and prudent. The Contract between shareholders has foreseen practically any situation. Each detail, each little thing was worked through. Kyivstar was among the first large Ukrainian companies, being built in accordance with the European models»

OFFERS FOR CUSTOMERS

«In 1998, we were the first in offering the service of short text messages — sms in the Ukrainian telecom-market. Firstly such messages were invented by technicians of Telenor and Ericsson for internal use. Neither of productologists ever thought that «the transmission of letters» by the mobile phone would be in demand. In 1999, we were the first in introducing per second billing of calls. In 2000, we were the first in offering the service of mobile access to Internet — WAP to subscribers in Ukraine. It was innovative and somehow risky: Internet was not then so widespread phenomenon, and even home computers were rarity».

«The first real zero in the network in the Ukrainian market (heretofore, operators have already had free calls to two numbers with time limitation, etc.) was just in Kyivstar. Though many people challenged, discussed, as this zero looked like megarevolution. But the result was convincing — we grew at a cosmic pace»

INCREASE IN NUMBER OF SUBSCRIBERS

«Year 2001 was critical for Kyivstar — we acquired the first million of subscribers and became the mobile communication leader in Ukraine. If in 1998–1999 few people believed that we would overtake (or even surpass) UMC, in 2000–2001 few people doubted it. (...) Customers chose us because our services proved to be better and more accessible, because the customer focus was the main objective of the Company — whether the subscriber used the prepaid of UAH 30 per month or an expensive business bundle»





15-YEAR KYIVSTAR IN LIGHTING UP THE STAR BUSINESS NOVEL

SECRETS OF SUCCESS

«Kyivstar was not in a hurry for becoming a leader. It was everyday, laborious work, lots of work, and the whole team performed it. Our agility and proper decisions conforming to challenge of time, made us more innovative, more required with customer. Per second billing, free entry calls within the network (three years prior to adoption of the Law on cancellation of payment for entry calls) and «good ones» like WAP or GSM-banking made us more customer-oriented. But not limited to this — in our branch offices and telephone support services, we have always tried to settle the subscriber's problem, to answer his/her questions»

KYIVSTAR BRAND

«The idea to entitle the brand same as the Company has existed since the day of establishment, but nevertheless we were worried about the fact, how such name would be apprehended in other regions of Ukraine. Time has shown that our fears were vain. Kyivstar has been always apprehended as the Ukrainian national operator. Probably, this is due to the uniting role of Kyiv, because the capital is welcomed everywhere, in every region of Ukraine».

«As to the question about the essence of Kyivstar brand, I can answer as follows: it is fully represented in our slogan: «Thinking of you!» We have paid much attention to the quality of our services, satisfying the customers' demands from the very beginning»

KYIVSTAR TEAM

«When I am asked about what am I proud of — the created Company or the selected team, — I have no answer to this question. As it's quite impossible to separate one from another. The team creates the Kyivstar corporate culture. It's the intangible essence which differs us from other operators. This essence has influence on the brand, making us the today's favourite national operator. Not hardware but people make Kyivstar»

INTEGRATION WITH BEELINE UKRAINE IN 2010

«When clarifying the essence of integration, we had to do as follows: to integrate Kyivstar and Beeline Ukraine teams; to integrate the networks; to integrate the subscriber bases; to provide subscribers with uniform rates, products and services; to settle the matter with retail... We had to do everything in order that customers of both companies would not experience change for the worse at the least, and in general, would take no notice of the integration process at most».

«As we know, the changes are the best ones if passed unnoticed. And our team may be proud of the fact that subscribers of both (Kyivstar and Beeline Ukraine) practically took no notice of this global integration process. Everybody had gain from it. The subscribers received new services. The shareholders obtained good assets. The State received taxes from the new business entity. And Kyivstar acquired a good development resource»

DEVELOPMENT OF NEW KINDS OF BUSINESS

«A great advantage of integration lied in the development of our business of the fixed Internet under FTTB technology — Beeline Ukraine made considerable investments in the fixed Internet, which base was developed by Golden Telecom. Immediately we activated Home Internet service on the new turns under Kyivstar brand. And only within one year (!) we built the national covering of FTTB-network. We made the unprecedented offer: every Kyivstar subscriber who connected to our Home Internet and recharged account, received bonus to his/her mobile phone in the amount of the recharged account of the fixed Internet. In essence, it was the initiation of convergence in services, that rapidly assisted to make our offer popular»





15-YEAR KYIVSTAR IN LIGHTING UP THE STAR BUSINESS NOVEL

MEMBER OF GLOBAL MARKET

«Vimpelcom became one of the world's largest operators group, and certainly, this opened new horizons for us. We can apply the experience of other companies — in technology, in marketing — though it concerns not only the countries with stable economy. We can analyze and compare, how and what is developed, where it succeeds or fails, and what mechanisms were used in this case»

RESPONSIBILITY TO SOCIETY

«We have always strived that our activity would be useful for society, making changes for the better. Therefore our programs «Mobile Culture», «Child Safety in Internet», «Communicate with your children more» have been created. The latter is very important for me as the busy father of two children». Lots of people don't understand, what forces us to do so. The answer to this question is evident for me: Kyivstar must be the successful company, but must achieve this in the way, being beneficial for society»

CURRENT CHALLENGES

«We strive for obtaining possibility to provide the high-speed mobile Internet with all might. Currently, it is one of my most important tasks. The importance of the quality changes coming into life with «intelligent» devices can scarcely be overestimated. In about twenty years, the whole variety of gadgets would come to the sole device — integrator. And this device would become universal, replacing the mobile telephone, laptop, pad, player, game device and TV set. The development of «Cloud Technologies» starts — the whole content and even the software would be preserved on the remote servers, without physical transfer to hard disk. In essence, today we have no other way, besides the transition to multiservice operator»

DEDICATION TO UKRAINE

«UKRAINE IS A HOME FOR US, NOT JUST ANOTHER MARKET, WHERE THE COMPANY CARRIES OUT ITS ACTIVITY. WE WISH THAT OUR PRODUCT, OUR WORK WOULD DEVELOP PEOPLE, WOULD GIVE THEM MORE POSSIBILITIES TO IMPROVE THEIR LIVES AND THE LIVES OF OTHERS. JUST THIS UNDERSTANDING IS THE BASIS OF OUR WORK WITH KYIVSTAR IMAGE»





KYIVSTAR'S BUSINESS IN 2012

Kyivstar as a member of VimpelCom Ltd

Investments, revenues, efficiency

Cooperation with regulatory bodies

Tariff model evolution

Ukrainian telecommunications market:
challenges and opportunities for Kyivstar



KYIVSTAR AS A MEMBER OF VIMPELCOM LTD

Private Joint-Stock Company Kyivstar is a member of VimpelCom Ltd as one of the largest integrated telecommunication companies in the world headquartered in Amsterdam (the Netherlands). VimpelCom is quoted on the New York Stock Exchange under VIP ticker.

Structurally, VimpelCom Ltd consists of the following 5 business units teaming up telecommunication operators in 18 countries: «Russia», «Europe and North America», «Africa and Asia», «Ukraine», «other CIS countries». The names of business units are used within the international reporting. Particular importance and success of Kyivstar as a member of VimpelCom Ltd are evident, since one company has been appointed as a separate business unit «Ukraine» proving services under own exclusively Ukrainian brand.

BY THE END OF 2012 THE NUMBER OF VIMPELCOM LTD SUBSCRIBERS WORLDWIDE AMOUNTED TO 214 MILLION. OVER 25 MILLION SUBSCRIBERS OF KYIVSTAR FORM A POWERFUL PART OF BUSINESS CARRIED OUT BY THIS GLOBAL COMPANY.

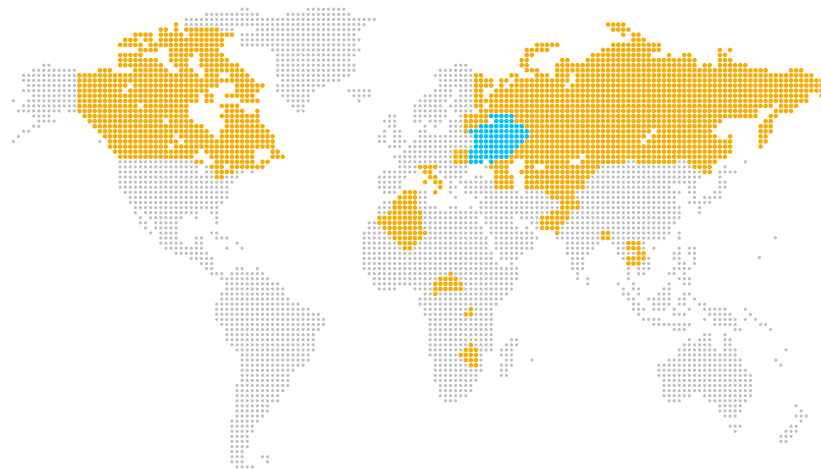
VimpelCom Ltd applies the decentralized management model — delegates authority to national companies, relies on the experience of local management teams in making strategic decisions, stimulates development of local brands, differentiates targets in each particular market. Thus, Kyivstar remains a national company with a great amount of independence from the mother corporation.



VimpelCom

VimpelCom provides services of voice communication and data transfer based on broad range of traditional and broadband in Russia, Italy, Ukraine, Kazakhstan, Uzbekistan, Tajikistan, Armenia, Georgia, Kyrgyzstan, Cambodia, Laos, Algeria, Bangladesh Pakistan, Burundi, Zimbabwe, Central African Republic, and Canada on the territory with over 767 million people. In 2012 the revenue of the international group totaled to over 23 billion US dollars, EBITDA — 9,8 billion US dollars.

For more details please visit <http://www.vimpelcom.com>.



KYIVSTAR IS AMONG TOP-5 OF TELECOMMUNICATION OPERATORS IN VIMPELCOM GROUP:



INVESTMENTS, REVENUES, EFFICIENCY

Kyivstar is one of the most «sound» and the most efficient businesses in Ukraine. Corporate income in 2012 amounted to UAH 13.4 billion, which is UAH 314 million or 2% more than in the previous year. Earnings grew in all segments of Kyivstar business: mobile communication proceeds of the Company made up UAH 12.3 billion, which is 2% more than in 2011. Proceeds from fixed communication services grew by 10% and reached UAH 1.06 billion.

Key factor that influenced the net income growth in 2012 was an increase in the number of subscribers and the volumes of consumption. This became possible due to implementation of new approaches and reduction in service prices for consumers. As of the end of 2012, the number of Kyivstar subscribers reached 25.9 million. On the average, each subscriber monthly used 493 minutes of voice traffic, which is 6% more than in 2011.

At the same time, average price per minute decreased from 9 kopecks in 2011 to 8 kopecks in 2012. This, in its turn, resulted in a 2% reduction in average revenue per user: from UAH 40.7 to UAH 39.9.

THUS, CONSUMPTION OF KYIVSTAR SERVICES GROWS WHILE PER MINUTE COSTS FOR A SUBSCRIBER DECREASE.

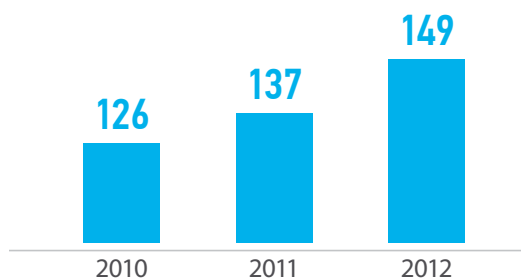
In fixed communication, broadband data service for mass market is making good headway. Here, the number of subscribers increased by 54% for a year and reached UAH 613 thousand, while earnings increased by 74% and reached UAH 275 million.

Operating expenses of the Company for a year came to about UAH 6.9 billion and increased, as compared to 2011, by UAH 400 million, which makes 7%. This is due to an increase in customer acquisition and customer service costs, as well as the increased high frequency resource fee. However, operating income to operating expense ratio (EBIDTA margin) is 51.3%, i.e. remains extraordinarily high and bears evidence of a high efficiency of Kyivstar business.

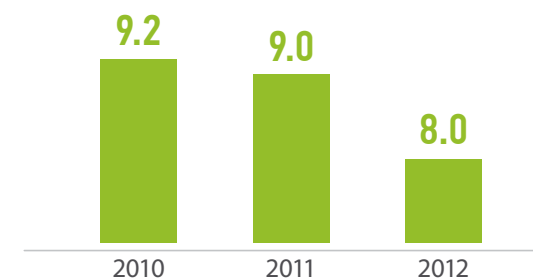
High competitive ability and leadership position of Kyivstar in the market are, to a great extent, due to the Company's investment policy consisting in priority financing of high-technology equipment acquisition for the purpose of maintaining a high quality of services. In 2012, Kyivstar's capital investments amounted to UAH 1.8 billion, where 68% were made in mobile communication, and 17% were made in fixed communication and Internet.

KEY FINANCIAL AND OPERATING PERFORMANCE OF KYIVSTAR BUSINESS

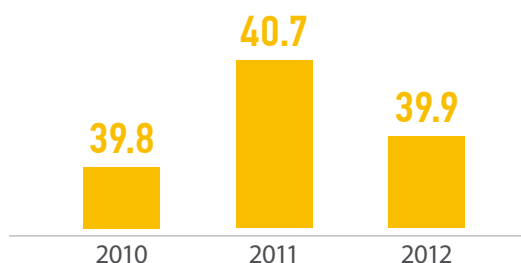
Traffic, billion minutes



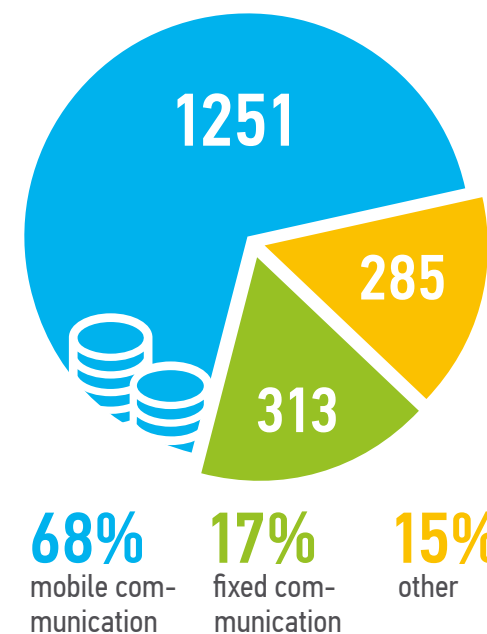
APPM, UAH cents per minute



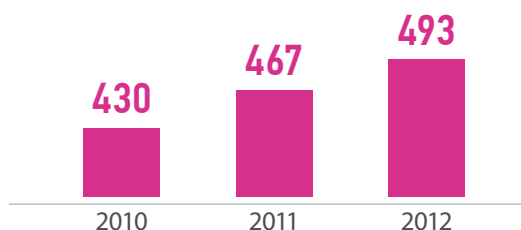
ARPU, UAH for subscriber per month



Capital investment in 2012,
UAH million



MOU, minutes for subscriber per month



COOPERATION WITH REGULATORY BODIES

In 2012 the merge of Ukrainian assets of VimpelCom Ltd. was completed. The business processes were finally consolidated and optimized, the requirements of the state sector regulators were fulfilled; the legal registration of all the integration components was carried out.

With the purpose of making more efficient use of Kyivstar radio spectrum as a business unit of VimpelCom Ltd and improving the quality of mobile services, in early 2012 Kyivstar and Ukrainian Radio Systems appealed to the regulator of the industry with the statement on reissuance of licenses for frequencies in the range of GSM 900/1800. Already in the first half of 2012 the regulator adopted a number of decisions that allowed within a specified range to consolidate the full range of frequencies in the management of Kyivstar.

Another accomplishment of the integration processes was the increase of the numbers pool of Kyivstar and receipt of new network code 068. It took place under the control of the state regulator in June 2012 through the reorganization of mobile business of «URS» and migration of subscribers serviced by this company to the Kyivstar network. Therefore, Kyivstar increased its pool of numbers for 10 million numbers and it uses five network codes: 67, 68, 96, 97, 98. URS subscribers started to be served in the Kyivstar network for the best world samples, to get a wide assortment of advanced telecom services, new promotional offers and experienced the advantages of loyalty programs and more.

KYIVSTAR HAS INCREASED ITS NUMBER RESOURCE FOR 10 MILLION NUMBERS AND USES FIVE NETWORK CODES: 67, 68, 96, 97, 98

In July 2012 all subscribers who previously served by the URS network and had expressed desire to continue obtaining services, migrated to the Kyivstar network. In August 2012 the reorganization of Golden Telecom by affiliation of Golden Fayber and TTC was completed. Customers of these companies who wished to continue obtaining services, entered into agreements with JSC Golden Telecom and were transferred into service migrated in this network, such that the range and quality of services for them were significantly improved.

IN 2012 KYIVSTAR EFFECTIVELY INTERACTED WITH THE ANTIMONOPOLY COMMITTEE OF UKRAINE TO ESTABLISH ECONOMICALLY JUSTIFIED TARIFFS FOR MOBILE SERVICES AND INTERNATIONAL ROAMING.

As a result of productive cooperation, a complete understanding of the AMC was reached regarding the implementation of its recommendations. This cooperation continues today. Issues raised by AMC specialists allow Kyivstar to take a fresh look at various aspects of tariff policy, customer experience and the development of economic competition in the domestic telecom market.

In 2012 another stage of formation of industry regulation was completed — in the field of telecommunications of Ukraine. The newly formed Commission for the State Regulation of Communications and Informatization (CSRCI) began active legislative work. The industry-specific legislation received a number of new regulations. We should also note the new Regulations for providing telecommunication services approved in April 2012 by the relevant executive order. Kyivstar representatives took an active part in the development of this document by making initiatives for many aspects of interaction with subscribers that had not previously been

resolved. Implementation of Regulations in the Company was held quickly and efficiently. The successful conduction of scheduled inspections of the Kyivstar by CSRCI just one month after the entry into force of new Regulations confirmed that Kyivstar had completely fulfilled all of the terms and requirements.



TARIFF MODEL EVOLUTION

Kyivstar offers its services in the form of bundles. The Company introduced such practice for the first time in 2010 and developed it significantly in 2012. Bundle offers present a progressive and advantageous price pattern that is the base for establishment of tariff plans and tariffs for services provided in Ukraine and worldwide. The bundle tariff plans compose of the pre-established considerable scope (bundle) of services provided at the cost of subscription fee (daily or monthly one). Such offers are advantageous for subscribers allowing to save and highly predict his/her monthly subscriber bill. An average cost of one unit of service — minutes, SMS, megabytes, etc. — within bundle offers is considerably lower than within out-of-bundle (basic) tariffs.

THE BUNDLE TARIFF MODEL IS A NATURAL CONTINUATION OF THE KYIVSTAR TARIFF EVOLUTION AND CONDITIONED BY THE MARKET CHANGES.

Since the foundation of the Company till 2005 Kyivstar practiced tariff plans with charging of each unit of service: 1 minute, 1 SMS, 1 MMS, 1 Mb, 1 ringtone, etc. Such simple model responded to a low level of consumption of services at the stage of development of mobile communication in Ukraine until the beginning of the smartphone epoch.

In 2006 through 2010 Kyivstar services were sold using a transitional model — depending on the amount of preliminary replenishment (25 UAH, 30 UAH, 40 UAH, etc.), and each bundle included certain quantity of service units for the amount prepaid.

Lastly, in 2010 that model developed into complete bundles of services provided for a fixed rate (daily, weekly, and monthly rates). Such bundle offers are customized for different users' needs. Having prepaid a certain quantity of minutes, a subscriber uses them without payment for each particular unit of service. In 2012 Kyivstar introduced the first mixed bundle tariffs with subscription fee including daily quantity of voice calls, mobile Internet, access to digital content. Kyivstar expands the list of services accessible to subscribers within the bundles and offers bundles for different life styles taking into account even regional specific features inside the country.



HOW PACKAGE TARIFF PATTERN HAS BEEN CHANGED



TILL 2005
cost of one unit
of service



2006 - 2010
services bundles based
on the preliminary
replenishment



2010 - 2012
services bundles
for a fixed rate



SINCE 2012
mixed
bundle tariffs

UKRAINIAN TELECOMMUNICATIONS MARKET: CHALLENGES AND OPPORTUNITIES FOR KYIVSTAR

Ukrainian telecommunications market develops according to the same laws as the world, but at the same time has significant differences from it and is characterized by low price of telecommunications services (subscriber's expenses are about \$ 5 per month at average world level of \$ 29) and by huge amounts of the use of mobile communications (more than 450 minutes per month with the worldwide average level — 200 minutes).

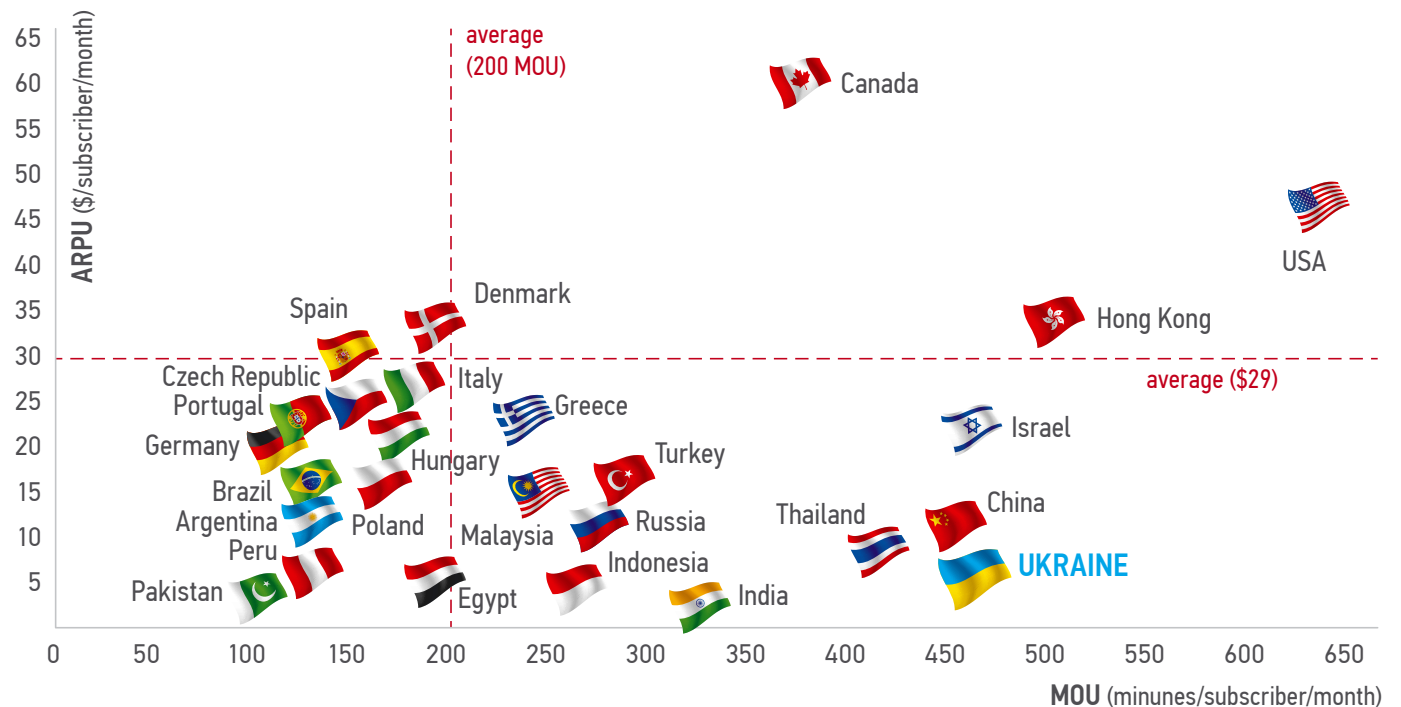
Like in the rest of the world, in Ukraine the «era of voice communications» (end of 90's — early 2000's) and the «era of mobile communications» (mid 2000's) were replaced by the «era of mobile data» (end of 2000s — early 2010's), which displaces phones in behalf of smartphones, that are used no longer just for the contact between people, but first of all for viewing, receiving and sharing videos, music, games, texts and another digital information in all its various forms. The smartphone has become the device for the Internet access for data download and their sharing in social network. But in the early 2010's advanced markets entered a new phase — the «cloud's era» that determines the development of the global telecommunications industry over the next 5 years and opens new opportunities for telecom companies and at the same time requires technological changes from them.

However, today Ukrainian telecommunications market significantly lags behind the world's major trends in view of technologies. Ukrainian mobile operators still do not have access to the licenses to use 3G/LTE. Another feature of Ukrainian market is the rapid growth of financial burden on telecom operators and overregulation of the state. Thus, the amount of payment for the use of radio frequencies for the last 4 years has increased by 500% and the regulatory framework enables simultaneous control of two state agencies: AMC and CSRCI.

TODAY UKRAINIAN TELECOMMUNICATIONS MARKET SIGNIFICANTLY LAGS BEHIND THE WORLD'S MAJOR TRENDS IN VIEW OF TECHNOLOGIES

Therefore market for mobile voice communication found itself in a state of complete saturation. In the absence of access to new technologies and the growth of additional costs was intensified the need for new models of prices. In 2012 Kyivstar reacted to these challenges by implementation of bundle offers for mobile subscribers and went by way of the development of Internet, mobile and fixed (FTTB), and the introduction of new products of digital content and multimedia.

Correlation between monthly fee and duration of calls in 2012:





UPGRADE OF TECHNICAL INFRASTRUCTURE

Installation of new-generation equipment

Solutions for quality of communications

Energy efficiency improvement technologies



INSTALLATION OF NEW-GENERATION EQUIPMENT

In 2012, Kyivstar launched a new project to upgrade its technical infrastructure. This strategically important breakthrough initiative will determine the Company system development policy for many years ahead. Under the project, the Company installed and commissioned modern and unique for Ukraine commutation units designed based on Blade Systems/ ATCA-MSS technology. These commutation units will serve as a core of the Company systems being capable of supporting different mobile communication standards varying from 2G to LTE. As things now stand, the Company operates 9 commutation units of that type. At the same period of time, the Company launched a project of gradual replacement of its network base stations by new-generation models and conversion of the base station equipment to IP-transmission. The system conversion to the more efficient IP architecture enabled the Company both to improve the service quality on the whole and the relevant branch system operations in particular, whilst the mobile Internet service rate has grown by 10% on average.

For the year of 2012, the Company completed the project to integrate its technical infrastructure with the Ukrainian Radio Systems Company operations. A particularly important event in the process of the both companies' Kyivstar and the Ukrainian Radio Systems integration was their radio frequency consolidation. Now the available radio frequency band in operation of the integrated company comes to 2,400 MHz, and this is a very important achievement in the context of the modern broadband mobile data transmission technologies coming to the forefront of the service.



FOR THE YEAR OF 2012, THE COMPANY COMPLETED THE PROJECT TO INTEGRATE ITS TECHNICAL INFRASTRUCTURE WITH THE UKRAINIAN RADIO SYSTEMS COMPANY OPERATIONS

Therefore, it may be noted that the year of 2012 was a breakthrough period for the Kyivstar engineering services in terms of the valuable experience they obtained, as the Company staff has mastered the operations, maintenance and application software of the newly installed equipment and acquired necessary knowledge and skills to operate the 3G/LTE-technology-based systems. On the whole, the project experience of 2012 demonstrated that the Kyivstar staff is well prepared for implementation of the 3G/LTE-technology-based systems as the relevant service infrastructure is being put in place, the required frequency bands are owned and the

valuable practical experience has been obtained. As soon as the relevant regulatory bodies give a green light for the new technology implementation, Kyivstar subscribers will almost immediately be given the opportunity to benefit from the service upgrade.

ON THE WHOLE, THE COMPANY REPORTED TO INVEST IN THE SYSTEM UPGRADE AND EQUIPMENT REPLACEMENT PROJECTS AS MUCH AS UAH 1.8 BILLION FOR 2012.

SOLUTIONS FOR QUALITY OF COMMUNICATIONS

Traditionally, Kyivstar's attention is focused on the quality of connection for its customers. Thus, in 2012, Kyivstar transferred substantially all of its FTTB network serving clients of Home Internet, to IPoE technology. This improved customer experience, simplifying the use of the Internet.

In the segment of mobile communications, additional 14,000 transmitters were installed to improve the quality of voice traffic. Due to the transfer of base stations to IP transmission, network throughput increased by an average of 10%, which has a positive impact on the quality of mobile Internet services.

Overall, in 2012 the technical directorate implemented dozens of projects aimed at improving the quality of services. For example, automatic quality control systems were expanded to ensure continuous monitoring of the level of service in Kyivstar's mobile networks under 16 parameters (ANTS system). A similar system (GRA) was introduced for international roaming services; a system for monitoring service availability was designed and implemented of Home Internet.

In 2012, Kyivstar network perfectly withstood the test of extreme natural conditions, and showed high quality during the European Football Championship: network deploy was dedicated specially to this event. All the stadiums that hosted matches of the championship were equipped with additional base stations and special DAS system (Distributed Antenna System). During the first half of 2012 a program to improve the quality of mobile services in hotels and business centers was implemented.

SERVICES PROVIDED BY KYIVSTAR NETWORK IN 2012 ARE PREMIUM IN TERMS OF QUALITY. THIS IMPLIES HIGH STABILITY OF CONNECTION CHARACTERIZED BY LOW DISCONNECTION RATE: APPROXIMATELY 1 DISCONNECTION PER 328 MINUTES OF TALK TIME.

The probability of disconnections in Kyivstar network is just 0.6%, while the industry standard is 5%. Voice quality is excellent as well: more than 96% of connections have high quality of voice transmission. Average data transfer speed using the EDGE technology is more than 130 kbit/s.

ERICSSON

«KYIVSTAR'S NETWORK IS ONE OF 25
WORLD'S BEST NETWORKS DEVELOPED
USING ERICSSON EQUIPMENT»

*Maria Gacansson
Vice President,
NECA Region Commerce, Ericsson AB*



KYIVSTAR'S TECHNICAL NETWORK IN 2012

 **89.7** BILLION CALLS

 **19.7** MILLION SMS

 **6905 TB** of data traffic

 **98.5%** of successful connections

 **0.64%** probability of disconnection



ENERGY EFFICIENCY IMPROVEMENT TECHNOLOGIES

For the year of 2012, Kyivstar implemented a few unique solutions designed to improve the energy efficiency standards in the Company. These solutions are of high importance for any high-technology business sensitive to the natural environment protection. With this purpose in mind, the Technical Directorate team experts have developed and implemented the unique Intelligent Cell Shut-down software that gives the means to reduce the power demand by the base stations serving mobile communication systems. The relevant monitoring units permanently assess the loads on the base stations across the daytime and, as soon as the load goes down, correspondingly cut down the power supply in an automatic mode. According to estimations of Kyivstar experts, expected cost savings due to the implementation of this project on the whole network are about \$ 500,000 per year.

The modern voice commutation units based on the MSC Server Blade Cluster technology that were installed in the Kyivstar systems for the year of 2012 are very energy efficient units too as the power demand is reported to drop by up to 70% per unit. It was not long ago that the commutation units to serve calls of 10 million subscribers were deployed in large rooms having a floor space of several dozen square meters, whilst the new communication units are placed in the cabinets that take only one square meter.

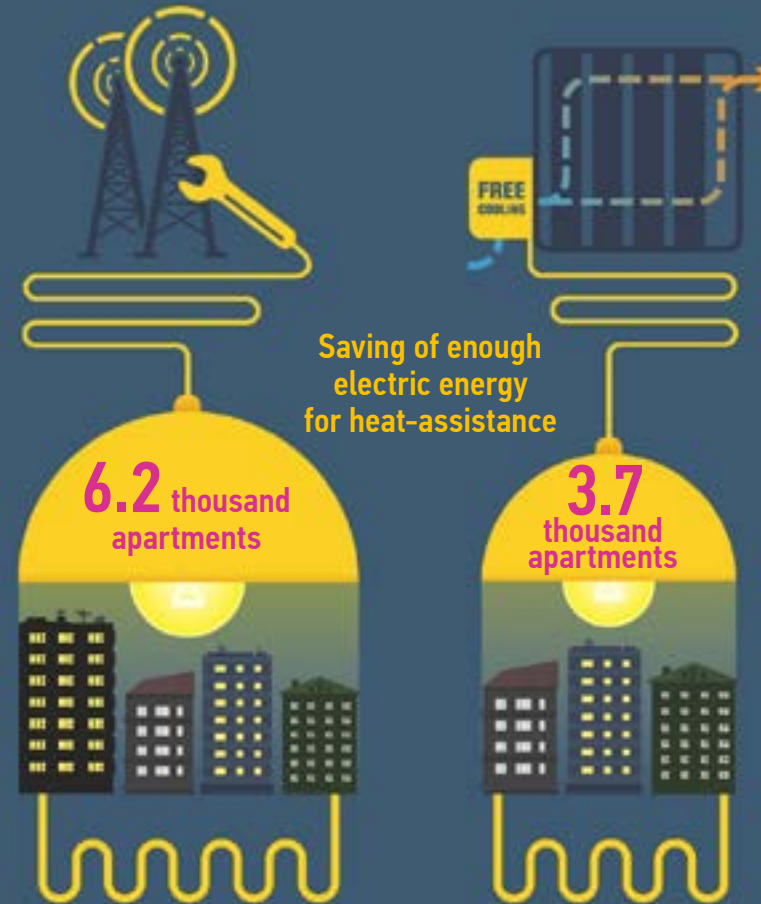
THE NEW BASE STATIONS BEING INSTALLED UNDER THE TECHNICAL UPGRADE PROJECT HELP CUT DOWN THE POWER DEMAND OF THE RELEVANT FACILITY ON THE WHOLE BY 24% ON AVERAGE.

New free cooling systems that cool the service equipment by airflow give additional 9% per year on average in energy savings for the system on the whole. As reported by the Kyivstar analysts, as soon as all the new equipment under the upgrade Project is installed, the annual energy savings are forecast to total 18 million kWh, and the CO2 emissions in the ambient air will be cut down by as much as 14 million kg that is the same as the carbon dioxide consumption by 70 thousand adult trees per year.

SAFE ENERGY SOLUTIONS KYIVSTAR

Equipment replacement on base stations

Installation of air-cooling equipment





SERVICES FOR MASS MARKET

Mobile communication

Home Internet Service

MOBILE COMMUNICATION

PRICE REDUCTION AND NEW BUNDLE TARIFFS

In spite of high index of penetration of mobile communication in Ukraine (126%), Kyivstar keeps enlarging its mobile subscriber base. As of December 2012, 25,96 million subscribers used Kyivstar mobile communication, that is 5% more than in 2011. Kyivstar enlarged its subscriber base for 1,183 million in one year. The best results of increase in the number of new subscribers were fixed in the IV quarter of 2012 — over 700 thousand subscribers.

THE LARGE-SCALE IMPLEMENTATION OF NEW BUNDLE PRICING PATTERN IN 2012 WAS AMONG OTHER FACTORS THAT PLAYED AN ACTIVE PART IN INCREASE OF SUBSCRIBERS.

There were new lines of tariff packages introduced for the prepaid communication subscribers, which offered 70-100 minutes a day for calls to Kyivstar phone numbers with a daily subscription fee of 0.35 UAH to 1 UAH. For youth, there were «mixed» bundle tariff plans with subscription fee included voice minutes, mobile Internet, and access to information and entertainment content by Kwartal-95 Studio. In addition, the new line of tariff plans was developed with due regard to the profile of use of services in different regions of Ukraine and in places where the subscriber community was smaller; the possibility to call to subscriber numbers of other networks according to a special reduced tariff was an additional advantage.

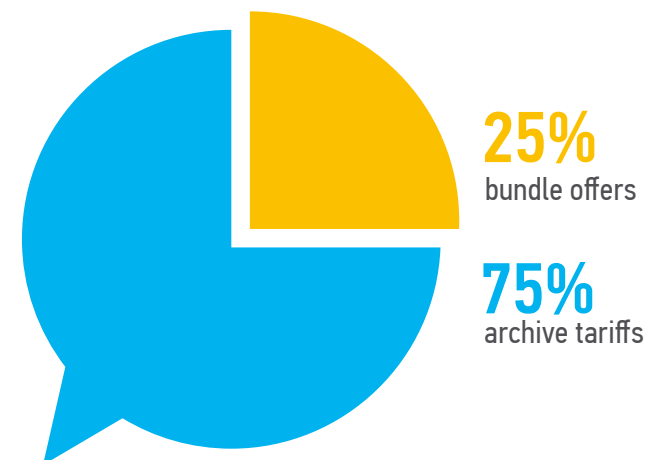
In consequence of introduction of the «bundle» pattern the quantity of minutes used by a customer (MoU) was increased by 6% amounting to 493 minutes, and use of mobile Internet



services increased by 28%, whereas ARPU (average revenue per subscriber) decreased by 2% amounting to 39.9 UAH a month, and an average cost of minute decreased by 7% amounting to 0.08 UAH. Thus, the subscribers became to use bundle tariffs and bundle services more often, which allowed them to increase the use of services with fewer expenses.

AS OF DECEMBER 2012, 25,96 MLN SUBSCRIBERS USED KYIVSTAR MOBILE COMMUNICATION, THAT IS 5% MORE THAN IN 2011

Three of four subscribers use package proposals



MOBILE COMMUNICATION

LEADERSHIP IN MOBILE INTERNET

Due to the fact that Kyivstar had made significant efforts to develop mobile Internet, more than 11 million customers enjoyed this service in 2012, i.e. approximately 43% of the total subscriber base. According to E&C Consulting analysts, this is the largest online community of one telecom operator in the Ukrainian market.

CONSUMPTION OF MOBILE DATA TRAFFIC IN KYIVSTAR NETWORK INCREASED BY 54% IN 2012 — TO 5750 TB.

Increased consumption of mobile Internet services is due to changes in consumption patterns — from fees on megabyte basis to «bundle» subscription. Kyivstar was first in the domestic market to offer unlimited access to mobile internet for 1 UAH per day — «Internet without Limits». In 2012, «Internet without Limits» has more than 1 mn users. The line of bundle offers was revised for mass market: the traffic volume received by customers for a monthly subscription fee was doubled. Besides, Kyivstar began to implement «mixed» tariff plans, where for a daily subscription fee of 0.35 UAH clients receive both voice minutes and megabytes of traffic without charging units of service.

INCREASING DEMAND FOR MOBILE INTERNET IS ALSO PROMOTED BY GROWING NUMBERS OF SMARTPHONES IN KYIVSTAR NETWORK.

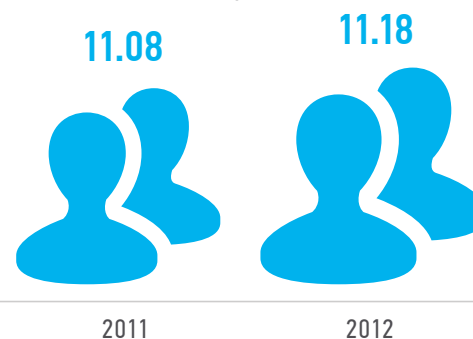
To support this trend, in July 2012 Kyivstar launched promo-events with dealer trade networks, under which customers who purchased smartphones from a network partner received 90 days of Kyivstar mobile Internet with no monthly fee and no traffic fee, paying only 1 UAH for the service activation.

In response to the rapid expansion of tablet users, Kyivstar introduced an innovative «Internet SIM-pair» service, which allows for simultaneous use of mobile phones and Internet access devices with a single subscriber number and account.

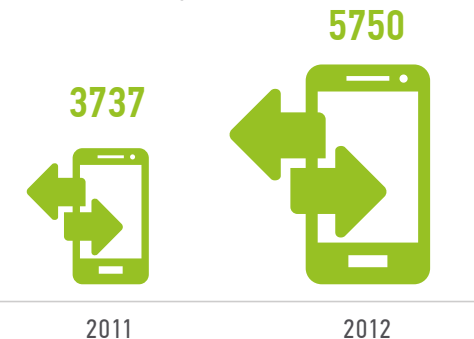


MOBILE INTERNET DEVELOPMENT INDICATORS

Number of users, million



Traffic volume, Tb



MOBILE COMMUNICATION

POPULARITY OF SMARTPHONES

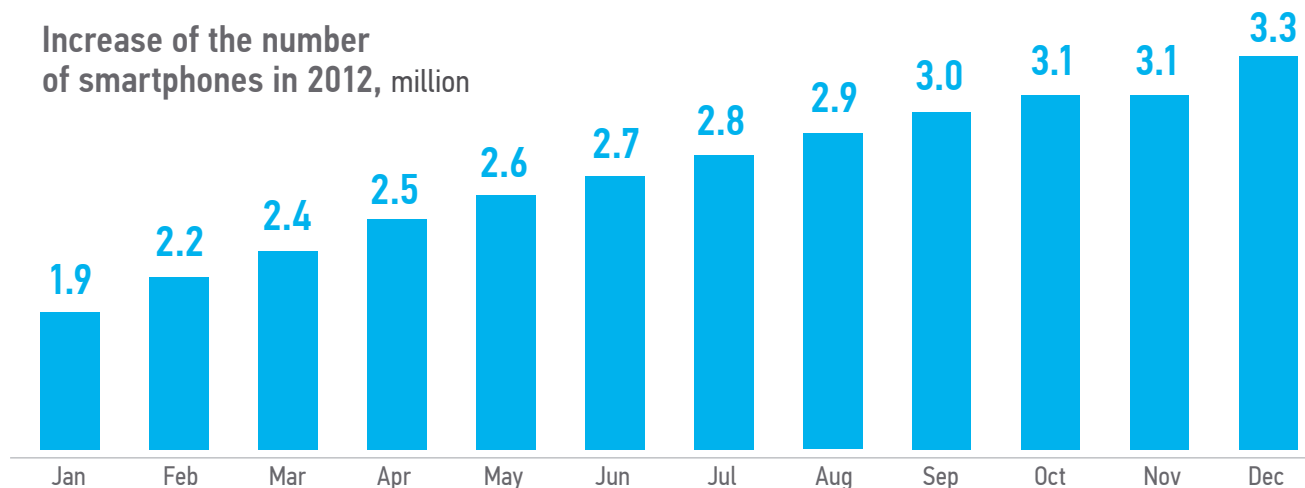
Ukraine as well as the other countries is experiencing «the Smartphone Revolution» that has had the greater effect on Kyivstar. The number of smartphones within Kyivstar network increased by a factor of 1.8 and amounted to 3, 173,000 units at the year end. Thus, by the end of 2012, it was 12% of the subscribers who used the smartphones.

AS OF THE END OF 2012, ONE THIRD OF ALL THE SMARTPHONES WITHIN KYIVSTAR NETWORK RAN ON ANDROID, AND ABOUT 10% OF THE SMARTPHONES RAN ON IOS (APPLE IPHONES).

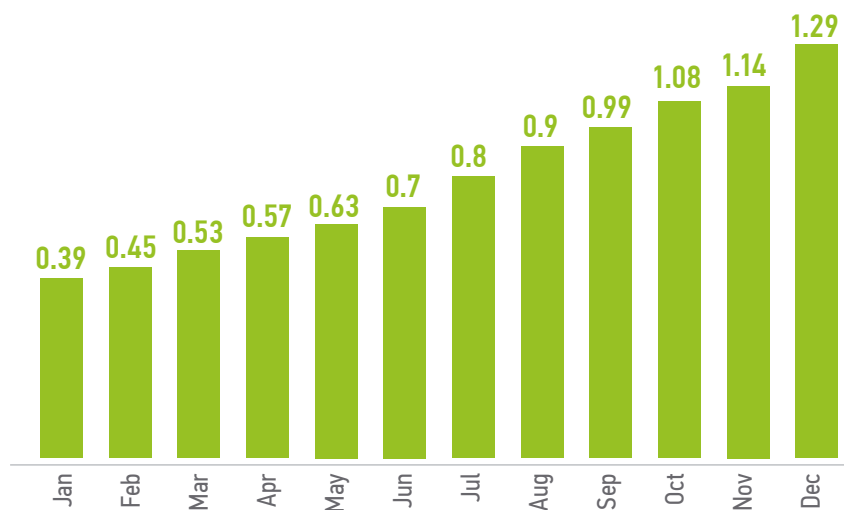
The marked trend was the rapid increase in the number of smartphones running on the said OS within the year and decrease in the number of those running on the other OS especially Symbian.

The reason for rapid replacement of ordinary mobile phones by smartphones is a considerable decrease in price as well as the development of digital and multimedia content which is more easy to receive and view with smartphones, that in turn opens up new opportunities for increase in use of the Internet services, such as Internet browsing, e-mailing, chatting, Yandex corks, downloading, listening of music, and even viewing of high quality video. For Kyivstar subscribers, the capability of using mobile applications, digital and multimedia content provides additional advantages. So, Kyivstar offers its subscribers the localized content available on its brand portals, which one may use without payment for the mobile Internet traffic.

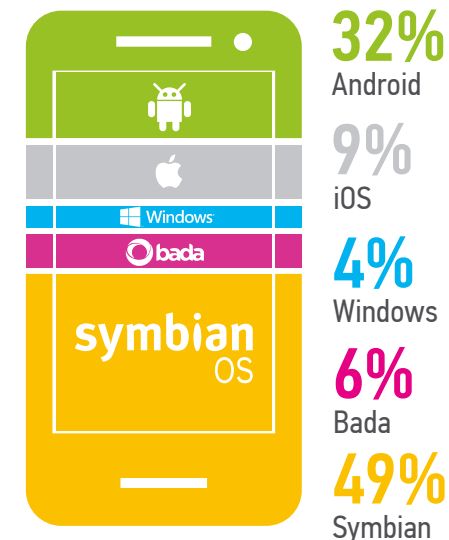
Increase of the number of smartphones in 2012, million



Increase of the number of smartphones on Android and iOS operating platforms in Kyivstar network in 2012, million



Smartphones within Kyivstar network depending on the operating platform, % as of the end of 2012



MOBILE COMMUNICATION

DIGITAL CONTENT AND MULTIMEDIA SERVICES

Rapid growth of the numbers of smartphones for the last few years has given a boost to the digital content service development projects. The year of 2012 marks a breakthrough on the local digital service market with a great hike in innovations. Kyivstar has successfully implemented its strategy designed to develop its own application software products and additional services for mobile phones. Therefore, the Company has succeeded in implementation of the video- and audio-content providing services and online libraries with a «magazine» of the relevant application software tools known as App Club toolkit.

IT WAS ALSO IN THE YEAR OF 2012 THAT KYIVSTAR LAUNCHED ITS «INTELLIGENT CONTENT MAGAZINE», A UNIQUE PRODUCT FOR THE TELECOMMUNICATION MARKET OF THE CIS ECONOMIES, DESIGNED AS AN ONLINE LIBRARY THAT OFFERS NUMEROUS BOOKS IN UKRAINIAN AND RUSSIAN LANGUAGES.

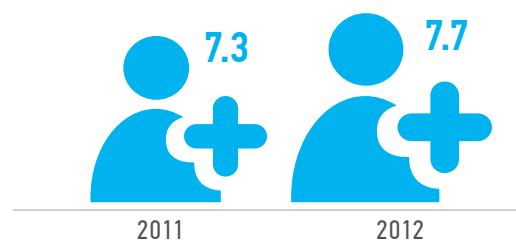
In addition, the Company offered a new «Video Subscription» service that provides access to a great collection of entertainment videos; moreover, a brand new «Mobile Health» service in under development at the moment.

It should be also noted that in 2012 Kyivstar decisively opted for the new advanced tariff-setting model for the digital content known as «subscription» that adjusts the tariff to the actual demand for the service. The model sets a fixed payment for the digital content of the subscription, and within this payment the subscriber is provided with unlimited services.

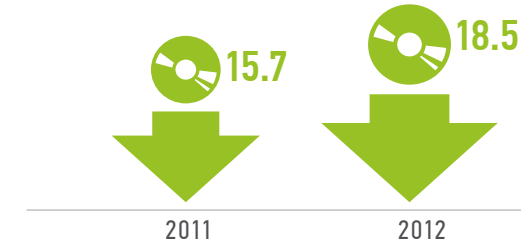
The multimedia service content has been on the equally rapid rise both in the quantitative and monetary terms. The subscription for the «Musical subscription» service, for instance, was reported to increase by 27% for 2012, whilst revenues from the «Di-Jingle» service have grown by 20% for the same period.

The mobile content service development process is further facilitated by direct cooperation of Kyivstar with the legal content holders. As things now stand, the digital content to Kyivstar is provided by more than 50 legal title holders and publishers including the globally known leading brands like Universal Group, Sony, EMI, Warner Bros and the leading game publishers including Gameloft, Electronic Arts and Glu.

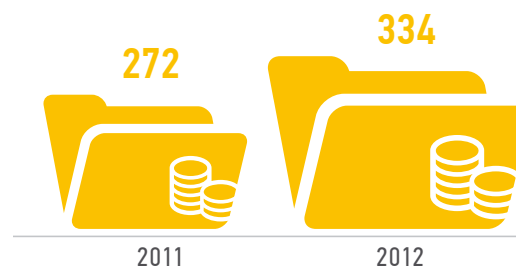
Number of the digital content users, million subscribers



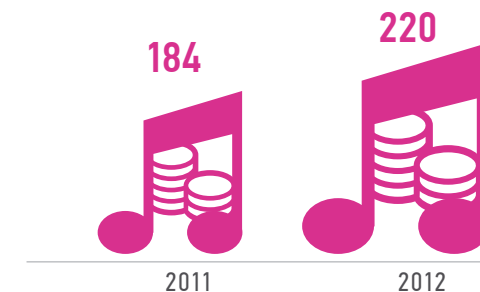
Downloads of the digital music contents, million tracks



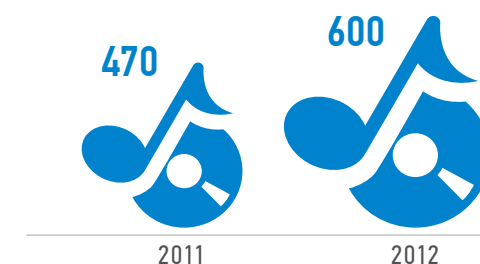
Revenues from multimedia content, million UAH



Revenues from the «Di-Jingle» service, million UAH



Number of «Music Subscription» service users, thousand subscribers



THE MULTIMEDIA SERVICE CONTENT HAS BEEN ON THE EQUALLY RAPID RISE BOTH IN THE QUANTITATIVE AND MONETARY TERMS

MOBILE COMMUNICATION

GETTING TO KNOW UKRAINE

«Getting To Know Ukraine» project that took place in August — October 2012 was the bottom line of Kyivstar's 2011 initiative «Sharing Love To Ukraine», where everybody could publish photos of the country's favorite places on the website iloveukraine.com.ua. This idea was inspired by the findings of a study conducted GfK Ukraine, in which the proportion of Ukrainians

confident of their knowledge about the history, culture and achievements of Ukraine was only 16%; the proportion defining their knowledge as superficial was 60%, while 19% believed that they have poor knowledge of their country.

During three months, participants of the initiative «Getting To Know Ukraine» answered questions concerning the history, geography and culture of Ukraine. All questions were developed by an expert council consisting of scientists of the Ukrainian Slavonic

University. The participants answered questions via SMS, and the result depended solely on their knowledge.

OVERALL, MORE THAN 500 THOUSAND KYIVSTAR SUBSCRIBERS FROM ALL OVER UKRAINE TOOK PART IN THE PROJECT «GETTING TO KNOW UKRAINE».

They responded to 4 million questions, with 75% of correct answers. Those who gave correct answers to most questions during the day and week got prizes. Within three months of the project 89 Ukrainians became experts are the best of the day and got 20 thousand UAH, 13 of them are experts in the week and received 80 thousand UAH each. The major expert on Ukraine, who received 1 million UAH, was a Kyivstar subscriber from Kamenetz-Podolsk. Within 30 minutes he answered 100 questions, which became the most prominent result of all tests. According to the winner, he spent his prize for recreation, travel and further education.





MOBILE COMMUNICATION

ACCESSIBILITY OF INTERNATIONAL ROAMING

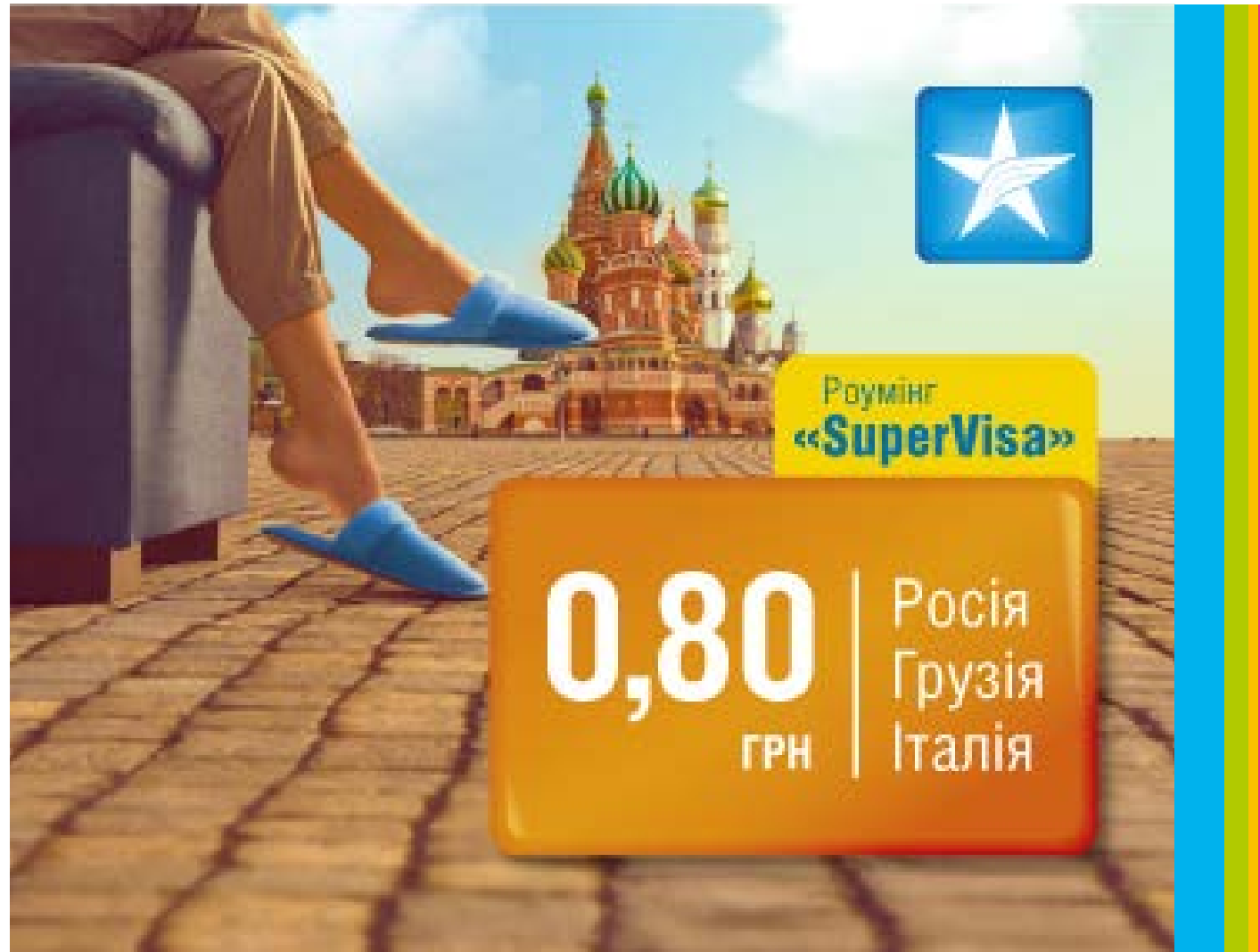
In 2012 Kyivstar implemented a profound work in optimization of contractual terms with partners in international roaming. Thus it became possible to cut cost of using roaming services within the territory of Russia and European countries. The most innovative promotion has become «50 Kopecks in Russia», thanks to which the Kyivstar subscribers were able to make phone calls from Russia to Ukraine at unprecedented low tariff — only 50 kopecks per minute.

In December 2012 Kyivstar subscribers were first to get the opportunity to connect a roaming service SuperVisa, which is a new proposal from the VimpelCom Ltd. SuperVisa service allows subscribers of global telecom group to communicate in roaming at internal tariffs. Special lowered roaming tariffs are applicable in the territory of 8 countries of Europe and Asia. This is the first global roaming project, through which Kyivstar subscribers could feel themselves just like home in Russia, Armenia, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, and Italy. This is because the minute of outgoing or incoming call in international roaming in these countries costs only 80 kopecks.

IN THE SECOND HALF OF 2012 THE «EXTRA MONEY» SERVICE BECAME AVAILABLE FOR CUSTOMERS IN INTERNATIONAL ROAMING.

From now on, if the subscriber being abroad has a zero on the main account, he/she can order 20 bonuses and continue the communication.

Price cutting in the international roaming and implementation of the series of convenient services had an impact on duration of calls abroad. Thus, Kyivstar subscribers in the territory of Russia carried out by 88% more calls than in 2011, and the duration of those calls increased by 178%. Overall, in 2012 the use of the international roaming (in minutes) increased by 48%.



HOME INTERNET

RECORD GROWTH IN SUBSCRIPTIONS

For the year of 2012, Kyivstar reported record-breaking growth statistics for new clients subscription in the Home Internet service segment that marked a 50% growth to the year of 2011 and totaled as many as 629 thousand household subscriptions. As reported by E&C Analytical Company, Kyivstar connected more new clients for the year than any other Internet provider in Ukraine!

Furthermore, for 2012 Kyivstar reported growth of revenues from the Home Internet service segment by 74% to total UAH 275 million, and this positive development made the Company the second largest player on the local market by the subscribers' headcount and the total revenues generated by the service.

In 2012, striving to improve the service provided to the clients, the Company launched a service upgrade project to replace the existing VPN-protocol-based urban fiber-optic service lines by more sophisticated IPoE-technology-based lines. This development is designed to simplify the Internet service installation and adjustment for the customers and give them user-friendly means for flexible connection of any Internet-using home equipment to the home network.

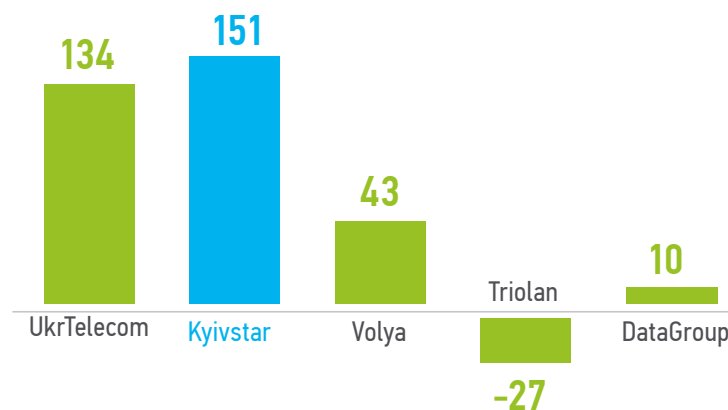
As things now stand, the broadband Internet service systems of Kyivstar are installed in 138 cities of the country, and the total length of the lines is estimated at around 10 thousand km.

THE FIBER-OPTIC SERVICE LINES OPERATED BY KYIVSTAR ARE REPORTED TO SERVE MORE THAN 47 THOUSAND APARTMENT BLOCKS WITH THE NUMBER OF THE HOUSEHOLD CLIENTS REPORTED AT ABOVE 5 MILLION.

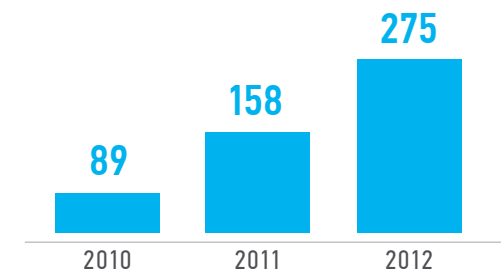
The urban Internet service systems are designed based on FTTH technology (that is an indoor optic cable communication system) and their lines are designed to provide service access at the rates coming to 100 Mbit per second.



Subscriber service statistics reported by the top five broadband Internet service market operators for the year of 2012, in thousand subscribers by the end of the quarter under report



Revenues generated by the Home Internet service segment as reported by Kyivstar for the last years, UAH million



Source: E&C Analytical Company Group www.encint.com: Ratings of the Fixed Broadband Internet Service Providers by the subscribers' headcounts

HOME INTERNET SERVICE

UNIQUE INTERNET PLANS

In 2012, Kyivstar developed new unlimited tariffs for its Home Internet users with doubled access speed: «Basic», «Convenient», «Quick» and «Free». Subscribers using Home

Internet receive bonuses equal to the subscriber fee paid under tariff bundles. The bonus program has existed since 2011 and is a unique offer in the Ukrainian market. In 2012, it became even easier to use these bonuses, due to a possibility to check the balance of a bonus account through a subscriber's mobile phone

number using USSD-requests. Also, subscribers are now able to use bonuses to order services that increase Internet speed.

In 2012, Kyivstar offered its users a number of new free produces included in the tariff. This is the «Family Safety Center» service that enables quick and easy download and installation of Microsoft software bundle to protect the computer. A new tariff line «Internet + Video» has been launched. Users of these tariffs have unlimited access to a video portal with licensed movies. Also, customers were offered an opportunity to increase the access speed at convenient time of the day. These are «Turbo Week Day» and «Turbo Week Night» services that allow enhancing the access speed up to 100 Mbit/s. The service is valid within seven days after connection. The service is also available through bonuses collected by subscribers.

ALL USERS OF THE NEW TARIFFS CAN ENJOY AN INNOVATIVE SERVICE «TEST DRIVE». THROUGH IT EACH SUBSCRIBER MAY TEST FREE AND UNLIMITED INTERNET AT A SPEED UP TO 100 MBIT/S WITHIN THREE DAYS.

These additional services make the use of fixed Home Internet comfortable and flexible, enable to expand one's opportunities in the Internet, independently plan activities in World Wide Web based on one's own needs, and to save on communication services without compromising its speed.

IN 2012, KYIVSTAR OFFERED ITS USERS A NUMBER OF NEW FREE PRODUCES INCLUDED IN THE TARIFF





CORPORATE SERVICES

Corporate solutions

Inter-operator business

CORPORATE SOLUTIONS

In 2012, the line of Kyivstar's operations with corporate customers under «Kyivstar Business» brand was characterized by significant increase in the number of subscribers, a sharp increase in the number of connected business centers and growing demand for converged solutions offered by Kyivstar to its customers.

During 2012 in the segment of large enterprises the number of mobile connection users increased by 7.4% and reached 951,000 subscribers, fixed — 6.9% (71,000 subscribers); Internet services and data transfer — by 13.2% (8.3 thousand).

COMPARED TO 2011, IN 2012 THE NUMBER OF KYIVSTAR'S SMALL AND MEDIUM CORPORATE SUBSCRIBERS INCREASED BY 61.5%.

This was facilitated by the introduction of innovative models of mobile services use. This includes, in particular, the Wholesale Bundle service that enables ordering a certain amount of SMS-messages, minutes and Internet per group of users, thus saving time and money. These are also service plans that include unlimited calls to subscribers of Kyivstar, Beeline and Golden Telecom; unrated minutes for calls to other networks; megabytes when using mobile Internet; number of useful free extras and services. At the end of 2012, these tariff plans were chosen by 40% of contract customers — small and medium-sized businesses.

THE 2012 ALSO BECAME FOR «KYIVSTAR BUSINESS» A YEAR OF INFRASTRUCTURE DEVELOPMENT FOR BUSINESS CENTERS.

During 2012, using the principle of proactive construction, i.e. infrastructure investment, even before the prospective customers



DUE TO THE UNIQUE CAPABILITIES OF KYIVSTAR, CORPORATE CLIENTS HAVE A NUMBER OF ADVANTAGES FOR THEIR BUSINESS: CONTINUITY OF BUSINESS PROCESSES, CUSTOMER SATISFACTION, EFFECTIVE TEAMWORK, EXPERTISE AND CUSTOMIZED SOLUTIONS OF BUSINESS CHALLENGES

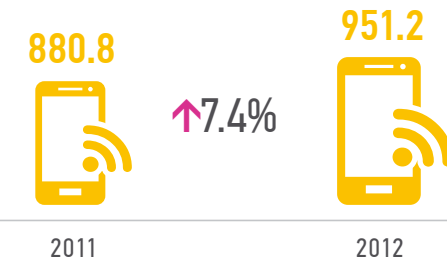
showed demand for fixed communications, 34 business centers were connected to the Company's network.

It is worth noting that 30% of Kyivstar's corporate subscribers use complex solutions, which means combining many types of communication services in one telecom solution. Thus, Kyivstar implements a multiservice approach to its customers, providing them with mobile communications, mobile Internet, monitoring of moving objects, high-speed Internet, office telephony services, data center and contact center services, corporate data network, M2M, etc. at a time.

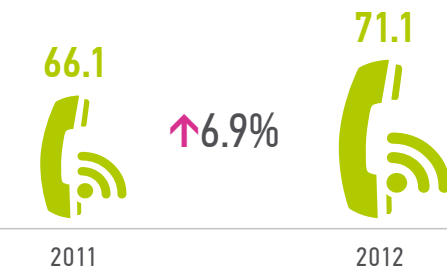
Due to the unique capabilities of Kyivstar, corporate clients have a number of advantages for their business: continuity of business processes, customer satisfaction, effective teamwork, expertise and customized solutions of business challenges.

NUMBER OF SUBSCRIBERS IN THE LARGE CORPORATE SEGMENT BY THE END OF 2012 AND THEIR RATE OF GROWTH COMPARED TO 2011:

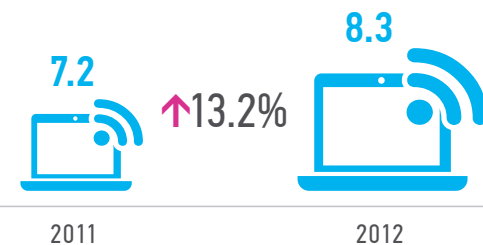
Mobile communications, thousand



Fixed telephony, thousand



Internet and data transfer, thousand





INTER-OPERATOR BUSINESS

Persistent investments in the own fiber-optic system development projects and long-term experience working on the inter-operator service market provided a basis for success of Kyivstar in the national and international voice- and internet traffic exchange service segment.

The cross-operators' business of the Company for 2012 accounts for about 20% of the gross revenues of the Company reported for 2012.

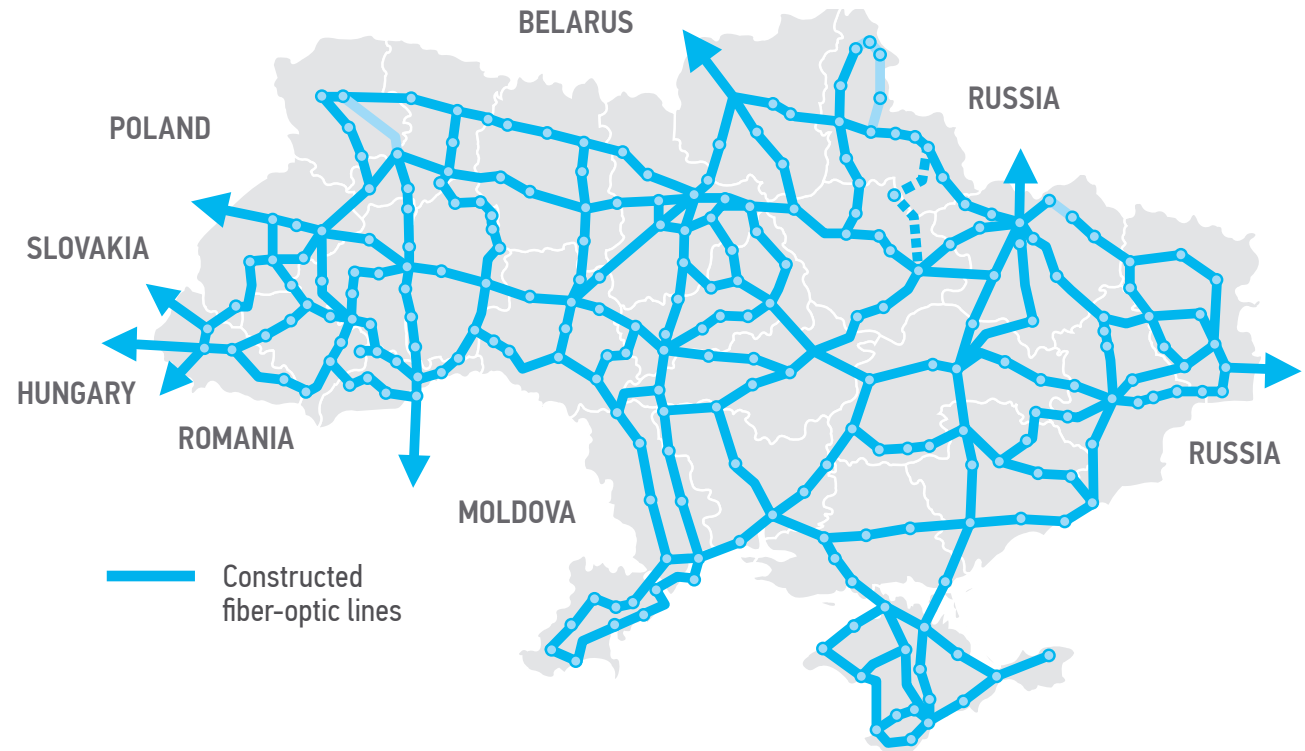
THE INTER-OPERATOR BUSINESS OF THE COMPANY FOR 2012 ACCOUNTS FOR ABOUT 20% OF THE GROSS REVENUES OF THE COMPANY REPORTED FOR 2012.

It should be noted that the revenues generated by the inter-operator business for 2012 marked a growth by 8% to that for 2011 having increased in absolute figures from UAH 2,113 billion to UAH 2,289 billion. That means that the inter-operator business is one of the top priority business sectors for Kyivstar.

The fiber-optic traffic systems operated by Kyivstar are connected directly through the relevant trans-border cable joints with the ground systems of telecom operators based in Russia, Hungary, Belarus, Moldova, Slovakia, Poland and Romania. Direct internet-traffic exchange service is secured through the relevant access points for the Company in the telecommunication centers of Ancotel GmbH (Frankfurt), DATAPLEX (Budapest) and LIM (Warsaw). For the years of successful operations, the Company proved to be an important link of traffic exchange between Europe and Asia and a reliable partner for Ukrainians in their communication with other countries around the world. International voice traffic in the Kyivstar system, for example, was reported to total 433.6 million minutes for 2012 and marked an 18 times growth for the last 9 years.

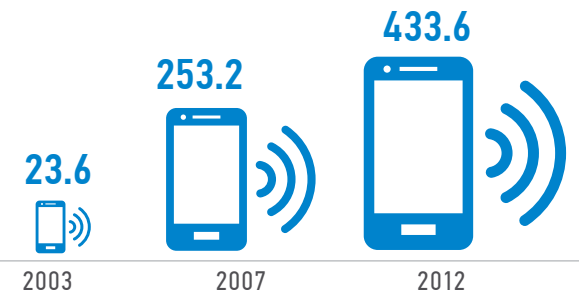
For the year of 2012, Kyivstar, striving to meet the growing demand of its clients for digital data exchange service, expanded the capacity of external Internet connection service by four times.

The fiber-optic system operated by Kyivstar reports 44,306 km of communication lines in its service, including 21.5 thousand km of backbone lines; 9 trans-border joints, 40 international interconnects and 100 national interconnects. Total capacity of the external Internet channels of the Kyivstar operations was reported to come to 330 Gbps in 2012.



THE FIBER-OPTIC TRAFFIC SYSTEMS OPERATED BY KYIVSTAR ARE CONNECTED DIRECTLY THROUGH THE RELEVANT TRANS-BORDER CABLE JOINTS WITH THE GROUND SYSTEMS OF TELECOM OPERATORS BASED IN RUSSIA, HUNGARY, BELARUS, MOLDOVA, SLOVAKIA, POLAND AND ROMANIA

International voice traffic service by Kyivstar, in million minutes





CUSTOMER SERVICES

Customers enjoy Kyivstar's services

Kyivstar Call Center is one of the best in Europe

New service channels — online chat

Social media

CUSTOMERS ENJOY KYIVSTAR'S SERVICES

The Kyivstar service quality showed the growth by many indices in 2012. That was proved by the external social researches and internal monitoring carried out within the People's Quality Rates program.

KYIVSTAR SUBSCRIBERS PARTICIPATED IN THE SURVEY RATED THE SERVICE QUALITY IN THE COMPANY WITH 4.63 POINTS OUT OF A POSSIBLE 5 POINTS.

That was the highest subscribers' rate in the Company's history. According to GfK Ukraine, in 2012 the satisfaction index among Kyivstar private customers of mobile communications was 4.49 on 5-point scale, and the satisfaction index among business customers was 4.60. Those points exceeded an average annual index.

In 2012 shorter waiting time improved subscribers' rate of call center services. If in 2011 there were 19% of subscribers waiting for the operator's answer for over 20 seconds, in 2012 such subscribers made only 15%. Among the subscribers using Kyivstar Internet, the part of those who waited for the operator's answer for over 20 seconds was somewhat bigger, but it also trended towards decrease from 38% in 2011 to 32% in 2012.

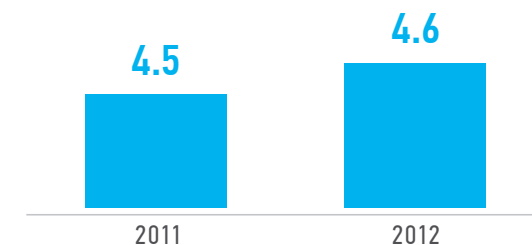
The dynamics of subscribers' satisfaction is the key factor for the Kyivstar management to rate its services. Commitment to meet subscribers' needs in high quality telephone communication and now in the Internet was the major propriety of the Company through 15 years of carrying out its activity on the market, and this priority will be constant in future.



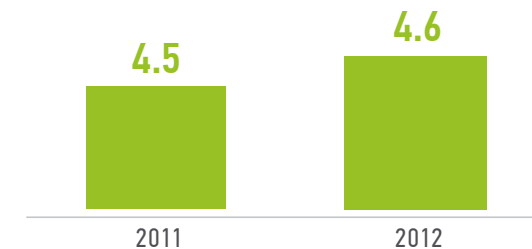
IF IN 2011 IT WAS 19% OF MOBILE COMMUNICATIONS CUSTOMERS WAITING FOR THE OPERATOR'S ANSWER FOR OVER 20 SECONDS, IN 2012 SUCH CUSTOMERS WERE ONLY 15%

SATISFACTION LEVEL OF PRIVATE CUSTOMERS AS TO THE QUALITY OF SERVICE AT THE KYIVSTAR CALL CENTER (on 5-point scale)

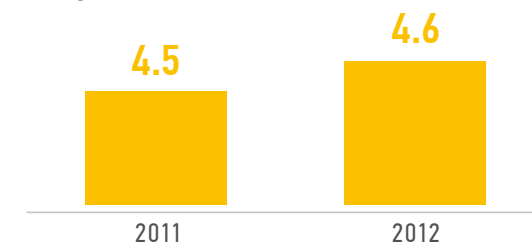
Satisfaction level of Kyivstar services according to People's Assessment



Contract subscribers



Prepaid subscribers



KYIVSTAR CALL-CENTER IS ONE OF THE BEST IN EUROPE

High quality of services provided by the Kyivstar call center is proved not only by its customers but also by the market professionals. Kyivstar call center won 5 gold international awards at the international contests in 2009 through 2012.

In June 2012, Kyivstar became runner-up of the Top Ranking Performers in the Contact Center World Awards (London, Great Britain) as the Best Large Corporate Contact Center among European, Middle East and African contact centers.

In February 2012, the Call Center became a winner of the international contest CCG Call Center Awards–2012 «Crystal Headset» (Moscow, Russia) just in two nominations: «The Best Large CIS Call Center» and «The Best Strategy for Improving/Modernization Program». Kyivstar has participated in the international contest CCG Call Center Awards «Crystal Headset» for three successive years and become a winner in different nominations every time. This contest is the most prestigious in the CIS in the area of contact centers, it was founded by the Call Center Guru professional community. In 2012, 223 applications from 7 countries were submitted, and more than 100 countries took part in the nominations. For ratings, the jury assessed call centers taking into account the following factors: effective human resources management process, comfort ecosystem, positive effect of a call center on a company as a whole, and clear understanding of its role in business, etc.



One more achievement we are proud of is success of those who embarked upon a career at the call center. Everything necessary for study, work and rest is provided there. Today, the call center «graduates» work at Kyivstar as directors, heads of departments, managers in different areas. In 2012, it was Kyiv Call Center where 57 specialists obtained new assignments and promotions. Kyivstar call center regularly provides training for youth without a work experience who wish to start their professional life. Within 1,5-month training course students gain necessary knowledge and skills allowing them to explore modern popular profession of call center expert. In 2012, 670 students received such training.

FACTS ABOUT THE CALL CENTER

 **4 CONTACT CENTERS**

 **1240 SERVICE EXPERTS**

 **34.7 MILLION OF CALLS** from customers per year

 **120 CONSULTATIONS CONDUCTED** by every expert a day

 **4.63 POINTS OUT OF MAXIMUM 5 POINTS** — mark received from customers

KYIVSTAR CALL CENTER WON 5 GOLD INTERNATIONAL AWARDS AT THE INTERNATIONAL CONTESTS IN 2009 THROUGH 2012



NEW SERVICE CHANNELS — ONLINE-CHAT

In 2012, we have launched the «Online Assistant» service to support customers enabling online-chat communication with Kyivstar experts. The service is provided free of charge during 24 hours within 7 days a week to all the Home Internet users and Kyivstar mobile communication subscribers and DJUICE prepaid and contract subscribers. Thus, Kyivstar has ensured that customers receive support and consultations in a user-friendly style whenever convenient to them — the service has successfully completed the contact center and is more and more popular.

The online-chat is accessible through the «My Kyivstar» self-service system: it is sufficient for a subscriber to enter his/her page of the system, choose «Feedback» and press the button «Online Assistant». During the online-chat the customer sees the name and avatar of the Kyivstar's expert. After the consultation the customer has an opportunity to immediately assess quality of the service provided during the chat.

FOR SAFETY CUSTOMER'S ACCESS TO THE ONLINE-CHAT THE ENCRYPTED SSL PROTOCOLS ARE USED. THEY PROTECT INFORMATION TRANSFERRED DURING THE CHAT FROM VIEWING BY THIRD PERSONS.

For ease of use of the service SSO technology (one-entry technology) has been introduced allowing a customer not to re-enter the login and password for authorization during the transition to the online-chat. In addition, during the online-chat communication customers may do different actions simultaneously (particularly, those recommended by the expert within the «My Kyivstar» system) and see their efficiency immediately.



IN 2012, WE HAVE LAUNCHED THE «ONLINE ASSISTANT» SERVICE TO SUPPORT CUSTOMERS ENABLING ONLINE-CHAT COMMUNICATION WITH KYIVSTAR EXPERTS

SOCIAL MEDIA

In addition to usual and long-established way of customers support in the call center and «Online Assistant» launched in 2012, new tools of communication with clients actively developed — Kyivstar social media presence.

In 2012, more than 130,000 customers communicated with Kyivstar through social networks. They were the first to know about new products, promotions and tariff offers. Kyivstar actively engaged in information and explanatory work in social networks, telling about comfortable and useful services that help to solve a variety of business and life needs.

THE CHANNEL KYIVSTAR ON YOUTUBE HAS BECOME VERY POPULAR AMONG CUSTOMERS, WHICH CONTAINS SEVERAL TOPICS.

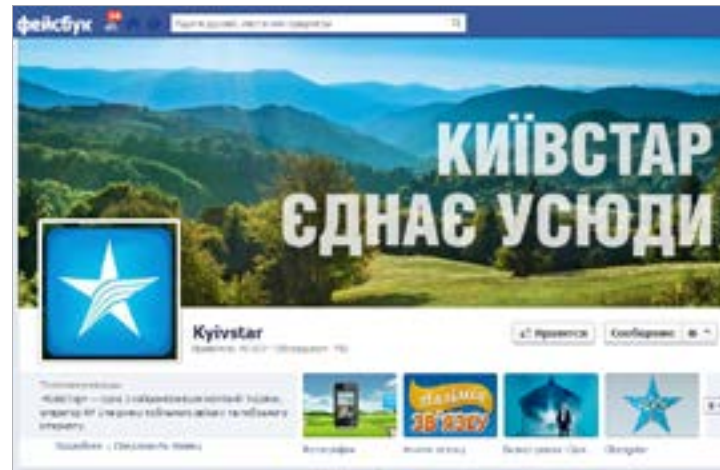
In the «Assistant of service user» it is possible to view video instructions on using the self-service provisioning, routers connection for the residential Internet or instruction on computer setup. The section «Special Events» contains videos about significant events in the life of company, the program of corporate social responsibility.

The official twitter-page Kyivstar and the company's photo album pacasaweb are actively working. It should be noted that other brand of Kyivstar — DJUICE — also has its presence in all major social media, and in view of young audience, these pages are focused on the promotion of licensed music content.

The dialogue of Kyivstar with the community of social networks is based on the principles of mutual respect, reliability of information and efficiency of feedback. High culture of the Company on social networks has been noted by the expert community. Thus, in 2012 Kyivstar social media presence on Facebook won the contest «Best Corporate Media in Ukraine».

According to the international monitoring system SocialBakers, «Kyivstar» is consistently occupies top positions in the rating of Socially Devoted Facebook Brands in Ukraine («Socially-oriented

brands»). This rating takes into account the number of responses to comments and questions left by users on the official community pages of companies. Indicator of Response Rate («Frequency of responses») of «Kyivstar» is 94%, while in the telecom-sphere worldwide this figure is significantly lower — 75.2%.



Picasa

<https://www.facebook.com/kyivstar>

<https://www.facebook.com/KyivstarInternet>

<https://www.facebook.com/kyivstar.mobilehealth>

<https://www.facebook.com/KyivstarBusiness>

<http://vk.com/kyivstar>

<http://www.youtube.com/user/KyivstarGSM>

<https://twitter.com/twiyykyivstar>

<https://picasaweb.google.com/106556764190304515380>

<https://www.facebook.com/djuice.Ukraine>

<http://vk.com/djuiceua>

<http://www.youtube.com/djuiceukraine>

<https://twitter.com/djuicemusic>



WORKPLACE

Kyivstar: inspired work

Modern solutions for comfortable work

Atmosphere of creativity and innovation

Staff education
and personal development initiatives

Meetings with famous people

Sports and leisure

KYIVSTAR: INSPIRED WORK

In 2012, Kyivstar reconfirmed its position of the best employer. These are data obtained from a survey conducted by Ernst & Young among office seekers in 2012. According to professional candidates, Kyivstar stands out other companies due to its reliable and stable market position (65% of respondents), decent level of wages (58% of respondents), career opportunities and interesting, important work (46% of respondents). Due to this combination of attractive factors, Kyivstar as an employer exceeds the expectations of professional candidates compared with other companies in Ukraine, particularly in the telecom industry.

The company was also highly appreciated according to the results of surveys among employees (the survey was conducted by an independent research Keneha, a world leader in researching personnel involvement). Thus, 94% of Kyivstar employees are willing to work even more for the welfare of the company, 85% are fully satisfied with work in the Company and are proud of it, 82% always recommend the Company to their friends and relatives, and 68% plan to work there for 5 years or more.

Expectations of Kyivstar personnel are confirmed in practice. In 2012, thanks to the internal recruitment system, 286 employees were promoted. Kyivstar has become a true «forge of staff» for the international group VimpelCom Ltd. Thus, VimpelCom's business units in Kazakhstan and Russia are headed by Kyivstar's ex-employees, who now successfully implement the experience gained in the Company.

Kyivstar is a company where people work with pleasure and smiles. This is a company where people not only earn and enhance their career, but also interact, relax, fall in love and create families, make friends and have hobbies ... in short, live with inspiration.

**85% ARE FULLY SATISFIED
WITH WORK IN THE COMPANY AND
ARE PROUD OF IT**



IN 2012:

286 EMPLOYEES
were promoted

137 NEW JOBS
were created
in all offices

50% OF STAFF
improved their skills
through trainings, courses,
development programs

100% OF EMPLOYEES
had increased
wages

269 CHILDREN
were born in families
of company employees

118 MARRIAGES
were made between
company employees



MODERN SOLUTIONS FOR COMFORTABLE WORK

Flexible work schedule, ability to work outside the office, using the latest technology to address business issues — these are priorities of modern employers. Kyivstar constantly introduces new, convenient solutions to enable employees of the Company to work comfortably and combine work and private life.

THUS, IN 2012, AN INNOVATIVE SYSTEM, TELEPRESENCE, WAS INTRODUCED FOR COMMUNICATIONS WITH PARTNERS AND STAFF IN REMOTE OFFICES.

This is a software and hardware complex consisting of servers with specialized software, and video terminals installed in employees' offices or in meeting rooms. It provides video and audio-conference communication, integration with telephone networks, corporate email and an office communication system. Perfect quality of sound and image creates a perception that participants, who are in different parts of the country or the world, are in the same room, at arm's length. In addition, the introduction of this innovation revealed a number of new opportunities for collaboration and streamlined business processes in the Company. The employees are able to render expert services to colleagues and provide prompt diagnosis in remote offices without on-site visits, as well as to optimize meetings and increase the effectiveness of corporate training.

Such an infrastructure is unique, and Kyivstar is the first Ukrainian company to introduce it in its work processes.

Kyivstar is concerned that its employees can efficiently balance work and leisure. In 2012, 40% of the staff worked according to a flexible schedule. In June, the Company launched a pilot project «Virtual Office» that allows for remote work. The first members of



the project were specialists of the information technology division and technical management. They had an opportunity to work remotely outside the office once a week. As a result of the project it was decided to extend it for all Kyivstar's employees in 2013.

IN 2012, 40% OF THE STAFF WORKED ACCORDING TO A FLEXIBLE SCHEDULE



ATMOSPHERE OF CREATIVITY AND INNOVATION

The «Create your own Kyivstar» Project launched in May 2011 has successfully progressed for 2012. As provided by the Project, every staff member of the Company is encouraged to come up with his/her ideas helpful for the local environment, Company on the whole, for the clients and society. For the year of 2012, quite many ideas offered by the Company personnel in the previous stages of the Project were implemented in real practice.

These ideas included, among other things: new video-portal for dissemination of video-films; new formats for communication with the Company on the Home Internet pages on the Facebook; Virtual Office Internet-based Project etc. Subscribers of the mobile communication service rendered by the Company benefited from the new ideas implemented in 2012, including new packages of international roaming services offered at discounted rates; new digital and multimedia services etc. The number of new initiatives to improve the client service were implemented, as follows: simplifying the procedures in new client registration and existing client service processes, including the telephone re-registration service when the client is not required to visit the Subscriber Service Center; SIM-card renovating service offered to the prepaid service clients by the Subscriber Service Center; minimizing the package of documents required from the individual clients in the communication service contract processing procedure; and optimizing the package of documents required to be signed by the corporate clients. These initiatives helped save time and resources of the Company personnel and clients.

THE COMPANY PERSONNEL HAS ENTHUSIASTICALLY SUPPORTED THE «GREEN» INITIATIVE OF ONE OF THE STAFF MEMBERS BY COLLECTING 4 TONS OF PAPER FOR THE YEAR IN THE CENTRAL OFFICE ONLY AND SAVING THEREBY AT LEAST 70 TREES.



For the year of 2012, the staff member who joined the innovation Project came up with 262 ideas geared to improve the business processes in the Company.

On the whole, more than a half of the Company personnel joined the «Create your own Kyivstar» Project by coming up with their own innovation ideas and by supporting the ideas voiced by their colleagues. The Company staff members registered 605 ideas in total, including 40 ideas that have been implemented as of today, and 40 more ideas being under implementation. Most of the ideas offered by the Company people are focused on the Company products and service improvements for the clients.

The «Create your own Kyivstar» Project acquired a new momentum when the existing dialogue was supported by an offline dialogue format that encourages constructive meetings of people representing different divisions of the Company. Since August 2012, there have been 9 meetings with participation of 250

THE COMPANY STAFF MEMBERS HAS REGISTERED 605 IDEAS IN TOTAL, INCLUDING 40 IDEAS THAT HAVE BEEN IMPLEMENTED AS OF TODAY, AND 40 MORE IDEAS BEING UNDER IMPLEMENTATION

people representing different Directorates of the Company. The participants have discussed such topics as challenges for the telecommunication system operations; digital music product development initiatives; reading and other reasonable entertainment products offered by Kyivstar; specifics of the tariff policies pursued by the operator; technical support of the systems, services and clients; personnel performance quality assessment process; volunteerism as an institution etc.



STAFF EDUCATION AND PERSONAL DEVELOPMENT INITIATIVES

For the year of 2012, the Company renewed its standing Personnel Development Program to better facilitate the Company staff adaptation to the rapid changes in the Company operations and business practices. The Personnel Development Program of Kyivstar was upgraded to offer better options for development of personality and individual virtues for every staff member and for improvement of job-related knowledge and skills.

New format for the top- and medium-level management personnel training is now offered by Leader Fest Project being implemented by the Company. This is a multilevel project designed to develop a responsible leadership culture in the management, including the due capacity to take responsibility for own individual performance, as well as for the team and business performance on the whole.

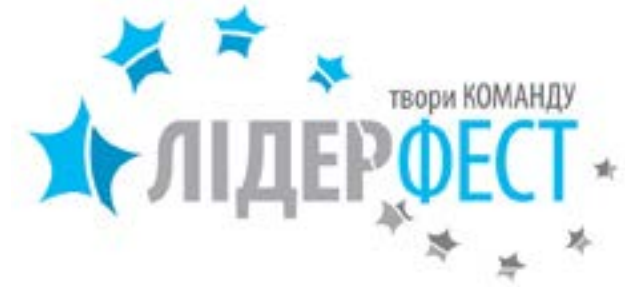
THE PROJECT WAS FOCUSED MOSTLY ON THE MANAGEMENT STAFF DEVELOPMENT SINCE WE BELIEVE THAT THE MANAGERS WHO LEAD THEIR TEAMS BECOME MODELS FOR THEIR STAFF MEMBERS, AND THAT ANY LEADERSHIP MODEL SHOULD BE IMPLEMENTED IN A TOP-TO-BOTTOM MANNER.

In other words, we must first change the behavioral models of the team leader who is trusted, modeled and followed by his/her staff members.

The Leader Fest Project is designed as an innovation initiative. No one project of that kind has been implemented in Ukraine so far by any team. The Project participants are expected to take full commitment in their missions under the Project without being distracted by other everyday business duties, and to acquire in relatively short period of time good knowledge, being inspired by new vision of business, and establish good contacts with one another.

As demonstrated by the first stage of the Project implementation, 100% of the Project participants polled acknowledge that the acquired knowledge was useful in their personal work and life; 96% reported having shared the new knowledge with their teams; and 98% of the respondents believed that the new acquaintances and communication with the colleagues in the informal environment helped them improve their performance in the everyday business process.

On the whole, every second staff member of the Company passed some training/ skills upgrade/ education courses for the year of 2012. The Company organized 17 personnel development and training events, more than 20 workshops under the Functional Training Program, and 62 IT-training courses for the year. The Kyivstar staff members took part in 85 conferences and workshops for the year.



5 DAYS **12 MASTER CLASSES**

12 HOURS OF EDUCATION AND DEVELOPMENT PER DAY

32 TRAININGS

12 EXTERNAL INSTRUCTORS FROM 12 DIFFERENT COMPANIES

12 MEETING-DIALOGS WITH TOP-MANAGEMENT OF UKRAINIAN TOP-COMPANIES

300 MANAGEMENT OFFICERS OF KYIVSTAR HAVE COMPLETED SKILLS UPGRADE

MEETINGS WITH FAMOUS PEOPLE

Kyivstar introduces alternative ways for employees' personal development not only through training, but also through reflection and dialogue. Such a project dedicated to development of innovative thinking outside the templates is skoBfotuA. In other words — out of box. This implies meetings of Kyivstar staff with prominent contemporaries, interesting, unusual personalities and experts in different business areas. The practice of such meetings was launched by the Company back in 2011, and in 2012 the project concept was updated. Meetings are now held in the form of a dialogue or discussion between invitees and Kyivstar representatives, to enable the audience to look at issues under discussion from different points of view. In addition, all employees of the Company can suggest a speaker for skoBfotuA — a hero they consider worthy.

In 2012, 6 such meetings were held and 560 employees took active part in the sessions of the project. Those who were unable to attend, had an opportunity to join virtually: the internal website contained video clips of each event. All speakers were offered by the staff (over 70 proposals in total were submitted).

**IN 2012, 6 SUCH MEETINGS WERE HELD
AND 560 EMPLOYEES TOOK ACTIVE PART
IN THE SESSIONS OF THE PROJECT**

Among the guests were: Oksana Mas, famous Ukrainian artist; Igor Shmyhin, president of Aikido Association and the first person to bring this art in Ukraine; Andriy Khudo businessman, founder of conceptual Lviv restaurants; Pavlo Sheremet — famous Ukrainian economist and business consultant, Kostyantyn Tomilchenko, choreographer, producer, director; Victoria Zhadko — one of the few female orchestra conductors. For Kyivstar, the discussions were moderated by Andriy Milinevsky, Oleksandr Dorofiy, Tetiana Sumina, Andriy Osadchuk. Topics of the meeting were issues such as happiness and self-fulfillment, active life position, obstacles and their overcoming, and so on.



SPORTS AND LEISURE

Football is rightfully a corporate kind of sport among Kyivstar's employees. Over a hundred of employees every year take part in sports competitions held between branches within the Company, and in local and national «intercorporate» competitions. Training of football players takes place regularly throughout the year — 1 training per week. The season of football tournaments is from September to June. During this period teams go through four rounds of the tournament. Each season Kyivstar's football team takes prizes, and won the tournament Cup once.

In 2012, the 8th annual Kyivstar internal football tournament took place. It was attended by 10 teams: from Kyiv, Lviv, Kharkiv, Dnipropetrovsk, Odesa and Cherkasy. Besides the players themselves, these sports events were attended by more than 700 fans — our fellow athletes and their families. The best sportsmanship was demonstrated by residents of Lviv. Their team won the tournament and «silver» went to the central office staff team.

ANY KYIVSTAR EMPLOYEE CAN JOIN THE FOOTBALL MOVEMENT: NEW PLAYERS ARE ALWAYS WELCOMED IN THE TEAM. KYIVSTAR'S MANAGEMENT STRONGLY SUPPORTS SPORT ACTIVITIES.

The Company pays the rent of premises for training football players participating in general tournaments. Kyivstar supports the enthusiasm of its employees in sports that promote teambuilding and meet the principles of the Company: taking care of the team, customers and society. Thus, a special bicycle parking was built for employees who decided drive bicycles instead of cars. It is a useful and illustrative example where passion for sports is combined with environmental concern.

The Company promotes the development of creative abilities of employees, their leisure in every possible way. In June 2012, the Company held a festival of folk art. The central office staff arranged a series of workshops dedicated to various arts. It turned out that many Kyivstar employees are masters in pottery, weaving wicker, embroidery and many other crafts, and gladly shared their secrets with colleagues. A fair of handiwork made by the employees was organized during the day. All funds collected were transferred to an orphanage in Vasylkiv, patronized by Kyivstar.



KYIVSTAR SUPPORTS THE ENTHUSIASM OF ITS EMPLOYEES IN SPORTS THAT PROMOTE TEAMBUILDING AND MEET THE PRINCIPLES OF THE COMPANY: TAKING CARE OF THE TEAM, CUSTOMERS AND SOCIETY



KYIVSTAR FOR COMMUNITY

Taxes and contribution to the Ukrainian economy

Helping orphans and children with disabilities

Concern for children's online safety

Educational tours for schoolchildren

The tradition of volunteering

Caring for the Environment



TAXES AND CONTRIBUTION TO THE UKRAINIAN ECONOMY

Kyivstar is one of major taxpayers contributing to the state budget of Ukraine, a valuable investor in the nation's economy and an important driving-force for the development of Telecom sector of economy.

IN 2012, THE COMPANY PAID ABOUT UAH 3.5 BILLION TO THE BUDGET, WHICH MAKES 1% OF THE NATIONAL ANNUAL BUDGET.

All in all, over fifteen years of its operation Kyivstar paid UAH 30 billion of taxes and dues. Such contribution to the state budget cannot escape public notice: Kyivstar was rated first among transport and communications enterprises in the All-Ukrainian Bona Fide Taxpayer 2012 ranking by the All-Ukrainian non-governmental organization «Taxpayers Association of Ukraine». Kyivstar has been topping the rating of bona fide taxpayers among transport and communications enterprises for many years.

Kyivstar's investments in 2012 amounted to UAH 1.8 billion, and overall investments for 15 years have reached UAH 28 billion. It can be stated with certainty that the investments made by the Company are a potent driving-force for economic development in Ukraine, since the funds invested by the Company have a significant multiplier effect, i.e. are payment to the contractors and suppliers for goods and services enabling them to go ahead with further business transactions. Kyivstar disposes itself to invest more, in particular, when it obtains state licenses for 3G/LTE broadband Internet services.

Another positive effect of Kyivstar's business for the Ukrainian economy is the development of telecommunications infrastructure, which is the groundwork for business activity in terms of present-day economy. An extensive telecommunications network coupled with the lowest communication charges worldwide allow the general public and businesses to reduce transaction costs, communicate

more actively, exchange information quickly and without fail. High quality and efficiency of Kyivstar network has been confirmed by Ericsson. According to its studies, Kyivstar network has been recognized as the best in Europe among GSM/EDGE networks based on Ericsson equipment.

KYIVSTAR'S INVESTMENTS IN 2012 AMOUNTED TO UAH 1.8 BILLION, AND OVERALL INVESTMENTS FOR 15 YEARS HAVE REACHED UAH 28 BILLION

KYIVSTAR IN 2012:

 **1.8 BILLION UAH**
investments in telecommunications market

 **3.5 BILLION UAH**
of taxes paid to the state budget

15 YEARS OF KYIVSTAR'S OPERATION IN UKRAINE:

 **28 BILLION UAH**
investments in telecommunications market

 **30 BILLION UAH**
of taxes paid to the state budget

 **1 TRILLION**
of mobile call minutes

 **44 THOUSAND KILOMETERS**
of fiber-optic networks

 **EVERY SECOND**
Ukrainian is a Kyivstar subscriber



HELPING ORPHANS AND CHILDREN WITH DISABILITIES

Kyivstar consistently takes charge of 65 boarding schools and children's homes with more than 10000 orphans and children with disabilities. This assistance has been provided since 2004 as a part of the All-Ukrainian charitable initiative «For the people, for the country».

THE COMPANY ALLOTTED UAH 750 THOUSAND TO CHARITABLE INITIATIVES FOR CHILDREN IN 2012, UAH 250 THOUSAND OF WHICH IS PERSONAL DONATIONS OF EMPLOYEES, AND IN THE LARGE, THE COMPANY SPENT OVER UAH 200 MILLION ON SOCIAL INITIATIVES DURING THE ENTIRE PERIOD OF ITS OPERATION.

The Company's employees frequent the sponsored boarding schools. They see to it that the children have everything they need for studies, leisure time and medical treatment. In 2012, Kyivstar's financial aid was used to repair bedrooms and common rooms in 12 sponsored children's institutions in different regions of Ukraine. The Company also financed the purchase of furniture, audio systems, lighting systems for the boarding schools. Kyivstar's employees on their own initiative collected over UAH 250 thousand and bought bed-clothes, blankets, stationary for the children from boarding schools.

AND TO MAKE CHILDREN FEEL MORE COMFORTABLE, KYIVSTAR'S EMPLOYEES RECORDED AN AUDIO COLLECTION OF UKRAINIAN FOLK TALES AND PRESENTED IT TO THE BOARDING SCHOOLS.

The collection includes 22 Ukrainian folk tales recorded with the participation of 60 Company's employees who spent more than 80 hours of their work hours on the recording. The tales may be downloaded to a mobile phone or a computer from the Company's site at <http://music.djuice.ua/> free of charge in «Free of charge tales» section.



IN 2012, KYIVSTAR'S FINANCIAL AID WAS USED TO REPAIR BEDROOMS AND COMMON ROOMS IN 12 SPONSORED CHILDREN'S INSTITUTIONS IN DIFFERENT REGIONS OF UKRAINE

CONCERN FOR CHILDREN'S ONLINE SAFETY

Kyivstar maintains an ongoing dialogue with the community, providing customers with complete and accurate information about the Company's products and services, promoting their correct and proper use in the community to improve people's lives. An important part of this work is social program to protect children from harmful content, mistakes and abuse while using the Internet.

The audience of young Internet users in Ukraine is steadily increasing and, consequently, risks of children getting into danger increase as well. According to a study by UNICEF («Generation Ua-Net»), published in November 2011, the vast majority of children are users of social networks, where about 40% share personal information about themselves and their family, and 60% of adolescents even meet their virtual friends in real life.

CARING FOR PROTECTION OF UKRAINIAN CHILDREN FROM ONLINE THREATS, IN APRIL 2012 KYIVSTAR LAUNCHED ITS OWN COMPREHENSIVE NATIONWIDE SOCIAL CAMPAIGN «TELLING CHILDREN ABOUT ONLINE SAFETY» AS A PART OF THE LONG-TERM PROGRAM «CHILDREN'S ONLINE SAFETY».

The campaign was aimed at drawing attention of the Ukrainians to the problem of online security and encouraging parents to talk with children about the rules of safe behavior online.

During the campaign, public attention was brought to the issue by placing images on external media and transport, as well as an online banner campaign. Large audience was also engaged in social networks.



A dedicated website (<http://bezpeka.kyivstar.ua/ru/>) was created in order to inform Internet users about the rules of safe behavior online. The website contains the rules of online safety and

educational materials for children, parents and teachers. In addition, special content for social media based on infographics was developed; a teaser campaign on popular online portals was launched.

The telecom operator paid particular attention to informing its employees, who are also parents of over 2,300 children, about Internet safety. The company provides regular newsletters, publications on domestic portal, employee training and recruiting volunteers in training seminars on online security.





CONCERN FOR CHILDREN'S ONLINE SAFETY

In November 2012, the second phase of this program was launched. A new social campaign, «Connecting Free «Parental control» urged Ukrainians to pay attention to facilities and to use social services developed by Kyivstar in collaboration with Microsoft, to protect Internet users against online threats.

An important part of the project was a program of educational activities in schools. Hundreds of Kyivstar's volunteers regularly hold information work with students and teachers in secondary schools on the rules of safe behavior on the Internet, providing for the establishment of safe areas for learning, communication and development of children. The company employees develop special materials to help children easily adopt the basic rules of safe behavior online in a relaxed playful way.

BY IMPLEMENTING THE PROGRAM «CHILDREN'S ONLINE SAFETY», KYIVSTAR MANAGED TO HAVE A SIGNIFICANT EFFECT ON RESOLUTION OF SOCIAL PROBLEMS.

Over 200 educational establishments have access to high speed safe Internet: more than 80,000 students in 30 cities can safely use modern learning materials by connecting to the Internet provided by Kyivstar.

THE INFORMATIONAL AND EDUCATIONAL PROGRAM WITH THE PARTICIPATION OF VOLUNTEERS COVERED MORE THAN 11,000 PEOPLE: 2,000 CHILDREN, 4,000 PARENTS AND 5,000 TEACHERS ACROSS THE COUNTRY.

The problem of children's safety on the Internet was communicated to general public — more than 20 mn of Ukrainians.

The social campaign «Telling Children about Online Safety» was noted for innovation during the the competition Prawda Awards; it also won a bronze award in the category «Social Advertising and Charity» at Effie Awards Competition 2012. The Jury of the Foundation «Development of Ukraine» noted the campaign in the category «Best Contribution in Ukraine's development» in the national competition of business cases on corporate social awareness.

But the most important result was that the Ukrainians became more attentive to protection of their children while they use the World Wide Web. According to a survey conducted by GFK in October 2012, every third Ukrainian responded to the call of the social campaign — 70% told the children about online safety, and 80% of Ukrainians, aware of the program «Children's Online Safety», consider it useful.





EDUCATIONAL TOURS FOR SCHOOLCHILDREN

In 2012, Kyivstar launched an educational initiative for school children — trips to the Company's offices to familiarize the younger generation with interesting professions in the telecom industry and help children to identify future profession. Tour participants were students of grades 5-11 and their teachers. Children attend various Kyivstar's units — call centers, marketing and advertising department, video rooms, technical directorate, sales and service centers. The «guides» are the Company's employees who tell the children about the work of a telecommunication operator, the notion of mobile connectivity and its operation, functions engaged in the Company, methods of developing communication products and innovations, and more.

AN AMUSING PIECE OF EVERY EXCURSION IS VIDEOCONFERENCES BETWEEN GROUPS OF SCHOOLCHILDREN, WHO ARE SIMULTANEOUSLY IN DIFFERENT OFFICES OF THE COMPANY. THIS ALLOWS CHILDREN SEEING WITH OPERATION OF HIGH-SPEED INTERNET, ITS ADVANTAGES IN STUDIES.

This educational initiative becomes more and more popular. Thus, even foreign teachers express their interest. In November 2012, schoolchildren from Engstingen (Germany) attended Kyivstar's office in Dnipropetrovsk.

In total, in 2012, 30 similar excursions were arranged for over 700 Ukrainian schoolchildren. They visited Kyivstar's offices in Kyiv, Dnipropetrovsk and Lviv. In 2013, branches in other cities will also take part in this project.



THIS EDUCATIONAL INITIATIVE BECOMES MORE AND MORE POPULAR. THUS, EVEN FOREIGN TEACHERS EXPRESS THEIR INTEREST. IN NOVEMBER 2012, SCHOOLCHILDREN FROM ENGSTINGEN (GERMANY) ATTENDED KYIVSTAR'S OFFICE IN DNIROPETROVSK

THE TRADITION OF VOLUNTEERING



All social initiatives of Kyivstar are implemented through involvement of the Company's employees. These are people with a proactive attitude, who gladly help other persons and act as goodwill ambassadors of the Company. In 2012, about one thousand of Kyivstar employees participated in volunteering and charitable initiatives. 10 socially useful projects of national importance were implemented with their assistance: safe Internet classes, environmental initiatives, concerts for war and labor veterans, assistance to boarding schools, etc.

Volunteer activities are zested with the employees' participation in the corporative theatre which organizes festive shows for the pupils of sponsored boarding schools, as well as participation in annual concerts in commemoration of Victory Day.

In 2012, over 100 volunteers-employees of Kyivstar from different regions took part in 14 festive programs held in 11 Ukrainian cities where they personally greeted about 2000 children, in the first place, kids from children's homes and boarding schools. More than 280 Company's employees took part in already traditional celebration events dedicated to the honoring of World War II vet-

IN 2012, ABOUT ONE THOUSAND OF KYIVSTAR EMPLOYEES PARTICIPATED IN VOLUNTEERING AND CHARITABLE INITIATIVES. 10 SOCIALLY USEFUL PROJECTS OF NATIONAL IMPORTANCE WERE IMPLEMENTED WITH THEIR ASSISTANCE

erans in 2012. On May 9, 2012, Kyivstar volunteers arranged gala concerts for the veterans. «Call to a battle field friend» action was held in 22 Ukrainian cities and involved over 2 thousands of veterans and persons born in time of war. Kyivstar volunteers arranged mobile duty for the elderly persons to call their friends and family in Russia, Belarus and Ukraine free of charge.

ON VICTORY DAY, KYIVSTAR EMPLOYEES TOGETHER WITH HUNDREDS OF CITIZENS LIGHTED «MEMORY STARS» IN 10 UKRAINIAN CITIES. EACH STAR CANDLE REPRESENTED OUR MEMORY OF EACH DAY OF WAR AND OF EVERY FALLEN, THE MEMORY WHICH SHOULD NEVER GO OUT.

In 2012, Kyivstar corporate volunteering was conferred a national distinction. The best Ukrainian volunteer was selected at «Corporate Volunteering Activities» competition arranged by The Eastern Europe Fund in partnership with Global Compact Network Ukraine, and the winner was Igor Dzhebian, employee of Dnipropetrovsk branch of Kyivstar.



CARING FOR THE ENVIRONMENT

Caring for the environment in Kyivstar is revealed in three areas: energy saving technologies in various business segments, replacing paper-based document turnover with electronic and environmental initiatives.

IN ALL AREAS OF BUSINESS THE COMPANY APPLIES TECHNOLOGIES TO REDUCE ELECTRICITY CONSUMPTION, DECREASE CO₂ EMISSIONS AND CONSUMPTION OF NATURAL RESOURCES.

In early 2012 Kyivstar introduced unique software Intelligent Cell Shutdown, which can reduce energy use at base mobile workstations. This is an authoring of specialists of the Company's technical directorate who developed the software algorithms that can automatically, without human intervention, temporarily disconnect from power supply certain sectors of base stations when load on land GSM-network is reduced. That said, high quality of all services — voice traffic, data transfer, additional services is preserved. According to Kyivstar's estimates, the expected effect from the implementation of this energy know-how is up to 4 million UAH annually.

In 2012, Kyivstar launched large-scale upgrading of its network infrastructure to replace RBS equipment with new and modern equipment that is smaller, lighter and consumes much less power. This allowed reducing electricity consumption by 24% at almost 500 sites. The effect achieved by replacing equipment at all sites of the network can be compared with the volume of electricity sufficient to provide heat for 3390 flats during the heating season.

Traditionally, in April 2012 Kyivstar employees in all branches of the Company came together for environmental events to make their cities cleaner and greener. The largest environmental initiative in the Company's history was «Share Your Love To the Crimea». More than 400 Kyivstar employees participated in



THE COMPANY'S VOLUNTEERS PLANTED 21,000 SEEDLINGS OF CRIMEAN PINE AND OAK IN THE RESERVE

the restoration of Yalta mountain-forest nature reserve, which suffered a major fire. The Company's volunteers planted 21,000 seedlings of Crimean pine and oak in the reserve. Kyivstar funded the equipment of a fire-fighting water reservoir with capacity of 750 m³ near Sigatur spring, where two large fires took place. According to environmentalists of Yalta reserve, the trees planted by Kyivstar employees will produce 20 tons of oxygen per year, while capturing 140 tons of dust. Given the lifespan of the trees,

the restored forest area will clean the air and saturate it with phytoncides over the next 500 years.

Kyivstar's project «Share Your Love To the Crimea!» is an award-winner in the nomination «Best site landscaping project» of the contest Green Awards Ukraine 2012. The jury distinguished it for its innovative approach and the importance for the environment.



**ACHIEVEMENTS AND
ACKNOWLEDGEMENTS**

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#1 IN THE «TOP-100 BEST COMPANIES OF UKRAINE-2012»

rating made by «Investgaseta Business Magazine» experts based on a set of business efficiency indicators. The Magazine in fact rated the Company #1 among the telecommunication business companies and #2 among all business companies representing every sector of the national economy.



«BEST MANAGERS OF UKRAINE-2013»

rating of «Economica» Publishing House acknowledged the Kyivstar President Igor Lytovchenko as the Country Manager #1 in the telecommunication business management and rated him among the top three business leaders of the country on the whole



#1 IN THE «HONEST TAXPAYERS OF 2012»

rating performed for transport and communication companies by the All-Ukraine Non-government Organization «Taxpayers' Association of Ukraine



IN THE TOP 5 MOST TRANSPARENT BUSINESS COMPANIES OF UKRAINE

being the single telecommunication system operator on the list. The rating was made based on the Global Corporate Business Transparency Indices by the Corporate Social Responsibility Development Center



WINNER OF THE GREEN AWARDS UKRAINE-2012

in National Competition «Share your Love to the Crimea» in the «Best Landscape Gardening» nomination



WINNER IGOR DZHEBIAN, STAFF MEMBER OF THE KYIVSTAR DNEPROPETROVSK BRANCH OFFICE

was declared a winner of the National Competition «Corporate Volunteerism in Ukraine-2012» organized by the East Europe Foundation in partnership with the Global Agreement of Ukraine Network, European Business Association, the US Chamber of Commerce and Trade and the Ukrainian Charity Foundation



#1 IN THE RATING OF THE MOST APPEALING EMPLOYERS OF UKRAINE

The Company was rated #1 by Ernst & Young Report in the rating of the Most Appealing Employers of Ukraine on the whole and telecommunication sector in particular, based on the relevant Job-Seekers' Polls for 2012



WINNER OF THE «TELL CHILDREN ABOUT THE INTERNET SAFETY» PROJECT

of the IV National Competition of Corporate and Social Responsibility Business Cases of 2012; and received a bronze medal in the nomination of «Social Advertisement and Charity Activity» of the Effie Awards -2012 annual competition



BEST CORPORATE MEDIA OF UKRAINE-2012

The Kyivstar Facebook page received a Grand Prix as a Best Corporate Media of Ukraine-2012 Competition organized by the Association of Corporate Media of Ukraine. In addition, Kyivstar received four awards in different nominations of the same event, including a Grand Prix in «Electron Publication» nomination; Grand Prix in «Corporate Publication of b2b category» nomination awarded for the Kyivstar Business Digest; 2nd place in the «Corporate Annual Report» nomination; and the 3rd place in the «Corporate Calendar» nomination for the «We are 15 years old» calendar



IN THE «TOP TEN COMPANIES THAT INSPIRE» RATING

made by Companion Business Weekly Magazine editorial board and specially acknowledged for the «successful formation of the image of a facilitator of the people's communication process rather than a telecommunication business operator only»



**CONSOLIDATED
FINANCIAL
STATEMENTS**



Independent Auditors' Report

TO THE SHAREHOLDERS OF JOINT STOCK COMPANY KYIVSTAR

We have audited the accompanying consolidated financial statements of Joint Stock Company Kyivstar and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement 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, 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 of consolidated financial statements that give a true and fair view 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 the Group as at 31 December 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

15 March 2013

Ernst & Young Audit Services LLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(For the year ended 31 December 2012, in thousands of Ukrainian Hryvnia, except for earnings per share)

	Notes	2012	2011
Revenues	9		12,332,345
Costs of materials and traffic charges	9	(2,663,526)	(2,192,911)
Salaries and personnel costs	9	(973,538)	(948,744)
Other operating expenses	9	(2,784,284)	(2,325,816)
Other income		23,702	30,636
Other expenses	9	(203,773)	(59,917)
Depreciation and amortisation	9	(1,530,541)	(2,109,508)
Impairment losses	9	(28,556)	(12,476)
		4,971,780	4,713,609
Finance income	9	604,147	946,127
Finance costs	9	(4,485)	(8,203)
Foreign exchange gain/(loss), net		371	(7,889)
Profit before tax		5,571,813	5,643,644
Income tax expense	10	(1,242,476)	(1,376,114)
Profit for the year		4,329,337	4,267,530
Total comprehensive income for the year, net of tax		4,329,337	4,267,530
Earnings per share, UAH	31	330.70	417.97

Signed and authorised for release on behalf of management of Joint Stock Company Kyivstar 15 March 2013:

*President
Igor Lytovchenko*

*Chief Financial Officer
Artem Nitz*

*Deputy Chief Financial Officer/ Chief Accountant
Lesya Samoylovich*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(As at 31 December 2012, in thousands of Ukrainian Hryvnia)

ASSETS	Notes	2012	2011
Non-current assets			
Property, plant and equipment	11	7,213,795	7,094,873
Intangible assets	12	1,166,258	883,500
Other non-current assets	13	65,849	44,625
Deferred tax asset	10	177,330	401,487
		8,623,232	8,424,485
Current assets			
Inventories		69,270	122,228
Trade and other receivables	14	447,858	510,387
Prepaid income tax		432,624	642,655
Prepaid taxes, other than income tax		16,374	14,249
Prepayments		88,132	110,871
Deferred expenses	16	108,548	106,211
Other current financial assets		4,500	2,627,116
Other current assets		18,711	-
Cash and cash equivalents	17	1,483,464	892,806
		2,669,481	5,026,523
Assets of disposal group classified as held for sale	30	24,378	-
		2,693,859	5,026,523
TOTAL ASSETS		11,317,091	13,451,008

EQUITY AND LIABILITIES	Notes	2012	2011
Equity			
Share capital	18	1,009,249	1,006,499
Share premium	18	102,338	-
Additional capital	18	132,682	-
Retained earnings		8,091,620	10,613,771
Treasury shares	18	(370,398)	(370,398)
		8,965,491	11,249,872
Non-current liabilities			
Employee benefit liability		42,729	40,873
Provisions	21	58,216	29,672
Other non-current financial liabilities		26,356	-
		127,301	70,545
Current liabilities			
Interest-bearing loans and borrowings	19	-	51,917
Employee benefit liability		8,804	9,011
Deferred revenue	20	696,979	741,887
Provisions	21	287	1,767
Taxes payable, other than income tax	22	174,303	95,745
Trade and other payables	23	1,002,720	904,009
Advances received	24	151,805	148,810
Other current liabilities	25	189,401	177,445
		2,224,299	2,130,591
TOTAL EQUITY AND LIABILITIES		11,317,091	13,451,008

CONSOLIDATED CASH FLOW STATEMENT

(For the year ended 31 December 2012, in thousands of Ukrainian Hryvnia)

	Notes	2012	2011
Investing activities			
Purchase of property, plant and equipment		(1,763,353)	(2,369,543)
Purchase of intangible assets		(290,008)	(267,438)
Reimbursable interest-free financial aid provided to related party —		-	(105,000)
Reimbursable interest-free financial aid repaid by related party		222,000	901,000
Cash received from accession of Storm LLC -		-	590
Cash received from purchase of assets of JSC Ukrainian Radiosystems		89,425	-
Proceeds from sale of property, plant and equipment		10,806	9,930
Net cash flows used in investing activities		(1,731,130)	(1,830,461)
Financing activities			
Dividends paid to equity holders of the parent (3,977,392) (3,654,533)		(3,977,392)	(3,654,533)
Withholding tax paid on dividends (32) (192,344)		(32)	(192,344)
Repayment of loan		(51,223)	-
Proceeds from issue of shares		105,088	-
Net cash flows used in financing activities		(3,923,559)	(3,846,877)
Net increase/(decrease) in cash and cash equivalents		587,313	(698,662)
Net foreign exchange difference		3,346	(3,588)
Cash and cash equivalents as at 1 January	17	892,806	1,595,056
Cash and cash equivalents as at 31 December	17	1,483,464	892,806

OPERATING ACTIVITIES	Notes	2012	2011
Profit before tax		5,571,814	5,643,644
Non-cash adjustments to reconcile profit before tax to net cash flows:			
Depreciation of property, plant and equipment	9	1,370,511	1,722,674
Impairment of property, plant and equipment and intangible assets	9	28,556	12,476
Amortisation of intangible assets	9	160,030	386,834
Loss on disposal of property, plant and equipment and intangible assets and assets of disposal group classified as held for sale	9	198,799	56,294
Interest income	9	(162,956)	(226,390)
Unwinding of discount on other current financial assets	9	(441,191)	(719,737)
Interest expense	9	1,787	3,959
Other finance costs	9	2,697	4,244
Stock-based compensation expense		(1,167)	1,167
Movements in provisions and employee benefit liability		(56)	(7,705)
Unrealised foreign exchange loss		(3,343)	3,767
Working capital adjustments:			
Decrease/(increase) in inventories		53,681	(53,238)
Decrease/(increase) in trade and other receivables, prepayments and other assets		82,041	(244,618)
Increase in deferred expenses		(2,337)	(13,628)
Increase in trade and other payables and taxes payable, other than income tax		92,449	63,717
(Decrease)/increase in deferred revenue		(45,092)	5,228
Increase in advances received		2,995	12,603
Increase in other current liabilities		11,440	15,980
		6,920,659	6,667,271
Interest received		160,113	229,563
Interest paid		(1,984)	(3,957)
Income tax paid		(836,786)	(1,914,201)
Net cash flows from operating activities		6,242,002	4,978,676



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(For the year ended 31 December 2012, in thousands of Ukrainian Hryvnia)

ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT

	Share capital (Note 18)	Share premium (Note 18)	Additional capital	Retained earnings	Treasury shares (Note 18)	Total equity
Balance at 1 January 2011	656,499	-	-	10,679,975	-	11,336,474
Profit for the year	-	-	-	4,267,530	-	4,267,530
Total comprehensive income for the year, net of tax	-	-	-	4,267,530	-	4,267,530
Dividends declared (Note 18)	-	-	-	(3,846,877)	-	(3,846,877)
Accession of Storm LLC (Note 18)	350,000	-	-	20,880	(370,398)	482
Share-based payment transactions	-	-	-	1,167	-	1,167
Distributions to shareholders	-	-	-	(508,904)	-	(508,904)
Balance at 31 December 2011	1,006,499	-	-	10,613,771	(370,398)	11,249,872
Profit for the year	-	-	-	4,329,337	-	4,329,337
Total comprehensive income for the year, net of tax	-	-	-	4,329,337	-	4,329,337
Additional issue of shares (Note 18)	2,750	102,338	-	-	-	105,088
Dividends declared (Note 18)	-	-	-	(3,977,424)	-	(3,977,424)
Share-based payment transactions	-	-	-	(1,167)	-	(1,167)
Contribution from shareholders (Note 18)	-	-	132,682	-	-	132,682
Distributions to shareholders (Note 18)	-	-	-	(2,872,897)	-	(2,872,897)
Balance at 31 December 2012	1,009,249	102,338	132,682	8,091,620	(370,398)	8,965,491

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2012

1. CORPORATE INFORMATION

Joint Stock Company Kyivstar (hereinafter referred to as 'Kyivstar' or 'the Company') was established and registered on 3 September 1997 under the laws of Ukraine. The Company is involved in the design, construction and operating of a dedicated cellular telecommunication network and provides a wide range of mobile communication services in Ukraine.

The Company's registered legal address is at 51, Chervonozoryanyy Av., Kyiv, 03110, Ukraine. The Company's head office and principal place of business is at 53, Degtyarivska St., Kyiv, 03113, Ukraine.

As at 31 December 2012 and 2011 the Company's direct shareholders and their respective declared interests were as follows:

	2011		2012	
	Interest	Number of shares	Interest	Number of shares
VimpelCom Holdings B.V. (Netherlands)	73.804%	13,094,562 700	73.722%	13,039,562 700
VimpelCom Ltd. (Bermuda)	0.004%	—	0.004%	700
Storm LLC (Ukraine)	—	4,647,127	—	—
Treasury shares	100.000%	17,742,389	100.000%	17,687,389

The Company has one wholly owned subsidiary — Joint Stock Company Staravto, which was established in order to provide transportation services to the Company. The Company and its subsidiary are hereinafter together referred to as 'the Group'.

In October 012 the Company acquired assets and liabilities of the entity under common control, JSC 'Ukrainian Radiosystems' (hereinafter referred to as 'URS'). This acquisition was structured as a purchase of 100% shares of URS.

The Company's ultimate parent is VimpelCom Ltd., a company headquartered in Amsterdam, the Netherlands.

2. OPERATING ENVIRONMENT, RISKS AND ECONOMIC CONDITIONS IN UKRAINE

Characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets, high inflation and the existence of currency controls which cause the national currency to be illiquid outside of Ukraine. The stability of the Ukrainian economy will be significantly impacted by the Government's policies and actions with regard to administrative, legal, and economic reforms. As a result, operations in Ukraine involve risks that are not typical for developed markets.

The Ukrainian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in a decline in the gross domestic product, instability in the capital markets, a significant deterioration in the liquidity of the banking sector, and tighter credit conditions within Ukraine. Whilst the Ukrainian Government continues to introduce various stabilisation measures aimed at supporting the banking sector and providing liquidity to Ukrainian banks and companies, there continues to be uncertainty regarding access to capital and its cost for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

Whilst management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, any unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

3. BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments measured in accordance with the requirements of IAS 39 Financial instruments: recognition and measurement.

These consolidated financial statements are presented in Ukrainian Hryvnia ('UAH') and all values are rounded off to the nearest thousand, except when otherwise indicated.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its whollyowned subsidiary, DP Staravto. The subsidiary is fully consolidated from the date it was incorporated by the Company. The subsidiary's financial statements are prepared at the same reporting date as the Company's, using consistent accounting policies.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

4. CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as at 1 January 2012:

— **IAS 12** Income Taxes (amendment) — Deferred Taxes: Recovery of Underlying Assets

— **IFRS 7** Financial Instruments : Disclosures — Enhanced Derecognition Disclosure Requirements

The adoption of the standards or interpretations is described below:

— **IAS 12** Income Taxes (amendment) — Deferred Taxes: Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value and introduced a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 January 2012. The adoption of the amendment did not have any impact on the Group's financial position, performance or its disclosures.

The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment had no impact to the Group.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment had no impact on the the Group's financial position or performance.



5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Functional and presentation currencies

The functional and presentation currency of each of the Group's entities is Ukrainian Hryvnia.

Foreign currency translation

Transactions denominated in currencies other than the relevant functional currency (foreign currencies) are initially recorded in the functional currency at the rate in effect at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate of exchange at the reporting date. Non-monetary items that were measured in terms of historical cost in a foreign currency are retranslated using the exchange rate at the date of the initial transaction. The resulting gains and losses are recognised in profit and loss.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair values were determined. The resulting gains and losses are recognised in line with the recognition of gain or loss on change in fair value of the item (i.e., translation difference on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

Revenue recognition and measurement

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenues are measured at the fair value of the consideration received or receivable, excluding discounts, rebates and sales taxes. These taxes are regarded as collected on behalf of the authorities.

Revenues primarily comprise sales of:

- Services: revenue from air time charges, interconnection fees, periodic fees, connection and one-time subscription fees, FTTB internet, fixed lines revenues, roaming, value added services;
- Customer equipment: telephony handsets, modems, etc.

Air time revenue

The Company earns air time revenue by providing its prepaid and post-paid subscribers with access to the cellular network and routing their calls through the network and its roaming partners' networks.

Revenue from interconnection

Revenue from interconnection represents the revenue earned for the termination of calls from other telecommunications service providers' networks on the Company's network. Air time and interconnection revenue is recognised in the period when the respective service is rendered.

Periodic fees

Periodic fees include fees for subscription to new tariff plans and fees for supplementary subscriptions used by subscribers in particular period, such as periodic fees for subscription to voicemail, itemised invoice etc. Periodic fees also include fees for transfer of money between subscribers' balances, extra money services and write-offs of unused advances of disconnected subscribers etc. Periodic fees are recognised in the period when the respective service is rendered.

Connection and one-time subscription fees

Connection fees are paid by subscribers for the first time activation of network service. Revenues from connection are deferred and recognised over the period that the fees are earned, which is the expected period of customer relationship and approximates 9 years for contract subscribers and 4 years for prepaid subscribers (2011: 10 years and 4 years, respectively). The expected period of customer relationship is based on the past history of churn and expected development of the Company.

One-time subscription fees mainly consist of one-time fees for various supplementary subscriptions and also include fees for change of subscription type and transfer of subscriptions from one location to another. One-time subscription fees are deferred and recognised over the period that the fees are earned, which is the subscription validity period or, in case of unlimited validity period, the expected period of customer relationship, which approximates 9 years for contract subscribers and 4 years for prepaid subscribers (2011: 10 years and 4 years, respectively).

FTTB internet revenues

Revenue from FTTB services represents fixed monthly charges for the internet access provided to the Company's subscribers. Such revenue is recognised in the period when the respective service is rendered to subscribers.

Fixed lines revenues

Revenue from fixed lines services represents monthly charges to the Company's subscribers for access to the fixed telephone lines network and for routing the subscribers' calls through this network. Such revenue is recognised in the period when the respective service is rendered to subscribers.

Roaming revenues

Roaming revenues include (i) charges for services provided to the Company's subscribers in the networks of its roaming partners and (ii) charges for services provided by the Company in its network to subscribers of the Company's roaming partners. Roaming revenues are recognised in the period when the respective services are rendered.

Value added services

Value added services include charges for outgoing SMS and MMS, circuit of switched data and packet switched data (WAP, GPRS, EDGE etc.). Revenues from value added services are recognised in the period when the respective services are rendered.

Customer equipment revenue

Revenues from sales of customer equipment revenue are recognised when the related significant risks and rewards are transferred to the buyer.

Discounts

Discounts are often provided in the form of cash discount. Discounts are recorded in the period when they are earned. Discounts are recorded as revenue reductions. Free products or services delivered by external parties are recorded as expenses.

Presentation

Where the Company's role in a transaction is a principal, revenue is recognised on a gross basis. In this case revenue comprises the gross value of the transaction billed to the customer, after trade discounts, with any related expenditure charged as an operating cost. Where the Company's role in a transaction is that of an agent,

revenue is recognised on a net basis and represents the margin earned. The evaluation of whether the Company is acting as principal or agent is based on the analysis of the substance of the transaction, the responsibility for providing the goods or services and setting prices and the underlying financial risks and rewards.

Interest income

Interest income is recorded using the effective interest rate, which is the rate that exactly discounts the estimated future cash flows through the expected life of financial instruments or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of comprehensive income.

Deferred revenue

Доходи від послуг мобільного зв'язку визнаються Cellular service revenue is recognised on the basis of actual airtime usage by the end customer. Unused time on sold prepaid cards is recognised as deferred revenue until the related services have been provided to the subscribers or the prepaid card has expired.

Loyalty programs

Customer loyalty credits are accounted for as a separate component of the sales transaction, in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred, based on estimated number of award credits that will actually be redeemed by the customer. This is then recognised as revenue over the period that the award credits are redeemed.

Deferred connection costs

Initial direct costs incurred in earning connection fees are deferred over the same period as connection revenue, limited to the amount of the deferred connection fees. Costs incurred consist primarily of the costs of the start packages and dealers' bonuses. In some cases connection costs exceed the respective connection fees. Such excess is expensed as incurred.

Advertising costs, marketing and sales commissions

Advertising costs, marketing and sales commissions are expensed as incurred, unless they form a part of the costs that are deferred in relation to deferral of connection fees as described

above. Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes professional fees and, for qualifying assets, borrowing costs are capitalised. Depreciation is calculated to reduce the cost of assets, other than land, to their estimated residual value, if any, over their estimated useful lives. Depreciation commences when the assets are ready for their intended use.

Repair and maintenance is expensed as incurred. If new parts are capitalised, replaced parts are derecognised and any remaining net book value is recorded as loss on disposal.

When the expected cost of decommissioning of an asset after its use is material to the financial statements, the present value of the expected cost of decommissioning of an asset after its use is included into the cost of the respective asset if the recognition criteria for a provision are met. Subsequent increases in decommissioning liability as a result of change in assumptions (i.e. period till dismantling, cost of dismantling etc.) are recognised in the additions to property plant and equipment. Subsequent decreases in decommissioning liability as a result of change in assumptions are recognised in transfers and reclassifications in property, plant and equipment.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Category	Useful life (years)
Local, regional & trunk networks	20
Mobile telephone network and switches	5-15
Radio installations	7
Buildings	10-30
Corporate administrative assets	5-7

Depreciation method, estimated useful life and residual value are evaluated at least annually and adjusted prospectively, if appropriate. Residual value is estimated to be zero for most of the assets, except for vehicles, which are included in corporate administrative assets, as the Group does not expect to use vehicles for their full economic life.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit and loss in the year the item is derecognised.

Leasehold improvements are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Construction in progress

Assets under construction are capitalised as a separate component of property, plant and equipment. On completion, the constructed asset at its cost is transferred to the appropriate category of property, plant and equipment. Construction in progress is not depreciated.

Uninstalled equipment

Uninstalled equipment represents equipment purchased by the Group, but not yet put into operation. Uninstalled equipment is not depreciated.

Land

Freehold land to which the Group has due legal title is included in the Group's statement of financial position at its historical cost. Freehold land is not depreciated.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The evaluation is based on the substance of the transaction. However, there are situations that individually would normally lead the Group to classify a lease as a finance lease, such as if the lease term is more than 75 percent of the estimated economic

life or the present value of the minimum lease payments exceeds 90 percent of the fair value of the leased asset.

The Group may enter into an arrangement that does not take the legal form of a lease but conveys a right to use an asset in return for a payment or series of payments. Determining whether an arrangement contains a lease is based on the substance of the arrangement and requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset; and (b) the arrangement conveys a right to use the asset.

The Group as lessee

Property and equipment acquired by way of finance lease is capitalised and carried at the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses, if any. Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are charged to profit and loss on a straight-line basis over the term of the relevant lease. Benefits received and incentives to enter into an operating lease are also amortised on a straight-line basis over the lease term. Advance lease payments made on entering into operating leases or acquiring leaseholds are amortised to profit and loss over the lease term.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs incurred in connection with the borrowing of funds.

Intangible assets

Intangible assets acquired separately are initially measured at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit and loss in the period, in which the expenditure is incurred.

Intangible assets, all of which are determined as having finite useful lives, are amortised over their useful economic lives. The amortisation period and amortisation method for intangible assets is reviewed at least annually, and adjusted prospectively, if appropriate. Amortisation is provided using the straight-line basis over the estimated useful lives of the related assets as follows:

Asset category	Useful life (years)
Licenses	10-15
Network and billing software	5-10

Gains and losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised as other expenses in the statement of comprehensive income.

Inventories

Inventories are valued at the lower of cost or net realisable value for items that will be sold as a separate products. Inventories that will be sold as part of a transaction with several components, which the Group expects to earn net income from, are valued at cost even if the selling price of the inventory is below cost price. Cost of inventories used is determined using the weighted average method.

Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying

amount of an asset or cash generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators. Impairment losses of continuing operations are recognised in profit and loss.

A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Based on the specifics of the Group's operations, the management concluded that the Group has one cash generating unit, which is the Company's network as a whole.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased.

If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit and loss. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an

effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way purchases) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and cash equivalents, trade and other receivables and interest-free reimbursable financial aid, all of which are classified as loans and receivables in accordance with IAS 39.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus directly attributable transaction costs, if any. In the case of transactions with entities under common control, any excess of nominal amount over the fair values at initial recognition is charged to retained earnings.

Subsequent measurement

After initial measurement, loans and receivables are subsequently measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are integral part of the effective interest rate. The amortisation is included in finance income in the statement of comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value less, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities mainly include trade and other payables and loans and borrowings.

Subsequent measurement

After initial recognition, interest-bearing loans and borrowings and trade and other payables with fixed maturity are subsequently measured at amortised cost using the effective interest rate method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method amortisation process. Amortised cost is computed using the effective interest method by taking into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of comprehensive income. Offsetting of financial instruments.

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deductions for transaction costs. For financial instruments not traded in an active market, fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

Impairment of financial assets

The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash

flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If an instrument has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit and loss for all impaired financial assets, except for reimbursable interest-free financial aid provided to entity under common control, for which the difference between the carrying amount and fair value is recognised as equity distribution to the shareholders.

Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and/or when the statute of limitation has expired. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss

is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive income. Derecognition of financial instruments

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on the basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Employee benefits

The Group makes defined contributions to the State Pension Fund at the relevant statutory rates in force during the year, based on gross salary payments; such an expense is charged in the period when the related salaries are earned.

In addition to the above, employees of the Group are entitled to jubilee and post-employment benefits.

Jubilee benefits are paid out on occasion of anniversary, while post-employment benefits are paid out as a one-off benefit upon retirement. The amount of those benefits depends on the tenure with the Company and the average salary. The benefits payable under these arrangements are unfunded. The expected cost of providing employee benefits is determined annually using the projected unit credit actuarial valuation method to calculate the net present value of benefit obligations at the reporting date. The balance of employee benefit obligations equals discounted payments to be made in the future and accounts for staff turnover and relates to the period to the reporting date. Demographic information and assumptions on staff turnover are based on historical data. Gains and losses resulting from the use of actuarial valuation methodologies to calculate post-employment benefits are recognised when the cumulative unrecognised actuarial gains or losses for the plan at the end of the previous reporting period exceed 10% of defined benefit obligation at that date. These gains or losses are recognised as income or expense over the expected average remaining working lives of the employees participating in the plan. Any actuarial gains or losses relating to jubilee benefits are recognised in profit or loss in the period in which they arise. The past service cost is recognised as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested following the introduction of, or changes to, a pension plan, past service cost is recognised immediately.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognised reduced by past service cost not yet recognised.

Taxes

Current income tax

Поточні податкові активи та зобов'язання за поточний період
 Current tax assets and liabilities for the current and prior peri-

ods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences and carry forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each



reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity. Current income tax Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value-added tax

Revenues, expenses and assets are recognised net of value-added tax (VAT) except:

— where VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case VAT is recognised as part of the cost of acquisition of the asset or as part of expense item as applicable; and

— receivables and payables are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is disclosed in the notes to the consolidated statement of financial position.

Current/non-current classification

An asset/liability is classified as current, when it is expected to be realised (settled) or is intended for sale or consumption within twelve months after the reporting date. Other assets/liabilities are classified as non-current. Financial instruments are classified based on expected life. Deferred revenues and respective costs of connection are classified as current.

Cash and cash equivalents

Cash and cash equivalents include cash at banks and on hand and short-term deposits with an original maturity of three months or less.

For the purpose of consolidated cash flow statement, cash and cash equivalents consists of cash and cash equivalents as defined above, net of outstanding bank overdrafts, if any.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit and loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Contingent assets and liabilities

A contingent asset is not recognised in the financial statements, but disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the financial statements unless it is probable that an outflow of economic resources will be required to settle the obligation and it can be reasonably estimated. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Treasury shares

Treasury shares are recognised at purchase price and are deducted from equity. No gain or loss is recognised in the profit and loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if shares are reissued, is recognised in share premium. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them.

Events after the reporting date

Events after the reporting date that provide additional information on the Group's position at the reporting date (adjusting events) are

reflected in the consolidated financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes when material.

Transactions with the parent and entities under common control

The transactions with parent and entities under common control are recognised in the consolidated financial statements at fair value. The difference between fair value and the amount of the transaction is recognised as contribution or distribution to the shareholders through the Company's equity.

Reclassification of comparative information

In 2012 the Company has made certain reclassifications of comparative information for 2011 in order to conform with 2012 presentation.

6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Key sources of estimation uncertainty — critical accounting estimates

Certain amounts included in or affecting the consolidated financial statements and related disclosures must be estimated, requiring management to make assumptions with respect to values or conditions which cannot be known with certainty at the time the consolidated financial statements are prepared.

A 'critical accounting estimate' is one, which is both important to the portrayal of the Group's financial condition and results and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Management evaluates such estimates on an ongoing basis, based upon historical results and experience, consultation with experts, trends and other methods, which management considers reasonable in the particular circumstances, as well as the forecasts as to how these might change in the future. However, uncertainty about these estimates could result in outcomes that require a material adjustment to the carrying amount of an asset or liability affected in future periods.

Revenue recognition

The main part of the Group's revenues is earned from mobile services, such as airtime, one-time connection fees or periodic subscriptions. The Company has many subscribers and offers a number of different services with different tariff plans. The Company also provides discounts of various types, often in connection with different campaigns. Revenues from one-time subscriptions or connections to the Company's network are recognised as deferred revenue and released to the profit and loss in the periods when these revenues are earned, based on the average customer relationship period. The management regularly reviews its estimates in respect of customer relationship period, based on the historical experience and its plans for future development of the Company. As at 31 December 2012 the management estimated the customer relationship period to be equal to 9 years for contract subscribers and 4 years for prepaid subscribers (2011: 10 years and 4 years, respectively). As a result of change in the abovementioned accounting estimates starting from 1 January 2012, the Group's profit before tax for the year 2012 increased by UAH 254 thousand.

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Please refer to Note 10 for additional information on the Group's tax position.

Depreciation and amortisation

Depreciation and amortisation methods are based on management estimates of the expected useful lives of property, plant and equipment and intangible assets. Estimates may change due to

technological developments, competition, changes in market conditions and other factors and may result in changes in the estimated useful lives and in the amortisation or depreciation charges. Some technological developments are difficult to predict and the Group's views on the trends and pace of development may change over time. Some of the assets and technologies, in which the Group invested several years ago, are still in use and provide the basis for the new technologies.

The useful lives of property, plant and equipment and intangible assets are reviewed at least annually taking into consideration the factors mentioned above and all other important factors. In case of significant changes in estimated useful lives, depreciation and amortisation charges are adjusted prospectively.

In 2012 the Group has changed useful lives for the following groups for property, plant and equipment and intangible assets:

Category of asset	Useful life before 1 January 2012	Useful life after 1 January 2012
From the group «Buildings» the categories:		
3.1 — Visit centres, Information and service centres	4	10
From group «Mobile telephone network and switches» the categories:		
8.1 — Energy-saving equipment	5	7
8.4 — Air conditioners	3	5
From the group «Corporate administrative assets» the categories:		
9.1 — Servers and DB	3	7
10.1 — Office equipment	3	5
10.2 — Instrument	3	5
10.3 — Office equipment	3	5
10.4 — Furniture	3	5
10.5 — Other production equipment	3	5
11.2 — Software	5	10
11.3 — Other intangible assets	3	5
12.1 — Vehicles	4	5

As a result of change in the abovementioned accounting estimates starting from 1 January 2012, the Company's profit before tax for the year 2012 increased by UAH 262,554 thousand.

Impairment of non-financial assets

The Group has made significant investments in property, plant and equipment and intangible assets. These assets are tested for impairment when circumstances indicate there may be a potential impairment. Factors considered important which could trigger an impairment evaluation include the following: significant fall in market values, significant underperformance relative to historical or projected future operating results, significant changes in the use of assets or the strategy for the Group's overall business, including assets that are decided to be phased out or replaced and assets that are damaged or taken out of use, significant negative industry or economic trends and significant cost overruns in the development of assets.

Estimating recoverable amounts of assets must in part be based on management's evaluations, including determining appropriate cash generating units, estimates of future performance, revenue generating capacity of the assets, assumptions of the future market conditions and the success in marketing of new products and services. Changes in circumstances and in management's evaluations and assumptions may give rise to impairment losses in the relevant periods.

Legal proceedings and claims

The Group is a subject to various legal proceedings and claims, the outcomes of which are subject to significant uncertainty. Management evaluates, among other factors, the degree of probability of an unfavourable outcome and the ability to make a reasonable estimate of the amount of loss. Unanticipated events or changes in these factors may require to increase or decrease the amount to be accrued for any matter or accrue for a matter that has not been previously accrued because it was not considered probable or a reasonable estimate could not be made.

7. IFRSS AND IFRIC INTERPRETATIONS NOT YET EFFECTIVE

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2012, and have not been applied in preparing these consolidated financial statements.

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. The Group intends to adopt those standards when they become effective.

IAS 1 Financial Statement Presentation — Presentation of Items of Other Comprehensive Income (OCI)

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings) would be presented separately from items that will never be reclassified (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets). The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Group's first annual report after becoming effective.

IAS 19 Employee Benefits (Revised)

The IASB has issued numerous amendments to IAS 19. First, the corridor method is removed and, therefore, all changes in the present value of the defined benefit obligation and in the fair value of plan assets will be recognised immediately as they occur. Secondly, the amendment will eliminate the current ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss. Thirdly, the expected return on plan assets recognised in profit or loss will be calculated based on the rate used to discount the defined benefit obligation. The amended standard shall be applied for annual periods beginning on or after 1 January 2013 and early adoption is permitted. The amendment generally applies retrospectively. The Group has not analysed the likely impact of the amended standard on its financial position or performance.

IAS 32 Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities

These amendments clarify the meaning of «currently has a legally enforceable right to set-off». The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems

(such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.

These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

IFRS 7 Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. In December 2011 the IASB issued Mandatory Effective Date and Transition Disclosures (amendments to IFRS 9 and IFRS 7) according to which entities shall apply IFRS 9 as amended for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for con



solidated financial statements. It also addresses the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group.

This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities.

A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013. The Group expects that the amendment will require additional disclosures in its consolidated financial statements, but will have no impact on the Group's financial position or performance.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

Annual improvements May 2012

These improvements will not have an impact on the Group, but include:

IFRS 1 First-time Adoption of International Financial Reporting Standards

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property Plant and Equipment

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instrument: Presentation

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

IAS 34 Interim Financial Reporting

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after 1 January 2013.

The Group expects that new standards and amendments listed below will have no impact on its financial

position, financial performance or disclosures in the consolidated financial statements:

- IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
- IFRS 1 First-Time Adoption of IFRS — Governmental Loans
- IFRS 11 Joint Arrangements
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine



8. ACQUISITION OF ASSETS AND LIABILITIES OF JSC «UKRAINIAN RADIOSYSTEMS»

On 1 October 2012 the Company entered into the agreements with the shareholders of Joint Stock Company Ukrainian Radiosystems ('URS') to acquire 100% shares in this entity. All counterparties of these agreements are entities under common control of the ultimate parent. The URS shares were transferred to the Company on 1 October 2012. At the date of acquisition URS did not constitute a business in the meaning of the definition set out in IFRS 3 Business combinations, as it did not represent an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors. Thus, the acquisition was recognised in these consolidated financial statements as the acquisition of identifiable assets and liabilities at their relative fair values as at 01 October 2012.

At the date of transaction the amounts due by URS to the Company comprised (1) accounts payable for national roaming at carrying amount which is equal to its fair value of UAH 200,071 thousand and (2) outstanding balance of short-term reimbursable interest-free financial aid granted by the Company in 2010-2011 at carrying amount which is equal to its fair value of UAH 2,740,117 thousand. The abovementioned debts together with cash consideration of UAH 5 paid to former shareholders of URS comprise consideration for the acquisition of assets and liabilities of JSC Ukrainian Radiosystems

The fair values of identifiable assets and liabilities of JSC Ukrainian Radiosystems were as follows:

ASSETS	At the acquisition date
Non-current assets	
Intangible assets	4,131
Current assets	
Inventories	742
Trade and other receivables	198,806
Prepaid taxes, other than income tax	118
Other current assets	18,918
Cash and cash equivalents	89,425
Assets of disposal group classified as held for sale	22,565
	334,705
LIABILITIES	
Non-current liabilities	
Other non-current financial liabilities	(25,859)
Current liabilities	
Deferred revenue	(184)
Provisions	(517)
Taxes payable, other than income tax	(53,025)
Trade and other payables	(52,931)
Other current liabilities	(122,214)
	(254,730)
Net assets at fair value	79,975
Consideration for the assets and liabilities acquired	2,940,188

At the date of transaction URS had accumulated tax losses of UAH 1,130,047 thousand. These tax losses were not recognised in these consolidated financial statements due to significant uncertainties with regard to the amount that will ultimately be allowed for carry forward.

9. REVENUES AND EXPENSES

REVENUES	2012	2011
Air time charges	4,045,408	5,348,426
Periodic fees	3,815,061	2,384,073
Interconnection revenue	2,346,608	2,146,349
Value added services	1,138,602	1,022,885
Roaming and access to network	643,726	712,468
FTTB internet revenues	273,553	126,592
Customer equipment revenue	234,577	54,201
Roaming revenue (subscribers)	229,773	229,756
Connection and one-time subscription fees	194,508	175,903
Fixed lines	106,921	65,398
Other revenue	103,559	66,294
	13,132,296	12,332,345

Starting from August 2012 Kyivstar changed the business process of providing content services to their customers. Therefore, the revenue from providing these services since August 2012 was reported on a gross basis. The estimated effect for the period August-December 2012 is UAH 60,660 thousand.

COSTS OF MATERIALS AND TRAFFIC CHARGES	2012	2011
Interconnection	2,017,919	1,786,240
Cost of materials	469,389	218,830
Roaming expenses	115,658	168,802
Leased line costs	60,560	19,039
	2,663,526	2,192,911

SALARIES AND PERSONNEL COSTS	2012	2011
Salaries, holiday pay and other employee benefits	743,745	739,307
Social security taxes	196,349	174,253
Medical insurance	32,772	34,090
Training	672	1,094
	973,538	948,744

The average number of employees of the Group in 2012 is 4,356 (2011: 4,502).

OTHER OPERATING EXPENSES	2012	2011
Repair and maintenance	776,021	712,021
Operating leases of land and buildings	399,219	320,958
Marketing and sales commission	396,814	340,688
Local taxes and non-refundable VAT	387,715	247,718
Advertising	241,717	265,650
Electricity	220,467	171,192
Consultancy fees and external personnel	122,308	92,096
Insurance	92,466	68,201
Materials and supplies	34,739	30,476
License and research fees	33,104	24,254
Bad debts	28,605	-
Business trip expenses	15,622	18,962
Postage, freight, distribution and telecommunication	9,030	9,100
Bank charges	2,572	3,508
Other operating expenses	23,885	20,992
	2,784,284	2,325,816

OTHER EXPENSES	2012	2011
Loss on disposal of property, plant and equipment, intangible assets and assets held for sale	198,799	56,294
Contributions and donations	3,309	3,623
Other expenses	1,665	-
	203,773	59,917

AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES	Property, plant and equipment		Intangible assets	
	2012	2011	2012	2011
Depreciation and amortisation	1,370,511	1,722,674	160,030	386,834
Impairment losses, net of reversals	28,556	12,476	-	-
	1,399,067	1,735,150	160,030	386,834

In 2012 the Group recognised impairment losses on property, plant and equipment in amount of UAH 37,504 thousand (2011: UAH 25,283 thousand), based on internal indications of impairment for various individual components of network equipment, as the Group did not plan to use this equipment in future. Assets identified as no longer in use were written down to their recoverable amounts, which were based on value in use determined for individual assets, usually zero.

In addition, in 2012 the Group recognised reversal of impairment losses in respect of network equipment in amount of UAH 8,948 thousand (2011: UAH 12,807 thousand) as a result of changes in tariff policies and respective plans for future usage of previously impaired network equipment in accordance with adjusted capital expenditure budgets for future years.

FINANCE INCOME	2012	2011
Interest income	162,956	226,390
Total interest income	162,956	226,390
Unwinding of discount on other current financial assets	441,191	719,737
	604,147	946,127

FINANCE COSTS	2012	2011
Interest charges related to bank loans	1,290	3,959
Interest expenses on other non-current liability	497	-
Total interest charges	1,787	3,959
Other finance costs	2,698	4,244
	2,663,526	2,192,911

10. INCOME TAX

The Group's income was subject to taxation in Ukraine only. In 2010, the Ukrainian Parliament approved the Tax Code, which superseded the Law of Ukraine 'On Corporate Income Tax' starting from 1 April 2011. New Tax Code significantly changed the rules for tax base calculation and provided for gradual decrease in tax rates from 25% to 16% over the next few years. During the year of 2012, corporate income tax was levied on taxable income less deductible expenses at a rate of 21%.

The major components of income tax expense for the years ended 31 December 2012 and 2011 are:

	2012	2011
Current income tax:		
Current income tax charge	469,389	218,830
Deferred tax:		
Relating to origination and reversal of temporary differences	195,661	371,479
Income tax expense	1,242,476	1,376,114

Reconciliations between tax expense and the product of accounting profit multiplied by the tax rate for the years ended 31 December 2012 and 2011 are as follows:

	2012	2011
Accounting profit before tax	5,571,813	5,643,644
Income tax at actual rate 25%, starting from 1 April 2011 — 23%)	1,170,081	1,319,595
Non — taxable income for tax purposes	(13,756)	(5,619)
Non — deductible expenses for tax purposes	45,607	20,022
Taxable income not recognised in financial accounting	28,350	-
Other changes (reassessment of temporary differences, effect of changes in tax rules, effect of changes in tax rates)	12,194	42,116
	1,242,476	1,376,114

Deferred tax assets and liabilities relate to the following items in 2012:

	31-Dec-12	Recognised in profit and loss	Recognised in equity	31-Dec-11
Deferred tax liabilities:				
Deferred expenses (iii)	13,601	(3,794)	-	17,395
Prepayments (iii)	-	(627)	-	627
Trade and other receivables	3,099	(4,127)	-	7,226
	16,700	(8,548)	-	25,248
Deferred tax assets:				
Property, plant and equipment (i)	31,198	73,517	-	104,715
Intangible assets (i)	18,356	(9,551)	-	27,907
Other current financial assets (iv)	-	(92,650)	(28,496)	121,146
Other current liabilities (iv)	34,859	(1,812)	-	36,671
Employee benefits (iii)	8,509	(18)	-	8,527
Prepayments (iii)	252	252	-	-
Advances received and deferred revenue (iii)	38,208	(8,897)	-	47,105
Inventories (ii)	832	792	-	40
Trade and other payables (iii)	50,124	(3,419)	-	53,543
Provisions (iii)	9,315	4,568	-	4,747
Taxes payable, other than income tax (iii)	2,377	2,377	-	-
Other liabilities	-	(22,334)	-	22,334
Accumulated tax losses	8,092	8,092	-	-
	202,122	(196,117)	(28,496)	426,735
Unrecognised portion of the deferred tax assets	(8,092)	(8,092)	-	-
Net deferred tax asset	177,330	(195,661)	(28,496)	401,487

Deferred tax assets and liabilities relate to the following items in 2011:

	31-Dec-11	Recognised in profit and loss	Recognised in equity	31-Dec-10
Deferred tax liabilities:				
Deferred expenses (iii)	17,395	(2,990)	-	20,385
Prepayments (iii)	-	-	-	-
Trade and other receivables	627	(16,012)	-	16,639
	25,248	(15,095)	-	40,343
Відстрочені податкові активи:				
Property, plant and equipment (i)	104,715	(43,698)	-	148,413
Intangible assets (i)	27,907	(27,649)	-	55,556
Other current financial assets (iv)	121,146	(169,176)	137,026	153,296
Other current liabilities (iv)	36,671	(525)	-	37,196
Employee benefits (iii)	8,527	568	-	7,959
Advances received and deferred revenue (iii)	47,105	(164,674)	-	211,779
Inventories (ii)	40	40	-	-
Trade and other payables (iii)	53,543	2,599	-	50,944
Provisions (iii)	4,747	(3,689)	-	8,436
Taxes payable, other than income tax (iii)	-	(2,704)	-	2,704
Other liabilities	22,334	22,334	-	-
	426,735	(386,574)	137,026	676,283
Net deferred tax asset	401,487	(371,479)	137,026	635,940

The nature of the temporary differences is as follows:

- (i) Property, plant and equipment and intangible assets — differences in depreciation and amortisation patterns and estimates of the remaining useful lives, differences in capitalisation principles;
- (ii) Inventories — differences in inventories measurement basis and the periods of recognition;
- (iii) Advances received and deferred revenue, prepayments and deferred expenses, employee benefits, trade and other payables, provisions, taxes payable, other than income tax, other current financial assets — differences in period of recognition;

(iv) Trade and other receivables, other current financial assets and other current liabilities — differences in measurement and recognition principles.

As at 31 December 2012 the Company did not recognise deferred tax asset in respect of temporary differences of UAH 27,581 thousand (2011: UAH 27,503 thousand) related to the investment in JSC Staravto because the Company controls the period of realisation of such temporary differences.

Unrecognised of deferred tax assets comprise deferred tax asset on tax losses accumulated by JSC Ukrainian Radiosystems in Q4 2012. These tax losses were not recognised in these consolidated financial statements due to significant uncertainties with regard to the amount that will ultimately be allowed for carry forward.

11. PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment is as follows:

	Local, regional & trunk networks	Mobile telephone network and switches	Radio installations	Buildings	Land	Corporate administrative assets	Construction in progress, uninstalled and dismantled equipment (ii)	Total
Cost:								
At 1 January 2011	822,461	5,792,856	2,681,049	1,274,464	106,509	730,039	1,200,043	12,607,421
Additions	4,186	50,937	19,078	3,791	-	21,983	2,551,783	2,651,758
Disposals	-	(277,363)	(306,022)	(490)	-	(35,778)	(24,329)	(643,982)
Transfers, reclassifications and other changes (i)	96,948	1,262,697	431,489	182,427	2	155,955	(2,160,989)	(31,471)
At 31 December 2011	923,595	6,829,127	2,825,594	1,460,192	106,511	872,199	1,566,508	14,583,726
Additions	139	55,153	26,127	5,346	20	11,477	1,622,653	1,720,915
Disposals	-	(594,078)	(147,726)	(12,367)	-	(50,033)	(88,019)	(892,223)
Transfers, reclassifications and other changes (i)	90,880	779,815	245,572	286,327	-	116,245	(1,523,590)	(4,751)
At 31 December 2012	1,014,614	7,070,017	2,949,567	1,739,498	106,531	949,888	1,577,552	15,407,667

Property, plant and equipment (continued)

	Local, regional & trunk networks	Mobile telephone network and switches	Radio installations	Buildings	Land	Corporate administrative assets	Construction in progress, uninstalled and dismantled equipment (ii)	Total
Accumulated depreciation and impairment losses:								
At 1 January 2011	162,583	3,261,113	1,609,117	240,103	-	526,155	534,197	6,333,268
Depreciation charge for the year (Note 9)	42,614	1,056,608	352,221	69,656	-	106,436	95,139	1,722,674
Impairment (Note 9)	-	-	-	-	-	-	12,476	12,476
Disposals	-	(234,828)	(290,711)	(259)	-	(29,438)	(24,329)	(579,565)
Transfers, reclassifications and other changes (i)	(1)	(80,713)	93,162	(517)	-	20,424	(32,355)	-
At 31 December 2011	205,196	4,002,180	1,763,789	308,983	-	623,577	585,128	7,488,853
Depreciation charge for the year (Note 9)	48,456	774,518	350,185	64,393	-	38,820	94,139	1,370,511
Impairment (Note 9)	-	-	-	-	-	-	28,556	28,556
Disposals	-	(479,209)	(122,081)	(4,453)	-	(44,617)	(42,884)	(693,244)
Transfers, reclassifications and other changes (i)	-	31,226	-	-	-	-	(32,030)	(804)
At 31 December 2012	253,652	4,328,715	1,991,893	368,923	-	617,780	632,909	8,193,872
Net book value:								
At 1 January 2011	659,878	2,531,743	1,071,932	1,034,361	106,509	203,884	665,846	6,274,153
At 31 December 2011	718,399	2,826,947	1,061,805	1,151,209	106,511	248,622	981,380	7,094,873
At 31 December 2012	760,962	2,741,302	957,674	1,370,575	106,531	332,108	944,643	7,213,795

(i) Transfers, reclassifications and other changes in 2012 include items transferred to assets of disposal group classified as held for sale. Please refer to [Note 30](#) for further details.

(ii) Temporarily dismantled equipment is continued to be depreciated over the estimated remaining useful life.

12. INTANGIBLE ASSETS

The movement of intangible assets is as follows:

	Licenses	Network and billing software	Total
Cost:			
At 1 January 2011	413,256	2,852,803	3,266,059
Additions	18,848	282,432	301,280
Disposals	(114,003)	(16,625)	(130,628)
At 31 December 2011	318,101	3,118,610	3,436,711
Additions	168,670	278,978	447,648
Disposals	(366)	(41,098)	(41,464)
At 31 December 2012	486,405	3,356,490	3,842,895
Accumulated amortisation and impairment losses:			
At 1 January 2011	239,933	2,055,265	2,295,198
Amortisation charge for the year	37,085	349,749	386,834
Disposals	(113,317)	(15,504)	(128,821)
At 31 December 2011	163,701	2,389,510	2,553,211
Amortisation charge for the year	36,684	123,346	160,030
Disposals	(366)	(36,238)	(36,604)
At 31 December 2012	200,019	2,476,618	2,676,637
Net book value:			
At 1 January 2011	173,323	797,538	970,861
At 31 December 2011	154,400	729,100	883,500
At 31 December 2012	286,386	879,872	1,166,258

The Group's major licenses as at 31 December are as follows:

License #	Coverage	License	Acquisition date	Expiration date	Net book value as at 31 December 2012	Net book value as at 31 December 2011
N/A	National	1800 MHz (GSM) frequencies usage licenses	(i)		97,222	67,719
N/A	National	900 MHz (GSM) frequencies usage licenses	(ii)		122,810	15,269
ЛВ № 593094	National	900 MHz (GSM) cellular license	Oct-11	Oct-26	8,641	9,078
AB № 593093	National	1800 MHz (GSM) cellular license	Oct-11	Oct-26	8,641	9,078
АГ № 506983	International	International communication	Aug-04	Aug-19	3,990	4,588
АГ № 506984	Inter city	Inter city communication	Aug-04	Aug-19	4,072	4,684
АГ № 506986	City	Fixed city communication	Aug-10	Aug-15	734	1,010
N/A	National	Other licenses	Mar-01	Apr-26	40,276	42,974
					286,386	154,400

(i) 1800 MHz (GSM) frequencies usage licenses comprise licenses that were acquired in the period from February 2001 to May 2012. The average period of validity is 13 years.

(ii) 900 MHz (GSM) frequencies usage licenses comprises licenses that were acquired in the period from June 1999 to January 2012. The average period of validity is 11 years.

In late 2011, the Company and JSC Ukrainian Radiosystems ('URS') jointly applied to the state regulator — the National Commission for the State Regulation of Communication and Infomatisation ('NCSRCI') to legally re-register rights for usage of radio frequencies resources owned by URS in favour of Kyivstar. On 19 March 2012 NCSRCI re-issued these licenses to Kyivstar and the Company, in its turn, paid only fees for paper blanks. Taking into consideration that the Company and URS were the entities under common control, at the date of transaction Kyivstar recognised these licenses at their fair value of UAH 132,682 thousand as a contribution from the shareholders.



13. OTHER NON-CURRENT ASSETS

Other non-current assets as 31 December are as follows:

	2012	2011
Prepayments for property, plant and equipment	60,055	37,668
Prepayments for intangible assets	1,212	558
Other non-current assets	4,582	6,399
	65,849	44,625

14. TRADE AND OTHER RECEIVABLES

Trade and other receivables consist of the following as at 31 December:

	2012	2011
Trade receivables — interconnection and access to network	209,554	243,429
Trade receivables — subscribers	120,317	108,246
Trade receivables — roaming	72,651	101,844
Trade receivables — dealers for prepaid cards and packages	61,897	90,150
Interest receivable	7,899	4,760
Trade receivables — dealers for post-paid subscribers' advances -	-	568
Other receivables	14,077	16,941
	486,395	565,938
Allowance for impairment	(38,537)	(55,551)
	447,858	510,387

Trade and other receivables, net of allowance for impairment as at 31 December are denominated in the following currencies:

	2012	2011
UAH	232,651	328,849
EUR	122,918	114,318
USD	92,289	67,220
	447,858	510,387

As at 31 December 2012 and 2011 trade and other receivables are non-interest bearing and are settled in the normal course of business.

15. RECONCILIATION OF ALLOWANCE ACCOUNTS

The reconciliation of changes in allowance accounts is as follows:

	Trade and other receivables	Prepayments	Total
As at 1 January 2011	74,063	547	74,610
Charge for the year	8,353	3	8,356
Utilised	(17,940)	(465)	(18,405)
Unused amounts reversed	(8,925)	(12)	(8,937)
As at 31 December 2011	55,551	73	55,624
Charge for the year	32,629	43	32,672
Utilised	(45,576)	(4)	(45,580)
Unused amounts reversed	(4,067)	-	(4,067)
As at 31 December 2012	38,537	112	38,649

In 2012 bad debt expense in amount of UAH 28,605 thousand is included in other operating expenses in 2011 reversal of doubtful debts allowance in amount of UAH 581 thousand was included in other income (please refer to [Note 9](#)).

16. DEFERRED EXPENSES

As at 31 December deferred expenses consist of the following:

		2012	2011
Deferred connection costs	(i)	76,080	90,789
Deferred costs of start packages and scratch-cards	(ii)	32,468	90,789
		108,548	106,211

(i) As at 31 December 2012 and 2011 deferred connection costs mainly consisted of costs of start packages, dealers' bonuses for connection of new subscribers and cost of Wi-Fi routers limited to the amount of deferred connection fees.

(ii) Deferred costs of start packages and scratch-cards represent costs of start packages and scratch-cards sold to dealers, but not yet activated by subscribers.

The movement in deferred connection costs is as follows:

	2012	2011
At 1 January	90,789	80,928
Deferred during the year	40,850	50,782
Released to profit and loss	(55,559)	(40,921)
At 31 December	76,080	90,789

17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following as at 31 December:

	2012	2011
Short-term deposits	1,122,265	681,995
Cash at banks	361,171	210,787
Cash on hand	28	24
	1,483,464	892,806

As at 31 December cash on hand and cash at banks are denominated in the following currencies:

	2012	2011
UAH	256,650	205,128
EUR	96,534	3,156
USD	8,015	2,527
	361,199	210,811

In 2012 and 2011 cash at current bank accounts earned interest at fixed rates varying from 0.7% to 11.3 % per annum.

As at 31 December short-term deposits split by contractual maturity, currency and interest rate earned is as follows:

Currency	Maturity date	Interest rate, p.a.	2012	2011
UAH	0-30 days	19-25%	1,013,000	110,000
	31-60 days	8-21%	-	140,000
	61-92 days	10-22%	-	145,000
			1,013,000	395,000
USD	0-30 days	3.5-4.5%	109,265	-
	61-92 days	5.5-7%	-	175,776
			109,265	175,776
EUR	61-92 days	4-6.75%	-	111,219
			-	111,219
			1,122,265	681,995

18. EQUITY

Share capital

As at 31 December 2012 the authorised and fully paid share capital comprised 17,742,389 ordinary shares (2011: 17,687,389 ordinary shares) at a par value of UAH 50 each. The carrying value of share capital differs from par by UAH 122,130 thousand being the currency translation difference, accumulated till 1 May 2004 when the Company changed its functional currency from US dollar to Ukrainian Hryvnia.

On 22 November 2011 the Company's General Meeting of Shareholders has approved the additional issue of 55,000 shares with nominal value of UAH 50 each. In February 2012 these shares were placed with the existing shareholder — VimpelCom Holdings B. V. in accordance with para. 22 of Law of Ukraine 'On Joint Stock Companies' at their market price of UAH 1,910.69 per share determined by an independent appraiser appointed by the Company. In return for these shares, VimpelCom Holdings B.V. has invested into the Company USD 13,153 thousand, of which USD 13,152 thousand were received as payment for 54,997 ordinary shares, which comprised UAH 105,082 thousand, based on the official exchange rate of the National Bank of Ukraine ('NBU') at the date of payment (7 February 2012), and USD 717.63 were received as payment for 3 ordinary shares, which comprised UAH 5,732, based on the official NBU exchange rate at the date of payment (17 February 2012).

As a result of the additional issue of shares, the Company's share capital was increased by UAH 2,750 thousand, while share premium was increased by UAH 102,338 thousand.

Dividends declared

In 2012, the Company has declared dividends in total amount of UAH 3,977,424 thousand (UAH 303.73 per share) (2011: 3,846,877 thousand (UAH 295 per share)). As at 31 December 2012 and 2011 dividends declared were fully paid by the Company to its shareholders in cash, net of withholding tax.

Radio frequency licenses re-issued by the National Commission for the State Regulation of Communication and Infomatisation

In late 2011, the Company and JSC Ukrainian Radiosystems ('URS') jointly applied to the state regulator — the National Commission for the State Regulation of Communication and Infomatisation ('NCSRCI') to legally re-register rights for usage of radio frequencies resources owned by URS in favour of Kyivstar. On 19 March 2012 NCSRCI re-issued these licenses to Kyivstar and the Company, in its turn, paid only fees for paper blanks. Taking into consideration that the Company and URS were the entities under common control, at the date of transaction Kyivstar recognised these licenses at their fair value of UAH 132,682 thousand as a contribution from the shareholders recorded in additional capital. The fair value of the licenses was determined by reference to the fixed rates charged by the NCSRCI for the issuance of licenses with similar terms.

Distribution to the shareholders as a result of interest-free financial aid movements

In 2010-2011 the Company has provided to JSC Ukrainian Radiosystems short-term reimbursable

interest-free financial aid which at initial recognition was accounted for at its fair value, net of deferred tax effect. Loss on initial recognition at fair value was charged directly to equity (net of deferred tax effect) as distribution to shareholders. In 2012 JSC Ukrainian Radiosystems has early redeemed a part of the debt of UAH 222,000 thousand. Therewith, the difference between the fair value and nominal amount of the debt repaid of UAH 15,812 thousand was deducted from distributions to the shareholders directly in equity.

Besides this, the balance of deferred income tax asset (related to the above interest-free financial aid) recognised in equity as at 1 October 2012 comprised UAH 28,496 thousand. This balance was reversed through equity as a distribution to the shareholders since the financial aid was included in the consideration paid for the acquisition of assets and liabilities of JSC Ukrainian Radiosystems.

Distribution to the shareholders as a result of the acquisition of assets and liabilities of JSC Ukrainian Radiosystems

On 1 October 2012 the Company acquired 100% shares of the entity under common control JSC Ukrainian Radiosystems. The difference between the consideration for the assets and liabilities acquired and their fair values in amount of UAH 2,860,213 thousand was recognized as distribution to the shareholders.

19. INTEREST-BEARING LOANS AND BORROWINGS

Current interest-bearing loans and borrowings consist of the following as at 31 December:

	2011
Interest-bearing borrowings from Commerzbank AG Bank, (USD-denominated, at 7.75% p. a., matures on 27 April 2012)	51,223
Interest accrued	694
	51,917

In 2012 the Company fully repaid the outstanding loan balance of interest-bearing borrowings obtained from Commerzbank AG Bank and related interest accrued.

20. DEFERRED REVENUE

As at 31 December deferred revenue consists of the following:

		2012	2011
Deferred revenue — dealers and subscribers	(i)	516,172	542,603
Deferred connection and one-time subscription fees	(ii)	142,005	161,248
Customer loyalty programs	(iii)	38,802	38,036
		696,979	741,887

(i) Deferred revenue — dealers — represents deferred revenue from unused time on prepaid cards, which were sold to dealers, but have not yet been activated by subscribers. Deferred revenue — dealers is recognised in the statement of financial position until the prepaid cards have been activated by subscribers or the prepaid card has expired. Deferred revenue — subscribers — mainly consists of deferred revenue from unused time on prepaid cards, which were activated by subscribers. Deferred revenue — subscribers is recognised as revenue in the statement of comprehensive income on the basis of actual airtime usage by subscribers.

(ii) Deferred connection and one-time subscription fees — mainly consist of fees for initial connection to the network and one-off payments for subscription to additional services. Deferred connection and subscription fees are recognised in the statement of comprehensive income over the periods that the fees are earned.

(iii) Customer loyalty programs — represent various loyalty programs, established by the Company, whereby enrolled mobile and FTTB subscribers are eligible for bonuses, which may then be used for discounts on future mobile calls, additional FTTB internet services or purchase of mobile handsets.

The movements in deferred connection and one-time subscription fees are as follows:

	2012	2011
At 1 January	161,248	154,006
Deferred during the year	176,430	183,145
Released to profit and loss	(194,508)	(175,903)
Other changes	(1,165)	-
At 31 December	142,005	161,248

21. PROVISIONS

The movement in provisions is as follows:

	Decommissioning	Legal cases and penalties	Total
At 1 January 2011	52,727	12,986	65,713
Arising during the year	5,715	543	6,258
Utilised	(758)	-	(758)
Unused amounts reversed	-	(11,762)	(11,762)
Change in estimates	(31,471)	-	(31,471)
Discount rate adjustment	3,459	-	3,459
At 31 December 2011	29,672	1,767	31,439
Arising during the year	606	250	856
Utilised	(225)	-	(225)
Unused amounts reversed	-	(1,730)	(1,730)
Change in estimates	25,466	-	25,466
Discount rate adjustment	2,697	-	2,697
At 31 December 2012	58,216	287	58,503
At 31 December 2011	29,672	1,767	31,439
Current	-	1,767	1,767
Non-current	29,672	-	29,672
At 31 December 2012	58,216	287	58,503
Current	-	287	287
Non-current	58,216	-	58,216

Provision for legal cases

As at 31 December 2012 the Company recognised UAH 250 thousand of provision regarding legal proceeding initiated by its counterparty in respect of services provided by the counterparty, but not accepted by the Company. The management believes that the risk of losing this case is probable.

Decommissioning liabilities

As at 31 December 2012 the Group recognised UAH 58,216 thousand (2011: UAH 29,672 thousand) of provision for asset retirement obligation in respect of future dismantling costs related to its network equipment installed on leased sites. Provision for decommissioning has increased in 2012 due to the changes in input assumptions as follows:

	Assumptions used as at 31 December 2012	Assumptions used as at 31 December 2011
Cost of dismantling per site, UAH	40,200	38,300
Discount rate	11,17%	13,57%
Inflation rate	4,06%	4,15%

22. TAXES PAYABLE, OTHER THAN INCOME TAX

Taxes payable, other than income tax consist of the following as at 31 December:

	2012	2011
VAT payable	121,305	62,122
Frequency fee	22,728	31
Pension fund duty for mobile services	21,504	25,210
Salary tax payable	8,638	8,255
Miscellaneous other taxes	128	127
	174,303	95,745

23. TRADE AND OTHER PAYABLES

As at 31 December trade and other payables consist of the following:

	2012	2011
Equipment and construction works	341,663	337,641
Roaming	223,452	238,844
Technical support services	123,830	82,832
Professional fees	76,981	13,654
Software	49,085	27,603
Dealers	35,905	16,089
Advertising and promotion	32,265	46,570
Interconnection	31,686	35,803
Content	23,979	25,262
Due to employees	20,597	21,510
Rent	17,595	12,047
Inventory	11,375	17,969
Other payables	14,307	28,185
	1,002,720	904,009

As at 31 December trade and other payables are denominated in the following currencies:

	2012	2011
UAH	681,124	631,779
EUR	194,974	182,215
USD	123,188	86,732
RUR	3,434	3,283
	1,002,720	904,009

As at 31 December 2012 and 2011 trade and other payables are non-interest bearing and settled in the normal course of business.

24. ADVANCES RECEIVED

As at 31 December advances received consist of the following:

	2012	2011
Advances received from subscribers	128,489	120,001
Advances received from partners	23,271	26,940
Advances received from dealers	14	1,852
Other advances received	31	17
	151,805	148,810

As at 31 December advances received are denominated in the following currencies:

	2012	2011
UAH	151,805	148,554
USD	-	256
	151,805	148,810

25. OTHER CURRENT LIABILITIES

As at 31 December other current liabilities consist of the following:

	2012	2011
Bonuses accrued	139,100	132,500
Accrual for unused vacations	50,050	44,468
Accruals for future dealers' reimbursement	-	270
Other	251	207
	189,401	177,445

As at 31 December 2012 and 2011 other current liabilities are non-interest bearing and denominated in UAH.

26. RELATED PARTY DISCLOSURE

The Group's transactions with its related parties for the years ended 31 December are as follows:

	Revenue	Cost of materials and traffic charges	Salaries and personnel costs	Other operating expenses	Finance income	Finance expense	Purchase of property, plant and equipment and intangible assets
2012							
The ultimate parent (VimpelCom Ltd.)	-	-	-	54,553	-	-	-
Entities under common control	878,785	347,069	-	43,570	441,191	497	269,544
Other related parties	147,601	7,699	-	2,203	34,646	-	-
Key management personnel of the Group	-	76,308	-	-	-	-	-
	1,026,386	354,768	76,308	100,326	475,837	497	269,544
	Revenue	Cost of materials and traffic charges	Salaries and personnel costs	Other operating expenses	Finance income	Finance expense	Purchase of property, plant and equipment and intangible assets
2011							
The ultimate parent (VimpelCom Ltd.)	-	-	-	22,439	-	-	-
Entities under common control	892,437	282,889	-	64,518	719,737	-	782,701
Other related parties	86,897	10,912	-	1,369	56,875	-	-
Key management personnel of the Group	-	-	67,503	-	-	-	-
	979,334	293,801	67,503	88,326	776,612	776,612	782,701

The outstanding balances from related parties as at 31 December were as follows:

2012	Trade and other receivables	Cash and cash equivalents	Total	
Entities under common control	90,498	-	90,498	
Other related parties	7,500	356,450	363,950	
	97,998	356,450	454,448	
2011	Trade and other receivables	Cash and cash equivalents	Other current financial assets	Усього
Entities under common control	165,969	-	2,627,116	2,793,085
Other related parties	17,580	220,154	-	237,734
	183,549	220,154	2,627,116	3,030,819

The outstanding amounts due to related parties as at 31 December are as follows:

2012	Trade and other payables	Other noncurrent financial liabilities	Total
The ultimate parent (VimpelCom Ltd.)	58,697	-	58,697
Entities under common control	78,103	26,356	104,459
Other related parties	6,758	-	6,758
	143,558	26,356	169,914
		2011	
The ultimate parent (VimpelCom Ltd.)		6,965	
Entities under common control		98,192	
Other related parties		6,167	
		111,324	

Terms and conditions of transactions with related parties

Outstanding balances on settlements with related parties at the year-end are unsecured and settlement occurs in cash. Except for other non-current financial liabilities, outstanding balances on settlements with related parties are interest free. There have been no financial guarantees received from any related party. For the years ended 31 December 2012 and 2011, the Group has not recorded any impairment of receivables as regards to the amounts owed by related parties.

Revenue and trade receivables

In 2012 the Group sold to domestic and overseas telecom operators, being the Group's related parties, roaming services, access to network, interconnection and rental services in total amount of UAH 1,026,386 thousand (2011: UAH 979,334 thousand).

Trade receivables as at 31 December 2012 and 2011 due from related parties are non-interest bearing, unsecured and are settled in the normal course of business.

Cost of materials and traffic charges and trade payables

Cost of materials and traffic charges includes roaming and interconnection services, provided by entities under common control and other related parties.

Trade payables to entities under common control and other related parties comprise amounts due for interconnection and roaming services. Trade payables to related parties are non-interest bearing and are settled in the normal course of business.

Other non-current financial liabilities

Other non-current financial liabilities comprised interest accrued by JSC Ukrainian Radiosystems to the entities under common control.

Other operating expenses

Other operating expenses include consulting services provided by the ultimate parent, entities under common control and other related parties.

Finance income

In 2012 finance income included UAH 34,646 thousand of interest on short-term deposits placed in Ukrainian bank, which is the Company's other related party (2011: UAH 56,875 thousand). In addition, in 2012 finance income included UAH 441,191 thousand of unwinding of discount on interest-free financial aid provided to the entity under common control (2011: UAH 719,737 thousand).

Purchase of property, plant and equipment

In 2012 the Group acquired property, plant and equipment entity under common control for cash consideration of UAH 220,202 thousand (2011: UAH 780,251 thousand) and intangible assets in amount of UAH 49,342 thousand (2011: UAH 2,450 thousand).

Commitments to purchases from related parties

As at 31 December 2012 the Group had outstanding commitments in respect of purchase of property, plant and equipment and construction services to ultimate parent in amount of UAH 7,031 thousand

(2011: nil), to entities under common control in amount of UAH 7,317 thousand (2011: UAH 8,032 thousand) and to other related parties in amount of UAH 22 thousand (2011: UAH 2,404 thousand).

Purchase of assets and liabilities of Ukrainian Radiosystems JSC

In October 2012 the Company purchased from the entities under common control assets and liabilities of JSC Ukrainian Radiosystems. The transaction was structured as purchase of 100% of shares of this entity. For details please refer to [Note 8](#).

Cash and cash equivalents

As at 31 December 2012 and 2011 some of the short-term deposits and cash in bank were placed with Ukrainian bank, which is the Company's other related party.

As at 31 December the split of the short-term deposits placed with related party bank by contractual maturity and interest rate earned is as follows:

Currency	Maturity date	Interest rate	2012	2011
UAH	1-3 months	18-23%	122,000	50,000
USD	1-3 months	7%	-	36,354
EUR	1-3 months	4.00-6.75%	-	62,818
			122,000	149,172

Compensation to management personnel

As at 31 December 2012 key management personnel consisted of 57 top executives of the Group (2011: 46).

For the years ended 31 December total compensation to key management personnel included in salaries and personnel costs comprises:

	2012	2011
Short-term employee benefits	76,572	65,974
Long-term employee benefits	45	362
Share-based payment	(309)	1,167
Total compensation to key management personnel	76,308	67,503

27. COMMITMENTS AND CONTINGENCIES

(i) Tax risks

Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other governmental bodies. Instances of inconsistent interpretations are not unusual.

Management believes that the Group has complied with all regulations, and paid and accrued all taxes that are applicable. Where the risk of outflow of resources is probable, the Group has accrued provisions based on management's best estimate. The Group identified certain possible tax contingencies, which are not required to be accrued in the financial statements. Such possible tax contingencies could materialise and require the Group to pay additional amounts of tax. As at 31 December 2012 the Group estimates such tax contingencies to be equal UAH 77,769 thousand (2011: UAH 145,471 thousand).

(ii) Legal matters

In the ordinary course of business, the Group is subject to legal actions and complaints. As at 31 December 2012 the Group's was not exposed to claims from third parties (2011: UAH 2,808 thousand).

Management believes that the ultimate liability, arising from unasserted claims and complaints, if any, will not have a material adverse effect on the Group's financial position or the results of its future operations and is less than probable, accordingly no corresponding accrual was provided in these consolidated financial statements.

(iii) Other capital commitments

As at 31 December 2012 the Group had outstanding commitments in respect of purchase and construction of property, plant and equipment in amount of UAH 294,408 thousand (2011: UAH 406,600 thousand).

As at 31 December 2012 the Group had outstanding commitments related to purchases of intangible

assets in amount of UAH 53,182 thousand (2011: UAH 69,183 thousand).

(iv) Lease commitments

Operating lease — the Group as a lessee

The Group has entered into certain leases of land and buildings. These leases have an average life from one to five years with a renewal option included in the contracts.

Future minimum rentals payable under non-cancellable operating lease agreements as at 31 December are as follows:

	2012	2011
Within one year	156,875	214,346
After one year but not more than five years	76,519	179,710
More than five years	63,020	96,003
	296,414	490,059

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

As at 31 December 2012 and 2011 the carrying amounts of the Group's financial instruments approximate their fair values.

The fair value of financial assets and liabilities with a maturity of less than one year, less any estimated credit adjustments, approximate their carrying amounts due to the short-term maturities of these instruments. However, when the effect of time value of money is material, the fair value of short-term financial instruments is estimated by discounting of the future contractual cash flows related to those financial instruments at current market interest rates available to the Group for similar financial instruments.

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group's principal financial instruments comprise interest-bearing loans and borrowings, cash and cash equivalents and other current financial assets. The Group has various other financial instruments, such as trade payables and trade receivables, which arise directly from its operations.

It is the Group's policy not to trade with financial instruments. The Group is exposed to market risk, credit risk and liquidity risk.

The Group's overall risk management program focuses on the unpredictability and inefficiency of the Ukrainian financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group's senior management oversees the management of these risks and financial risk-taking activities are governed by appropriate policies and procedures so that financial risks are identified, measured and managed in accordance with the Group policies.

The policies for managing each of these risks are summarised below.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk. The Group does not have significant exposure to interest rate risk as it normally borrows at fixed rates. Neither it has exposure to other price risk.

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when the Group's trade receivables and trade payables are denominated in foreign currencies) and financing activities (when interest-bearing borrowings are denominated in foreign currencies).

The exchange rates for foreign currencies, in which the Group's financial assets and liabilities were denominated, against Ukrainian hryvnia, as declared by the National Bank of Ukraine as at the dates and periods stated, are as follows:

	USD	Euro ('EUR')	Російський рубль
1 January 2011	7.9617	10.5731	0.2612
Average for 2011	7.9676	11.0918	0.2717
31 December 2011	7.9898	10.2981	0.2495
Average for 2012	7.9910	10.2706	0.2574
31 December 2012	7.9930	10.5372	0.2632

The following tables demonstrate the sensitivity to a reasonably possible change in the corresponding exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

The sensitivity analyses have been prepared on the basis that the proportion of financial instruments in foreign currencies are all constant at 31 December 2012 and 2011.

	Increase/ (decrease) in basis points	Increase/ (decrease) of profit before tax
2012		
Change in USD exchange rate	+7.10%	4,262
Change in EUR exchange rate	+ 12.67%	3,101
Change in RUR exchange rate	+ 13.60%	(467)
Change in USD exchange rate	-7.10%	(4,262)
Change in EUR exchange rate	-12.67%	(3,101)
Change in RUR exchange rate	-13.60%	467
2011		
Change in USD exchange rate	+23.25%	31,528
Change in EUR exchange rate	+27.20%	12,967
Change in RUR exchange rate	+26.95%	(975)
Change in USD exchange rate	-23.25%	(31,528)
Change in EUR exchange rate	-27.20%	(12,967)
Change in RUR exchange rate	-26.95%	975

Liquidity risk

The Group analyses the aging of its assets and the maturity of its liabilities and plans its liquidity depending on the expected repayment of various instruments. The Group's short-term and long-term liquidity needs are funded largely through cash flow from operating activities.

The tables below show the maturity profile of the Group's financial liabilities as at 31 December based on contractual undiscounted payments.

2012	On demand	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Total
Other non-current financial liabilities	-	-	-	-	31,972	31,972
Trade and other payables	54,130	922,630	2,794	2,717	-	982,271
	54,130	922,630	2,794	2,717	31,972	1,014,243
2011	На вимогу	До 3 місяців	3-6 місяців	6-12 місяців	Усього	
Interest-bearing loans and borrowings	51,223	-	-	-	51,223	
Interest accrued	694	-	-	-	694	
Trade and other payables	-	855,693	20,424	6,382	882,499	
	51,917	855,693	20,424	6,382	934,416	

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Financial instruments, which potentially expose the Group to significant concentrations of credit risk, consist principally of cash in bank, short-term deposits, other current financial assets and trade and other receivables.

The Group's maximum credit risk exposure at 31 December comprises:

	2012	2011
Cash and cash equivalents (except for cash in hand)	1,483,436	892,782
Trade and other receivables	447,858	510,387
Other current financial assets	4,500	2,627,116
	1,935,794	4,030,285

The Group's cash is primarily held with major reputable banks located in Ukraine.

Accounts receivable are presented net of allowances. The Group does not require collateral in respect of trade receivables. Concentrations of credit risk with respect to trade receivables are limited by the fact that the Company's customer base contains significant number of small customers, which are considered unrelated.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed for all customers requiring credit over a certain amount. Credit risk arising from financial transactions is reduced through diversification, through accepting counterparties with high credit ratings only and through defining limits on aggregated credit exposure towards each counterparty. The Group's credit risk exposure is monitored and analysed on a case-by-case basis, and the Group's management believes that credit risk is appropriately reflected in impairment allowances recognised against assets.

As at 31 December 2012 and 2011, the ageing of the Group's trade and other receivables and other current financial assets is as follows:

	Total	Neither past due, nor impaired	Past due, but not impaired				
			Less than 30 days	30-60 days	60-90 days	90-120 days	More than 120 days
2012	447,858	357,154	45,555	15,792	8,456	6,066	14,835
2011	3,137,503	3,081,733	41,233	2,417	1,385	152	10,583

Capital management

The Group considers shareholders' equity as primary capital source. Also the Group can incur debt either through shareholder loans or through external funding. 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 shareholders and benefits for other stakeholders as well as to provide financing of its operating requirements, capital expenditures and sustain the Group's development strategy.

Management monitors on a regular basis the Group's capital structure and may adjust its capital management policies and targets following changes in its operating environment, market sentiment or its development strategy.

30. ASSETS OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

As at 31 December 2012 assets of disposed group classified as held for sale are mainly presented by telecommunication trunks and related equipment which were purchased by the Company as part of URS's assets acquired in October 2012. The Company has a plan and is committed to sell these assets in the first half of the year 2013. Please refer to [Note 8](#) for additional information in relation to the details of transaction.

31. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Basic earnings per share for the years ended 31 December is as follows:

	2012	2011
Net profit attributable to ordinary equity holders of the parent for basic earnings	4,329,337	4,267,530
Weighted average number of ordinary shares for basic earnings per share	13,091,355	10,210,018
Basic earnings per share, UAH	330.70	417.97

As at 31 December 2012 and 2011 there are no potential ordinary shares. On 26 January 2012 the State Securities and Exchange Commission of Ukraine registered issue of 55,000 shares made by the Company pursuant to the resolutions of the Company's shareholders. Please refer to [Note 18](#) for details.

32. EVENTS AFTER THE BALANCE SHEET DATE

On 1 March 2013 the Company revised the terms of its jubilee program. As a result, the Company's jubilee payment obligation decreased by UAH 15,720 thousand.



КИЇВСТАР
15 YEARS OF LOYALTY